Multilateral Development Banks: General Capital Increases

Martin A. Weiss
Specialist in International Trade and Finance

January 27, 2012
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. U.S. authorization to participate in the GCIs was provided in the FY2011 and FY2012 budget measures. Key issues regarding U.S. participation in the GCIs 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...................................................................................................................................... 2
  What Are the Multilateral Development Banks (MDBs)? ........................................................ 2
  Financing MDB Operations ...................................................................................................... 3
  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.................................................... 7
  Scope of MDB Activity ............................................................................................................. 8
  Role of Emerging Economic Powers.......................................................................................... 9
  U.S. Bidding on MDB-Funded Contracts .................................................................................. 9
  Anti-corruption Policies .......................................................................................................... 10
Legislative Action.......................................................................................................................... 13

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........... 5
Table 3. MDB Capital Increases ...................................................................................................... 6
Table 5. Largest Recipients of Regional Development Bank Procurement, 2005–2009........... 13

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 were requesting capital increases presented 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.

Key issues regarding the MDBs include:

- 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)?

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 (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). 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Year created</td>
<td>1944</td>
<td>1959</td>
<td>1964</td>
<td>1966</td>
<td>1991</td>
</tr>
<tr>
<td>Membership</td>
<td>187</td>
<td>48</td>
<td>78</td>
<td>67</td>
<td>61</td>
</tr>
<tr>
<td>Private sector window (where separate)</td>
<td>International Finance Corporation (IFC)</td>
<td>International Investment Corporation (IIC)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of voting power held by non-borrowing shareholders</td>
<td>65.7</td>
<td>49.9</td>
<td>39.7</td>
<td>65.2</td>
<td>No explicit distinction</td>
</tr>
<tr>
<td>Percentage of U.S. voting power</td>
<td>16.3</td>
<td>30.0</td>
<td>6.5</td>
<td>11.7</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Source: MDB annual reports.

---


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.
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.

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 AAA 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. 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.

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.

**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)

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

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


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.”
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.

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

### Table 3. MDB Capital Increases

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

**Sources:** Standard and Poor’s, 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 was the first time that capital increases for so many MDBs were considered by Congress at the same time. It also provided 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.

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.\footnote{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.} 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.”\footnote{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.}

### 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:

### 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
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.

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

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 4 and Table 5). 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.


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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,734.5</td>
<td></td>
<td>China</td>
<td>1,734.5</td>
<td></td>
<td>China</td>
<td>1,952.6</td>
<td></td>
<td>China</td>
<td>2,831.7</td>
<td></td>
<td>China</td>
<td>2,381.0</td>
<td></td>
<td>Italy</td>
<td>1,049.7</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1,374.6</td>
<td></td>
<td>India</td>
<td>1,374.6</td>
<td></td>
<td>India</td>
<td>1,018.1</td>
<td></td>
<td>India</td>
<td>1,136.3</td>
<td></td>
<td>India</td>
<td>815.3</td>
<td></td>
<td>Brazil</td>
<td>982.5</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>602.9</td>
<td></td>
<td>Argentina</td>
<td>602.9</td>
<td></td>
<td>Germany</td>
<td>688.3</td>
<td></td>
<td>Spain</td>
<td>612.7</td>
<td></td>
<td>Argentina</td>
<td>511.4</td>
<td></td>
<td>China</td>
<td>932.4</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>444.6</td>
<td></td>
<td>Egypt</td>
<td>444.6</td>
<td></td>
<td>Argentina</td>
<td>378.9</td>
<td></td>
<td>Brazil</td>
<td>594.0</td>
<td></td>
<td>Brazil</td>
<td>469.6</td>
<td></td>
<td>India</td>
<td>530.9</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>263.0</td>
<td></td>
<td>France</td>
<td>263.0</td>
<td></td>
<td>United Kingdom</td>
<td>352.1</td>
<td></td>
<td>Russia</td>
<td>448.1</td>
<td></td>
<td>Vietnam</td>
<td>409.5</td>
<td></td>
<td>South Korea</td>
<td>445.3</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>122.3</td>
<td></td>
<td>United States</td>
<td>158.9</td>
<td></td>
<td>United States</td>
<td>130.8</td>
<td></td>
<td>United States</td>
<td>157.0</td>
<td></td>
<td>United States</td>
<td>88.4</td>
<td></td>
<td>United States</td>
<td>93.1</td>
<td></td>
</tr>
</tbody>
</table>

Source: U.S. Department of the Treasury.
Table 5. Largest Recipients of Regional Development Bank Procurement, 2005–2009
(Total aggregate, millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Asian Development Bank (AsDB)</th>
<th>African Development Bank (AfDB)</th>
<th>Inter-American Development Bank (IDB)</th>
<th>European Bank for Reconstruction and Development (ERDB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier Country</td>
<td>Amount</td>
<td>Supplier Country</td>
<td>Amount</td>
</tr>
<tr>
<td>United States</td>
<td>2,656.2</td>
<td>China</td>
<td>1,454.0</td>
</tr>
<tr>
<td>Korea</td>
<td>1,246.9</td>
<td>Japan</td>
<td>511.0</td>
</tr>
<tr>
<td>Japan</td>
<td>333.0</td>
<td>France</td>
<td>499.1</td>
</tr>
<tr>
<td>Australia</td>
<td>215.5</td>
<td>Tunisia</td>
<td>476.6</td>
</tr>
<tr>
<td>Germany</td>
<td>208.4</td>
<td>Morocco</td>
<td>467.4</td>
</tr>
<tr>
<td>United States</td>
<td>164.4</td>
<td>United States</td>
<td>0.1</td>
</tr>
</tbody>
</table>

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, P.L. 112-10, signed by the President on April 15, 2011, authorized to be appropriated $13.3 billion for U.S. participation in the AsDB GCI. The act also appropriated $106.59 million for the first payment toward the U.S. paid-in capital. Authorization and appropriations for the remaining GCI requests were included in the FY 2012 budget. P.L. 112-74, which includes authorizations for U.S. participation in the IBRD, AfDB, EBRD, and IBRD replenishments, as well as appropriations for the initial contribution.16

In the conference report accompanying the legislation authorizing U.S. participation if the GCIs, Congress required Treasury to report to the Committees on Appropriation that substantial progress was being made on several reforms prior to any funds being disbursed. These include:

- reforms agreed to by the World Bank and the AfDB at the Pittsburgh G20 Summit concerning “sound finances, effective management and governance, transparency and accountability, focus or core mission, and results;”
- annual transfers of at least $200,000,000 from the resources of the IDB to a grant facility for Haiti;
- implementing best practices for the protection of whistleblowers from retaliation;

• requiring that candidates for budget support from the MDBs provide an assessment of reforms needed to budgetary and procurement processes to encourage transparency;

• increased disclosure of MDB performance and financial audits of its loan projects; and

• adopting policies concerning the World Bank’s proposed Program for Results (P4R).

Author Contact Information

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