



Multilateral Development Banks: General Capital Increases

Martin A. Weiss

Specialist in International Trade and Finance

March 24, 2011

Congressional Research Service

7-5700

www.crs.gov

R41672

Summary

For the first time in the history of the institutions, each of the major Multilateral Development Banks (MDBs) are simultaneously seeking increases in their capital bases to fund the continued expansion of their development lending programs. The requests come after several years of increased lending by the banks. If the increases are fully funded, the resources of the World Bank, African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), Asian Development Bank (AsDB), and Inter-American Development Bank (IDB) would increase by between 31% and 200%. Collectively, the requested capital increases are worth around \$348 billion. President Obama has included authorizations and appropriations for U.S. participation in the capital increases at the MDBs in his FY2011 and FY2012 requests.

U.S. participation in any funding request for the MDBs requires authorization and appropriations from Congress. In addition to the MDBs' role in furthering broad U.S. foreign policy interests, the 112th Congress may choose to consider whether increasing the size of the MDBs is necessary to meet developing country needs and whether sufficient progress has been made on MDB reform to justify fully funding the President's request. Members' views on the following policy issues may also affect their decision on whether to support or oppose increasing the size of the MDBs and the scale of their operations. These issues include:

- **Comparative effectiveness of bilateral and multilateral aid.** Compared to other advanced economies, the United States provides a smaller proportion of development assistance through multilateral organizations, such as the MDBs, than other countries. Is multilateral assistance more effective, and if so, should greater amounts of U.S. foreign aid be channeled through the MDBs by supporting the capital increases?
- **Scope of MDB activity.** The MDBs have expanded the range of activities that they engage in to include issues such as climate change and food security. Members may wish to evaluate whether the benefits of MDB engagement on these issues outweigh potential costs. Some argue that a consequence of working through the MDBs is duplication of efforts across a range of multilateral institutions, which can be costly and inefficient. Others argue that this approach leverages resources and provides common approaches.
- **Role of emerging economic powers.** Many rapidly growing economies, including Brazil, China, and India, among others, borrow from the MDBs despite having access to international capital markets and substantial holdings of foreign exchange reserves. Supporting capital increases at the MDBs would allow higher rates of lending to these quickly growing economies. Members may assess whether the development-impact of increased MDB lending to credit-worthy countries outweighs any potential crowding-out effect. At the same time, these countries are increasing their shares and leadership roles in the institutions, with important implications for the United States.
- **U.S. bidding for MDB-funded projects.** Firms located in large emerging economies are winning a larger share of MDB procurement projects. Are U.S. firms competing effectively for MDB projects? If not, since the general capital increases (GCIs) would increase the amount of MDB projects, are policy options available to better position U.S. firms to capture a larger share of MDB projects, creating additional jobs for U.S. workers?

- **Anti-corruption policies.** The MDBs have different approaches to anti-corruption measures. In procurement, for example, these range from international best practices to country-based approaches, which, some analysts argue, may increase the risk of monies being diverted for corrupt purposes. Congressional legislation on capital increases may be seen as a potential opportunity for seeking further reform.

Contents

Introduction	1
Background	1
What Are the Multilateral Development Banks (MDBs)?	1
Financing MDB Operations	2
The MDBs and the Global Financial Crisis.....	3
MDB General Capital Increase Requests	5
Issues for Congress	6
Comparative Effectiveness of Bilateral and Multilateral Aid.....	8
Scope of MDB Activity.....	9
Role of Emerging Economic Powers	10
U.S. Bidding on MDB-Funded Contracts	10
Anti-corruption Policies	11
Legislative Action	14

Figures

Figure 1. Annual MDB Commitments, FY2005–FY2009	4
---	---

Tables

Table 1. Basic Information on the MDBs.....	2
Table 2. Total Outstanding Loans, Equity Investments, and Guarantees, FY2005–FY2009	4
Table 3. MDB Capital Increases	6
Table 4. U.S. Share of MDB Capital Increases to be Authorized and Appropriated (Assuming Full U.S. Participation).....	6
Table 5. Consequences if the United States Makes No MDB GCI Contributions	7
Table 6. Largest Suppliers for World Bank Prior Review Contracts, 2005–2010.....	13
Table 7. Largest Recipients of Regional Development Bank Procurement, 2005–2009.....	14

Contacts

Author Contact Information	14
----------------------------------	----

Introduction

World leaders agreed in 2009 at a summit of the Group of Twenty (G-20) major economies to review the capital adequacy of the multilateral development banks (MDBs), following several years of elevated MDB lending since the 2008 financial crisis.¹ Shareholder nations, including the United States, subsequently agreed to increase the capital stock of the World Bank's main lending arm, the International Bank for Reconstruction and Development (IBRD); the World Bank's private-sector loan facility, the International Finance Corporation (IFC); 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 fact that all of the MDBs are requesting capital increases presents an opportunity for the Obama Administration and Congress to collectively evaluate U.S. participation and leadership in the MDBs, debate whether the MDBs are using their existing capital effectively, and decide whether to participate in any or all of the capital increases, and if so, whether to seek additional reforms. Members may choose to consider the following:

- the comparative effectiveness of bilateral and multilateral aid, and the responsibilities of the MDBs to assess and pursue effectiveness;
- the scope of MDB activity, and whether that scope serves U.S. national security, economic, and foreign policy interests;
- MDB lending to emerging economic powers, and whether lending to China and other dynamic economies should continue to be encouraged;
- the increasing role of emerging economic powers at the MDBs, and its implications for U.S. influence and role;
- MDB-funded procurement, and potential U.S. export and commercial opportunities; and
- anti-corruption efforts, and the responsibility of the MDBs to promote development in poor countries prone to corruption while safeguarding MDB resources and ensuring an open and fair bidding process for MDB procurement.

Background

What Are the Multilateral Development Banks (MDBs)?²

For the purposes of this report, the term "Multilateral Development Bank," or "MDB," refers to the World Bank Group (including the International Bank for Reconstruction and Development

¹ CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by Rebecca M. Nelson.

² For more information on the MDBs, see CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson; and CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY2000-FY2011*, and CRS Report R41537, *Multilateral Development Banks: How the United States Makes and Implements Policy*, by Rebecca M. Nelson and Martin A. Weiss.

(IBRD) and the International Finance Corporation (IFC), as well as several other facilities), and four 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).³ These international institutions finance development projects and economic policy reform in developing countries. **Table 1** provides additional information on the MDBs.

Table 1. Basic Information on the MDBs

	World Bank (International Bank for Reconstruction and Development, or IBRD)	Inter-American Development Bank (IDB)	African Development Bank (AfDB)	Asian Development Bank (AsDB)	European Bank for Reconstruction and Development (EBRD)
Year created	1944	1959	1964	1966	1991
Membership	187	48	78	67	61
Headquarters	Washington, DC	Washington, DC	Tunis, Tunisia	Manila, Philippines	London, England
Concessional lending facility	International Development Association (IDA)	Fund for Special Operations (FSO)	African Development Fund (AfDF)	Asian Development Fund (AsDF)	
Private sector window (where separate)	International Finance Corporation (IFC)	International Investment Corporation (IIC)			
Percentage of voting power held by non-borrowing shareholders	65.7	49.9	39.7	65.2	No explicit distinction
Percentage of U.S. voting power	16.3	30.0	6.5	11.7	10.2

Source: MDB annual reports.

Financing MDB Operations

MDBs (with the exception of the IFC and the EBRD) have two main lending “windows.” The first type of window is to make loans at near market-based interest rates, primarily to middle-income developing countries. To finance these loans, MDBs borrow money from capital markets, much like private financial institutions. MDBs are able to borrow from international capital markets on excellent terms because of their AAA ratings, which in turn reflect in large part their strong capital positions and the financial backing of their member country governments. The second type of window is to provide concessional-rate loans (low interest rates and long repayment periods) to the world’s poorest countries using money contributed periodically by the MDBs’ member country governments.

³ There are also several sub-regional development banks, such as the Eurasian Development Bank, Caribbean Development Bank, and Andean Development Corporation. The United States is not a member of these MDBs.

MDBs borrow in world capital markets at market rates, but the rates they are required to pay reflect their very high creditworthiness. Because these rates are typically much lower than those paid by private borrowers, the banks are able to relend this money to their borrowers at much lower interest rates. As such, the MDBs' non-concessional lending windows are self-financing and generate net income for the institutions, and they help subsidize concessional lending to the poorest countries. Furthermore, by borrowing to finance their lending, the MDBs' capital (and hence, increases in capital) is leveraged, allowing them to lend more than the amount of their capital.

The capital that shareholders contribute comes in two forms (with the exception of the IFC): "paid-in capital," which generally requires the payment of cash to the MDB; and "callable capital," which is funds that shareholders agree to provide, but only when necessary to avoid a default on a borrowing or payment under a guarantee. Only a small portion (typically less than 5%) of the value of these capital shares is actually paid to the MDB. The vast bulk is callable capital. Callable capital serves as ultimate backing for the MDBs borrowing in capital markets, though the MDBs have never had to call upon those resources. Callable capital cannot be used to finance loans, but only to pay off bondholders if the MDB is insolvent and unable to pay its bondholders.

Two key factors distinguish MDBs from private sector banks: (1) the MDBs' multilateral shareholding structure and preferred creditor status; and (2) capitalization, including callable capital, that is generally much higher than that of commercial lenders. This strong capital position facilitates the AAA⁴ rating of these institutions. Thus, the MDBs can offer loans to developing countries at rates lower than many private banks.

The MDBs and the Global Financial Crisis

After the 2008 financial crisis, there was a sharp contraction in capital flows to emerging economies. Although private capital flows are recovering, they remain below pre-crisis levels. Net private-sector inflows to emerging market countries now represent around 4% of world GDP, compared to almost 7% during 2006.⁵ Capital from other governments (bilateral aid) and the MDBs has become essential for many countries, both as a source of development finance and as a means of leveraging remaining available private capital, through political risk insurance, bond guarantees, and bridge financing.

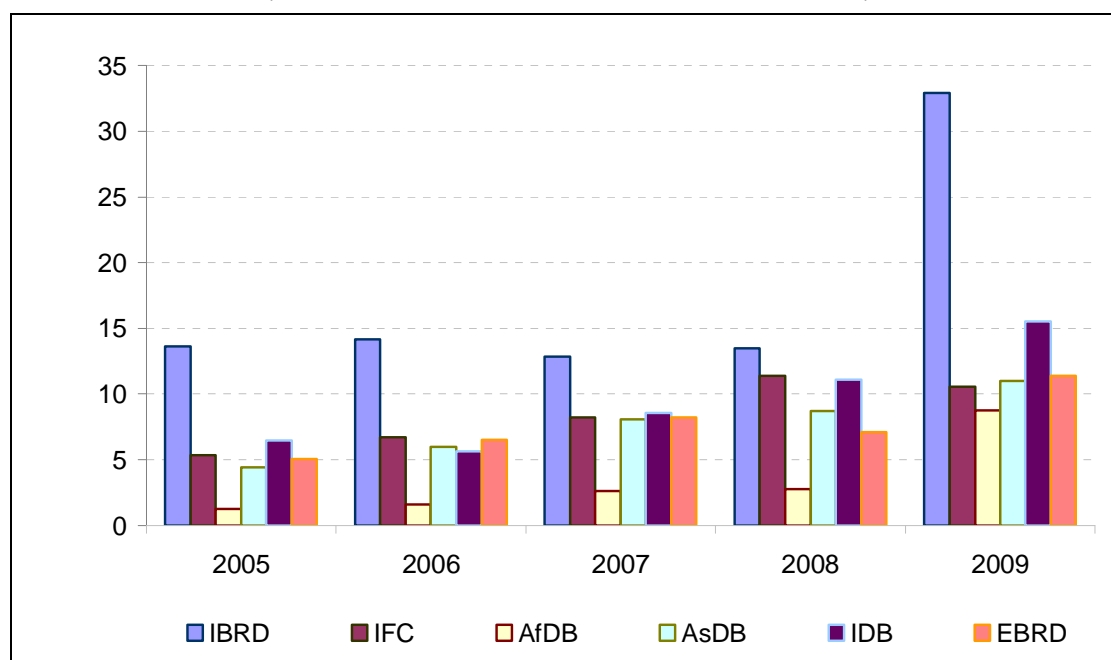
Since 2008, lending has increased across all MDBs, but most dramatically at the World Bank. Its commitments increased from \$13.5 billion in 2008 to \$32.9 billion in 2009; this is the largest annual amount ever committed and it significantly exceeds the \$22 billion the World Bank lent in 1999 during the Asian financial crisis. **Figure 1** shows annual MDB lending to developing countries since 2000. **Table 2** provides total outstanding MDB commitments.

⁴ Credit rating agencies (Moody's, Standard and Poor's, etc.) assign a credit rating to their opinion of the relative credit risk for a country or institution, such as an MDB. These have letter designations, ranging from "Aaa/AAA" for the safest institutions to "D" for those in default.

⁵ Global Financial Stability Report Market Update, *International Monetary Fund*, January 25, 2011.

Figure 1. Annual MDB Commitments, FY2005–FY2009

(Non-concessional loans, billions of current U.S. dollars)



Source: MDB annual reports.

Notes: The World Bank Group fiscal year is from July 1 to June 30. Thus, for the IBRD and the IFC, which are both part of the World Bank Group, 2009 refers to the fiscal year that ended June 30, 2010. At the regional development banks, fiscal years correspond with the calendar year.

Table 2. Total Outstanding Loans, Equity Investments, and Guarantees, FY2005–FY2009

(Billions of current U.S. dollars)

	2005	2006	2007	2008	2009
IBRD	104.0	98.7	99.8	107.4	121.8
IFC	14.1	17.4	25.3	24.8	29.2
AfDB	8.1	8.1	9.2	9.4	12.3
AsDB	25.1	28.1	32.5	38.2	44.3
IDB	48.5	46.3	48.6	52.2	59.0
EBRD	14.7	18.2	23.5	21.7	26.2

Source: Standard and Poor's.

Notes: The World Bank Group fiscal year is from July 1 to June 30. Thus, for the IBRD and IFC, 2009 refers to the fiscal year that ended June 30, 2010. At the regional development banks, fiscal years correspond with the calendar year.

MDB General Capital Increase Requests

An across-the-board increase in all members' shares of MDB capital, increasing the amount the MDB can lend through its non-concessional window, is called a general capital increase (GCI). This funding is not to be used to directly increase concessional financial assistance to low-income countries, but rather to increase the capital base of the non-concessional window, allowing the MDB to increase its borrowings on the international capital markets and thus increase the size of its lending operations to market-eligible countries.

While Congress appropriates funds annually to help fund the MDBs' concessional lending facilities, capital increases of the main lending windows are rare. U.S. participation in MDB capital increases is especially important, as the United States is the largest shareholder in the MDBs and U.S. funding commitments often spur additional contributions from other member countries. The Center for Global Development estimates that every \$1 the United States contributes to the World Bank as part of a GCI enables at least \$30 in new World Bank lending and \$70 in new AfDB lending.⁶

The process for proposing and implementing a GCI is roughly similar for all institutions. New funding plans for an MDB capital increase are discussed informally among member country governments before they are considered by member countries. A supermajority vote of the membership is required to approve capital increases and funding plans for each institution. Only for the World Bank's IBRD, though, does U.S. law require that Congress give its assent before the United States can vote in favor of a new MDB funding plan.⁷

Following increased lending after the financial crisis, the United States and other governments agreed to substantial capital increases at the MDBs. Collectively, these capital increases are worth around \$348 billion. Assuming full U.S. participation, the total U.S. share of new subscribed capital would be \$57 billion. While congressional authorization is required for the full amount, appropriations are required only for paid-in capital, which would total \$2.17 billion. The pay-in period for paid-in capital ranges from three to eight years, depending on the MDB.

⁶ Todd Moss, Sarah Jane Staats, and Julia Barmeier, *Billions More for International Institutions? The ABCs of the General Capital Increase (GCI)*, Center for Global Development, Washington, DC, June 2010.

⁷ Section 286c of the Bretton Woods Agreements Act (P.L. 79-171; 22 U.S.C. 286c) states that “[u]nless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under Article II, section 2,” of the IBRD Articles of Agreement “if such increase involves an increased subscription on the part of the United States.”

Detailed information on the current GCI requests is provided in **Table 3** and **Table 4**.

Table 3. MDB Capital Increases

Institution	Date Capital Increase Agreed	Announced Capital Increase	Proposed Increase, Percentage	Amount to Be Paid-In by Shareholders	Percent of Announced Increase to Be Paid-In by Shareholders
IBRD	25-Apr-10	\$86.2 billion	31%	\$5.1	6%
IFC	25-Apr-10	\$200 million	8%	\$0	—
AfDB	23-Apr-10	\$66.5 billion	200%	To be determined	6%
AsDB	29-Apr-09	\$110 billion	200%	\$4.4	4%
IDB	23-Mar-10	\$70 billion	100%	\$1.7	2%
EBRD	14-May-10	\$15 billion	69%	0	0

Sources: Standard and Poor's, U.S. Department of the Treasury.

Table 4. U.S. Share of MDB Capital Increases to be Authorized and Appropriated (Assuming Full U.S. Participation)

Institution	Current U.S. Ownership Share, Percentage	Total U.S. Share of General Capital Increase	Total U.S. Share of New Paid-In Capital	Pay-In period for Paid Capital
IBRD	16.8%	\$14.4 billion	\$866 million	4-5 years
IFC	24.0%	\$0	—	—
AfDB	6.6%	\$4.3 billion	\$259.3 million	8 years
AsDB	15.6%	\$15.7 billion	\$532.9 million	5 years
IDB	30.0%	\$21.0 billion	\$510.0 million	5 years
EBRD	10.0%	\$1.2 billion	—	—

Source: U.S. Department of the Treasury.

Issues for Congress

While the executive branch manages the day-to-day U.S. participation in the MDBs, Congress decides the overall terms of U.S. involvement by setting the level of U.S. contributions, and it influences, through legislation, how the United States votes on policies and projects. Congress can influence MDB policy by:

- fully funding or limiting the annual amounts appropriated for U.S. participation;
- enacting conditions attached to new funding agreements;
- enacting specific goals and priorities the United States will emphasize; and
- exercising its oversight responsibilities.

This is the first time that capital increases for so many MDBs may be considered by Congress at the same time. The present situation offers the Obama Administration and Congress an opportunity to look at the MDBs as a whole and evaluate the relative significance of each institution. It also provides an opportunity for the Administration and Congress to evaluate U.S. participation in the institutions, debate whether the MDBs are using their existing capital effectively, and decide whether participation in any or all of the capital increases is in the interest of the United States and what additional policy reforms, if any, the United States should seek at this time.

If Congress does not authorize (and appropriate funds for) the purchase of the MDB shares that the Administration agreed to buy in the capital increase negotiations, the relative U.S. shareholding of the MDB will become diluted. Voting shares are adjusted to reflect contributions as they come in from shareholders, and delayed contributions will have an impact on the United States' current voting share. Any shares allocated to a country that are not paid for within the allotted subscription period will be moved to the bank's unallocated capital, potentially making them available for other shareholders to acquire.

Dilution of U.S. voting power at the institution would lessen U.S. leadership at the MDBs. At the AsDB, for example, there has been a long-standing arrangement where the United States and Japan each own 12.5% of the bank's shares, giving them a joint veto over major policy decisions. This balance in leadership might be shifted if the United States does not meet its GCI commitments, while other countries, such as China, increase their contribution, with possible implications for the strategic direction of the bank. **Table 5** illustrates the impact on U.S. shareholding at the MDBs if the United States did not contribute to the MDB capital increases and its unsubscribed shares were reallocated instead to other shareholders. The IDB is not included since U.S. participation is required for the IDB GCI to proceed.

Table 5. Consequences if the United States Makes No MDB GCI Contributions

	Pre-GCI Percentage of U.S. Shareholding	U.S. Shareholding w/o any GCI Contributions and others take unsubscribed U.S. shares	Current Largest Non-U.S. Shareholders				
IBRD	16.8%	11.6%	Japan (7.2%)	China (4.6%)	Germany (4.2%)	France (3.9%)	United Kingdom (3.9%)
AfDB	6.6%	2.2%	Nigeria (8.9%)	Japan (5.5%)	Egypt (5.1%)	South Africa (4.6%)	Germany (4.1%)
AsDB	15.6%	5.2%	Japan (14.4%)	China (6.1%)	India (6.0%)	Australia (5.5%)	Indonesia (5.2%)

Source: U.S. Department of the Treasury

On March 10, 2010, the Senate Foreign Relations Committee's minority staff prepared a report on reforming the MDBs, stating that "the Administration and the other donor countries of the G-20

should be firm in demanding that needed reforms are secured before committing additional funds.”⁸ The report includes a number of recommendations, including strengthening anti-corruption efforts, improving evaluation frameworks, and improving oversight of budget support lending, among others. During its GCI negotiations with other MDB shareholder governments, the Obama Administration gained support for many of these reforms, according to testimony delivered before the Senate Committee on Foreign Relations in September 2010 (see text box below). Secretary Geithner reiterated these efforts, and stressed the importance of the MDBs to the Administration at additional hearings before the Senate Committee on Foreign Relations in February 2011. At the hearings, he stated that U.S. investments at the MDBs “are a critical and cost-effective component of the United States’ global economic leadership.”⁹

Recent MDB Reform Efforts

Controlling MDB Costs

- The World Bank agreed to overhaul its budget process to ensure that decisions on pricing, compensation, and administrative costs are closely integrated and aligned with the bank’s strategic priorities.
- The IDB agreed to adopt a new income allocation model that sets loan prices consistent with the IDB’s financial constraints and priorities, which include annual grants to Haiti of \$200 million and providing highly subsidized loans to its poorest borrowers. The IDB also crafted a new capital adequacy policy and investment guidelines.
- The AfDB agreed to a comprehensive financial model that has parameters on loan pricing, locks in a minimum level of transfers to low-income countries, covers administrative expenses, and supports capital adequacy.

Anti-corruption and Good Governance

- The World Bank revised its disclosure policy, which now reflects a presumption of disclosure of documents (operational and strategy, among others), compared to past practice, which only allowed disclosure of a narrowly drawn list of documents. Similarly, the IDB and AfDB each committed to a new disclosure policy that meets international best practices.
- The IDB enhanced the scope and credibility of its inspection panel, a forum for citizens who believe they have been adversely affected by MDB operations. The IDB also committed to updating its environmental and social safeguards.

Development Effectiveness

- The IDB committed to improving the quality of the loan portfolio by measuring the degree to which the economic rationale of potential projects is well articulated and evaluable, risks are assessed, and monitoring and evaluation plans are in place.
- The World Bank and the AfDB agreed to improve measurement and aggregation of project impacts and related country development outcomes rather than focusing solely on outputs.

Source: U.S. Congress, Senate Committee on Foreign Relations, Testimony of Marisa Lago, Assistant Secretary of the Treasury for International Markets and Development, “Banking on Reform: Capital Increase Proposals from the Multilateral Development Banks,” 111th Cong., 2nd Sess., September 15, 2010.

Comparative Effectiveness of Bilateral and Multilateral Aid

Compared to other advanced economies, the United States provides a smaller percentage of its development assistance through multilateral organizations, such as the MDBs, than other

⁸ U.S. Congress, Senate Committee on Foreign Relations, “The International Financial Institutions: A Call for Change: A Report to the Committee on Foreign Relations, United States Senate,” S. Prt. 111-43, March 10, 2010.

⁹ U.S. Congress, Senate Committee on Foreign Relations, Testimony of Tim Geithner, Secretary of the Treasury, “Navigating a Turbulent Global Economy—Implications for the United States,” 112th Cong., 1st Sess., March 3, 2011.

countries. According to data from the Organization for Economic Cooperation and Development (OECD), 12% of U.S. official development assistance in 2009 was disbursed through multilateral institutions. By contrast, 21% of Japan's, 37% of Germany's, and 33% of the United Kingdom's 2009 development aid was provided through multilateral institutions. Recent public polling data suggest that far less than a majority of the American public supports multilateralism in U.S. foreign aid despite some research pointing to the superior effectiveness of multilateral aid.¹⁰

Supporters of providing U.S. development assistance multilaterally argue that because the MDB charters forbid lending for political purposes, it is easier for the banks to secure politically difficult economic policy reforms in recipient countries.¹¹ In addition, multilateral contributions from the United States leverage funds from other donors (private and public) to address certain issues/sectors. For example, the United States designated a portion of U.S. Global Food Security Initiative Funds to the multilateral food trust fund administered by the World Bank to encourage other donors to do the same. While other donors have made commitments, they are waiting for the United States to appropriate funds before making their contributions.

By contrast, some analysts argue that the United States cedes control over its aid programs when a multilateral approach is used. First, critics argue, it is difficult for donors to specify uses when funds are contributed multilaterally. If other donors are not in broad support of the U.S. aid agenda, they argue, the United States might be able to achieve its foreign policy objectives more directly by providing bilateral aid. Second, because the United States does not have veto power on MDB lending, MDBs sometimes provide assistance to countries despite strong U.S. opposition.

A purely bilateral approach might ensure that no U.S. funds are used to support aid programs seen as running counter to U.S. foreign policy or national security interests. However, it might also eliminate whatever influence U.S. participation has on MDB assistance. For example, by having the option of abstaining rather than opposing a recent vote on an MDB-financed coal-fired power plant in South Africa, the United States was able to influence the negotiations to secure a better environmental outcome, including a larger energy component for the project and increased commitments from the South African government to further scale up renewable energy.

Scope of MDB Activity

A defining feature of the contemporary international development assistance is the proliferation of agencies providing development finance. While MDBs remain the primary source of multilateral development finance, over the past half-century many new sources of development finance have been created. This is especially evident in the proliferation of targeted funds such as the Global Environment Facility and the Global Fund to Fight AIDS, Tuberculosis, and Malaria (Global Fund). More than 200 international development agencies exist, according to the OECD. Given the concerns of some Members about the size of the federal budget, Congress may explore further the degree to which U.S. interests are served by enlarging the MDBs, who have expanded their mandates to include a broader range of global issues, potentially diluting their expertise.

¹⁰ Helen V. Milner and Dustin Tingley, "The Choice for Multilateralism: Foreign Aid and American Foreign Policy," October 2010, http://www.princeton.edu/~hmilner/working%20papers/MultilateralAid_112010_Distribution.pdf, Mimeo.

¹¹ Alberto Alesina and David Dollar, "Who Gives Foreign Aid to Whom and Why?" *NBER Working Paper No. w6612*, June 1998.

In addition to expanding the range of projects for which the banks lend, the MDBs are increasingly providing greater amounts of funding in the form of policy loans (i.e., budget support) compared to project loans. Policy-based lending accounted for almost 49% of the World Bank's total disbursements in 2009, compared to about 33% in 2008. Across the MDBs, policy-based lending accounted for up to 25% (in the case of the IDB) in 2008. Increased MDB government budget-support lending may raise oversight concerns, since measuring effectiveness is more difficult than it is for traditional MDB project loans.

Congress and the Administration may also determine whether elevated MDB assistance since 2008 represents a fundamental shift in demand for MDB assistance or a short-term spike caused by the 2007–2009 economic crisis. In the case of the IMF, its resources had not kept pace with the growth of global capital flows over the past two decades. Thus, it was not prepared to meet the demand for countries seeking balance of payments support during the crisis.¹²

Increasing the resources of the MDBs would likely enable them to disburse increased amounts of money in future years without expanding their staff involved with the design and implementation of projects. Some might question, however, whether the operational efficiency of the MDBs and continued growth of their volume of lending are appropriate goals. If Members of Congress determine that MDB financing needs are temporary, short-term financing facilities, or making the GCIs temporary, might be considered rather than permanent capital increases.

Role of Emerging Economic Powers

Members may consider the necessity of capital increases that would support higher levels of lending to emerging market countries such as Brazil, China, and India, who have access to international capital markets and large foreign exchange reserves. Critics argue that the availability of official credit, when private credit is a viable alternative, may crowd out private investment and create inefficiencies in the allocation of global capital, or divert capital away from more-needy countries that lack financial resources. In addition to their borrowing, many of these emerging economies are increasing their shares and leadership roles in the institutions, as a result of recent G-20 agreements.

Others argue that the largest percentage of the global population in poverty resides in these rapidly growing economies and that access to capital is insufficient in meeting the needs of the poor. Thus, countries do not borrow from the MDBs solely for the financing but also for the technical expertise offered as a part of MDB lending projects. Furthermore, interest earned through the MDBs' market rate-lending operations supports funding for grants and concessional lending to the poorest countries. Limiting MDB market rate operations would reduce the size of MDB annual income, and may thus require higher levels of donor contributions to maintain current levels of concessional lending to the poorest countries.

U.S. Bidding on MDB-Funded Contracts

The MDBs provide opportunities for U.S. firms by funding projects in developing countries in a range of sectors. According to some estimates, MDB lending and grants between 2011 and 2015

¹² For more information, see CRS Report R40578, *The Global Financial Crisis: Increasing IMF Resources and the Role of Congress*, by Jonathan E. Sanford and Martin A. Weiss.

could exceed \$500 billion. These contracts are awarded primarily through international competitive bidding processes. However, 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, and increasingly, more contracts are being awarded domestically, on a non-competitive basis.

At current funding levels, procurement results at the World Bank amount to about \$20 billion in contracts each year. Of the 20,000-30,000 contracts awarded each year, about 7,000 are reviewed by World Bank staff prior to contract award (Prior Review Contracts). Prior Review Contracts comprise the largest World Bank loans and can be used as a guide to determine the distribution of MDB contracts among member countries.

Brazil, China, India, and other emerging economies are increasingly claiming a large share of MDB contracts (**Table 6** and **Table 7**). U.S. firms were awarded \$93.1 million of World Bank contracts in 2010 compared to \$225.2 million worth in 2000, though both years had roughly the same total value of procurement contracts signed. Since the data do not include all World Bank projects and do not identify all subcontractors, they may under-represent U.S. procurement.¹³

Given that some decline in the share of contracts won by U.S. firms appears to be evident, Members may explore reasons for the decline and consider whether additional efforts are called for to promote procurement opportunities at the MDBs. MDB-supported procurement opportunities offer U.S. companies potential export opportunities to several rapidly growing developing economies in sectors where the United States is leading and/or competitive. At the same time, several countries, including Singapore, Korea, India, Austria, and Germany, are implementing strategic and targeted efforts to increase the share of MDB contracts awarded to their firms.

The Omnibus Trade and Competitiveness Act of 1988 (1988 Trade Act) requires the Secretary of Commerce to staff a part-time or full-time procurement officer at all of the MDBs to assist U.S. businesses in bidding on MDB projects.¹⁴ The Jobs Through Exports Act of 1992 increased the staffing requirement by directing the Secretary of Commerce to assign at least one additional full-time procurement officer at every MDB.¹⁵ Several of these positions are unfilled. Creating more export opportunities by supporting the GCIs, and further supporting U.S. firms in securing MDB contracts, could help toward the President's goal of doubling exports by 2015.

Anti-corruption Policies

Members of Congress may also decide to examine recent efforts to improve anti-corruption policies across the MDBs. For example, in April 2010, all of the MDBs discussed in this report agreed that a company or an individual debarred by one MDB for more than one year may, with certain exceptions, be debarred from carrying on business with all five MDBs.

¹³ For example, if the Chinese office of IBM wins a World Bank contract, it will count under China's totals. In addition, some U.S. companies act as sub-contractors or equipment suppliers to local firms, so their national identity is not visible in the contract awards list.

¹⁴ Section 2302 of the Omnibus Trade and Competitiveness Act of 1988 (P.L. 100-418, 22 U.S.C. 262s-2).

¹⁵ Section 501 the Jobs Through Exports Act of 1992 (P.L. 102-549, 22 U.S.C. 262s-2 note).

The anti-corruption measures at the MDBs are relatively recent. The need for anti-corruption policies became evident in the late 1990s, when scandals involving corruption became public and the activities of the MDBs were more closely scrutinized. Development specialists recognized the importance of combating corruption to achieve economic development, and in response, the MDBs began to provide technical assistance in corruption prevention and governance to member countries. They recognized that improving the anti-corruption mechanisms within their own organizations would complement governance activities in developing countries and increase development effectiveness, in addition to improving their own credibility on governance issues.

Some analysts are concerned, however, that other recent MDB policies, primarily the use of country-based procurement standards rather than international best practices on procurement and a country-systems approach, may be counterproductive to the MDBs' anti-corruption efforts. The MDBs argue that country systems will strengthen national institutions in developing countries for public expenditures, whether they come from MDB funds, taxes, or other donors. On the other hand, critics note that harmonization of procedures within countries would likely come at the expense of creating a set of international best practices on procurement. The country systems approach, they argue, may lead to lower standards, weaker MDB oversight, and increased corruption of the procurement process.

Table 6. Largest Suppliers for World Bank Prior Review Contracts, 2005–2010
(Millions of U.S. dollars)

2005		2006		2007		2008		2009		2010	
Supplier Country	Amount	Supplier Country	Amount	Supplier Country	Amount	Supplier Country	Amount	Supplier Country	Amount	Supplier Country	Amount
China	1,734.5	China	1,734.5	China	1,952.6	China	2,831.7	China	2,381.0	Italy	1,049.7
India	1,374.6	India	1,374.6	India	1,018.1	India	1,136.3	India	815.3	Brazil	982.5
Argentina	602.9	Argentina	602.9	Germany	688.3	Spain	612.7	Argentina	511.4	China	932.4
Egypt	444.6	Egypt	444.6	Argentina	378.9	Brazil	594.0	Brazil	469.6	India	530.9
France	263.0	France	263.0	United Kingdom	352.1	Russia	448.1	Vietnam	409.5	South Korea	445.3
United States	122.3	United States	158.9	United States	130.8	United States	157.0	United States	88.4	United States	93.1

Source: U.S. Department of the Treasury.

Table 7. Largest Recipients of Regional Development Bank Procurement, 2005–2009

(Total aggregate, millions of U.S. dollars)

Asian Development Bank (AsDB)		African Development Bank (AfDB)		Inter-American Development Bank (IDB)		European Bank for Reconstruction and Development (ERDB)	
Supplier Country	Amount	Supplier Country	Amount	Supplier Country	Amount	Supplier Country	Amount
United States	2,656.2	China	1,454.0	Brazil	7,000.0	Russia	2,323.7
Korea	1,246.9	Japan	511.0	Argentina	4,900.0	Croatia	747.0
Japan	333.0	France	499.1	Mexico	3,400.0	Austria	627.4
Australia	215.5	Tunisia	476.6	Columbia	1,600.0	Italy	509.3
Germany	208.4	Morocco	467.4	United States	1.0	Turkey	486.0
		United States	164.4			United States	0.1

Source: U.S. Department of the Treasury.

Note: Based on nationality of contractor.

Legislative Action

The Obama Administration requested that contributions to the AsDB GCI be included in the FY2011 budget. The Administration requested full authorization of \$15.7 billion, and appropriations of \$106.6 million for the first of five installments to U.S. paid-in capital. On June 30, 2010, the House State-Foreign Operations Appropriations Subcommittee marked up and approved, by voice vote, a draft FY2011 funding bill that would have provided no funding for the AsDB GCI. On July 27, the Senate Appropriations Committee marked up and approved an FY2011 State-Foreign Operations funding bill, S. 3676, that would have fully funded the Administration’s request. No authorizations or appropriations for the AsDB, however, are included in the current continuing FY2011 resolutions. Requests for authorization and appropriations for the remaining MDBs are included in the FY2012 request.¹⁶

Author Contact Information

Martin A. Weiss
 Specialist in International Trade and Finance
 mweiss@crs.loc.gov, 7-5407

¹⁶ CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson.