

Testimony of Diane Willkens  
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“Reforming Key International Finance Institutions for the 21<sup>st</sup> Century”

U.S. Senate Committee on Banking, Housing and Urban Affairs  
Subcommittee on Security and International Trade and Finance

August 2, 2007

Mr. Chairman, thank you for the opportunity to testify today to share a private sector perspective on the World Bank. My name is Diane Willkens. I am President and CEO of Development Finance International, Inc. (DFI). My company works on behalf of a number of companies bidding on World Bank procurements and collaborating with the World Bank on key development objectives. I am testifying today on behalf of DFI and the National Foreign Trade Council (NFTC), a business organization of 300 American companies whose mission is to advance open and rules-based trade. I serve as the chair of an NFTC ad hoc working group on the World Bank.

I have worked with private sector companies to access World Bank projects and participate in development projects around the world for nearly 20 years, beginning with the launch of Digital Equipment Corporation’s focus on the World Bank in the late 1980’s and continuing with the founding of Development Finance International, Inc. in 1992 until today. Our corporate headquarters is in Washington, D.C., home of the World Bank and the Inter-American Development Bank. We have an office in Manila, Philippines, headquarters of the Asian Development Bank, a partner in Tunisia, headquarters of the African Development Bank, and an alliance partner in Brussels to focus on European Union-funded business.

Over the past nearly 20 years it has been my privilege to work with some of the world’s leading private sector firms such as Hewlett-Packard, GE, BASF, and Philips, to name a few, in their pursuit of business and sound policies with the World Bank and its sister institutions. On a sector basis, DFI has been very involved in areas crucial to development, including health care technologies, malaria prevention and treatment of infectious diseases, information and communications technology, education from primary through tertiary, agriculture, the environment and transportation.

### **Importance of the World Bank and other International Financial Institutions and Summary Recommendations**

I would like to begin by emphasizing the important role of the World Bank and the regional international development banks since their creation after the Second World War. As part of the Breton Woods Institutions, the World Bank continues to serve as a vital multilateral institution in advancing sound and sustainable economic development and alleviating poverty in the developing world. We welcome President Zoellick in his new role and encourage his furthering the World Bank’s collaboration with the private sector. With his depth of international experience, record of accomplishment in several prominent high level trade and foreign policy positions in the US government, and commitment to helping the developing world grow and prosper, there is no one better qualified to lead the Bank.

My testimony will touch on several areas where the Bank could and should improve its policies and interaction with the private sector in meeting its overall mission. With the shift in the World Bank's relative importance given the abundance of capital liquidity around the globe, it is in the Bank's own interest to find new flexible ways of working with others, including the private sector.

Key overall recommendations include the following, some of which I will go into more detail below:

1. The World Bank should better recognize that the private sector is both a key stakeholder and enabler of sound economic development. It should incorporate the private sector into its planning and operations. US companies which operate and invest in developing countries bring numerous best practices through their presence and contribute meaningfully to economic growth and development. They should be viewed more as a partner rather than as an afterthought in the development of major new policies.

2. The Bank should push forward with critical initiatives on governance and anti-corruption. It should strengthen its role in promoting accountable and transparent practices, especially in procurement, which is an area that is most susceptible to corruption on both the demand and supply side. The private sector from the U.S. and several European countries has been very concerned about recent developments to abandon World Bank international best practices in procurement policies that effectively lower Bank standards on international competitive bids and adopt a more hands-off approach. These moves go against the Bank's recent important overall initiatives on anticorruption and improved governance.

3. The Bank should help safeguard vulnerable emerging market economies from the predatory and unsavory practices of certain new lenders. In the case of China for example, as a new major lender/investor/grantor, the US private sector is seeing examples of disregard for the environment, labor and social standards. We encourage the Bank to require adherence by lenders in Borrowing to consistent ethics for its member countries. This is particularly relevant with the Bank's renewed focus on infrastructure, which will require billions in future investment.

4. There continues to be a strong case for better coherence between the WTO and the World Bank, particularly in the area of trade capacity building and mainstreaming trade, and between the World Bank and other institutions such as the World Health Organization (WHO) on vital malaria and other health initiatives. Better coherence with the WTO will be even more critical if the Doha Round concludes successfully. For example, a WTO agreement on eliminating needless red tape at the border through a WTO agreement on trade facilitation will require substantial hands on capacity building and other assistance, which the World Bank is well equipped to do.

5. We recommend that the World Bank find creative new ways to engage other governmental organizations, such as the export credit agencies. Further, we suggest that the political risk insurance provided by the World Bank Group's Multilateral Investment Guarantee Agency's (MIGA) be available for transactions beyond investments in order to support sales transactions that do not fit the export credit agency model. Namely, we encourage eliminating the equity requirement for debt transactions

and allowing support for subsovereign/parastatal transactions. Continual improvements to process transparency and responsiveness will be essential to the future and sustainable growth of MIGA's mission.

6. The US Government should enhance its efforts to ensure US companies have an equal and fair opportunity to compete for World Bank procurements, similar to what the Europeans and Asian countries have in place with long-tenured, highly experienced procurement experts.

### **Procurement Today and Critical Role of International Best Practices**

The World Bank provides an estimated \$22 - \$23 Billion annually in loans and grants to support nearly 250 development projects globally. Nearly every World Bank project requires consultant services, goods, or civil works for successful implementation. The acquisition of these goods and services, totally billions of dollars each year, must be conducted with economy, efficiency, fairness, and transparency to ensure the integrity of the institution and confidence in the processes. While this testimony focuses on the World Bank, the regional development banks have agreed to follow the lead of the Bank to implement consistent procurement policies.

The first place where many US private sector firms engage with the World Bank is in the pursuit of a contract funded by the World Bank and being tendered in the Borrowing country under an international competitive bidding process governed by World Bank rules and guidelines. While not perfect, and subject to continued revision and improvement, the World Bank procurement guidelines and standard bidding documents have come to represent international best practice.

Although the detailed rules and guidelines for procurement are beyond the purpose of this testimony, certain key principles are essential elements of the private sector engagement with the World Bank. Namely, it is of paramount importance to the private sector that international competitive bidding be conducted under known and reliable rules applying standard and predictable bidding documents is vital to the US private sector.

Whether a contract will be subject to international competitive bidding or dealt with locally through national procedures is typically determined by the estimated size of the contract. The World Bank has set an international competitive bidding threshold for each Borrower country, an estimated tender value above which any tender must be conducted under international competitive bidding or ICB. Typically in the \$200,000 to \$400,000 range, this process ensures that contracts of measurable value will attract wide-spread visibility, encourage competition and the procurement will deliver the economy and efficiency important for the Bank's Borrower countries.

In recent years, the private sector has seen rise in these thresholds as well as a structuring of a certain Bank projects in such a way that the ICB rules no longer apply. The effect of these actions effectively deprives the private sector from knowing about the opportunity in any reliable publication or website and most importantly, subjects the tender process to local rules that are often non-transparent and bear little resemblance to World Bank practices. Essentially, it is often each man (or woman) for themselves.

Meanwhile, Borrowers lose the ability to attract competitive offers and appropriate technical solutions from expert companies.

In those cases where ICB is required, the World Bank maintains responsibility for a series of decisions, known as “prior review” over the final steps in this tendering and contracting process, from pre-approval of tender documents, to review of bidders’ questions and concerns, to a review of the evaluation report from the Bidder, through to final contracting. At the same time, the Bank holds the Borrower responsible for conducting the tender according to Bank rules and guidelines.

These “prior review” protections, together with the World Bank guidelines and mandated standard bidding documents, provide an essential safety net for private sector firms doing business under Bank-funded projects. Many of the firms with whom we work would not be doing business in a great number of countries funded by the Bank without this essential oversight and prior review by the Bank. There is simply too much corruption and too many opportunities and creative ways for a procurement process to be derailed. This raises risk to unacceptable levels for many US firms, and as a result, lowers the number of bidders, which in turn distorts best value / lowest price selection for the Borrower – a lose/lose situation.

At the same time, the Bank's own procurement practices could be improved by applying more, not less, oversight to Borrowers' practices, including in the area of technical specifications as qualifying criteria. It is often in this non-glamorous area of preparing tender documents where lack of Bank oversight opens the door to bias and influence in selecting suppliers for World Bank funded contracts. The Bank should encourage that bidders demonstrate proven capability to perform all tender requirements including after-sales services and training with a capable service organization able to respond in a timely manner. Too often equipment and / or technology are procured under Bank-funded projects without a sustainable infrastructure that allows successful operation and maintenance over time, thus jeopardizing the project success.

We applaud the World Bank’s initiative to review the unique procurement rules related to information and communications technology projects with leading private sector firms. Among the important discussions points today is industry’s request for an update for the Manufacturers Authorization Form (MAF) and discussion with the Bank about ways to conform warranty liability as a result of the requirements of Sarbanes-Oxley and revenue recognition challenges. These are the types of engagements that are so important for US firms, the results of which determine whether or not the private sector is able to participate in billions of dollars of World Bank funded projects.

### **“Country Systems”**

The Bank can and should play an instrumental role in promoting transparency and good governance and encouraging a "no tolerance" policy for corruption, the result of which would be a healthy environment for private sector growth. The Bank should be involved in capacity building in each of these areas with active lending and grants within a programmatic approach.

Despite the critical importance following international best practice in procurement, the World Bank has lately been moving toward a new system that would erode those important principals. As the Bank formulates its proposal for the proposed use by Borrower countries of their own procurement systems ("Country Systems") in place of the Bank's, the Bank has the opportunity to bring procurement standards in these countries up to the Bank's own standards, rather than settling for a lowest common denominator. However, this is not the direction being set today. Further, while this testimony focuses on the World Bank, the regional development banks follow the lead of the World Bank on these matters.

Unfortunately, and of great concern to the NFTC and a number of other trade associations, including NAM and the US Council for International Business, at this time the Bank is continuing to push forward a failed proposal to use country systems for Bank-funded procurement. At a recent June Board meeting of the Bank, Bank staff reintroduced a 2005 country systems proposal that the Bank itself had withdrawn from consideration in late 2005 after pressure from Congress, European and US private sector, concerned NGOs, and the US Executive Director, among others.

Congress rejected the '05 proposal in the 2006 Foreign Operations Appropriations bill. At the same time, in the 2006 Foreign Operations Appropriations, Congress required that the Secretary of Treasury certify that certain requirements be met by the World Bank so as to receive a 20% IDA hold-back. The Secretary of Treasury was not able to make that certification as to other procurement safeguards to have been undertaken by the Bank. Yet, despite Congress' problems with the 2005 version, the Bank revived the proposal in a weakened 2007 version.

Among other shortcomings, the 2007 proposal incorporates the application of a procurement assessment and benchmark tool developed by the OECD-Development Assistance Committee (OECD-DAC) and issued for use under the co-signature of the World Bank Chief of Procurement Policy.<sup>1</sup> However, both the World Bank and the OECD-DAC Secretariat have admitted that this tool represents a "watered down" version of the assessment methodology set forth in the 2005 proposal. The OECD-DAC tool is woefully inadequate to the task at hand and should be scrapped. For example, the OECD-DAC tool downgrades the importance of such lynchpins of transparent procurement in such areas as:

- open and freely accessible advertising of procurement,
- competitive hiring of qualified procurement staff,
- document retention system that maintains adequate procurement records, and
- final payments timely made as stipulated in the contract.

With both the Country System proposal and the OECD-DAC tool, the cart is before the horse. Before any Country Systems proposal can be considered, or a tool developed to assess and measure procurement systems, the World Bank should use its

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<sup>1</sup> OECD-Development Assistance Committee, Methodology for Assessment of National Procurement Systems, Version 4, July 17, 2006.

expertise and leadership position to articulate a strong international standard for procurement practices. Once articulated using the contributions of world-class procurement experts, the Bank will then be in a proper position to begin to define a methodology around which any procurement system can be properly, fully, and independently assessed. Until these prerequisites are met, it is inappropriate and premature for the Bank to resuscitate a previously-rejected proposal for country systems in procurement.

Since 2005, we have and continue to make several recommendations to the Bank on how to improve any country systems proposal. We have been supportive of the potential use of country systems for National Competitive Bidding (NCB) only and urged that ICB be taken off the table until experienced is gained under NCB. There is much to be gained in a dedicated effort to build procurement capacity in procurement with the Bank's technical support. To this end, we have urged that the World Bank articulate a international best practice standard for procurement, something today that is lacking. Once such a standard is set, we are encouraging full engagement with the private sector in a technical working group that will create a credible assessment tool for benchmarking procurement systems against an acceptable international standard.

Improved governance is a foundation of sound economic growth. For example, having in place accountable and transparent government institutions and policies is fundamental to a well-functioning economy. The World Bank's annual *Doing Business* report provides a good example of the range of policy issues involved in the ease by which companies can do business in a given country. It is not only a useful guide in comparing countries in how they stack up against each other, it also highlights the range of policies and issues which comprise a well-governed economy in terms of its regulatory environment, customs facilitation and other key policies.

Effective anti-corruption and improved governance is critical to government procurement because it is where billions are spent by governments and where corruption on both the supply and demand side is most likely to occur. Not all countries have strong anti-bribery laws in place like the US and where corruption exist, US companies stand no chance of winning contracts based on fair, transparent competition. With large developing countries increasingly competing for these projects, this is a major challenge for US companies. One further practical approach would be requiring that all companies participating in World Bank funded procurements be required to put into place and enforce a sound anti-bribery policy. The same zero tolerance should be put in place for officials in the Bank's Borrower countries.

### **Private Sector Partnership in Health and Education Initiatives**

Health and education rank among sectors of vital important to the developing world and for which the Bank has numerous key initiatives underway. The private sector is a key stakeholder in many of these initiatives. I would like to briefly summarize some of these initiatives and highlight some areas where practices and policies can be improved.

#### **Malaria**

Among many health challenges facing developing countries, malaria is estimated to kill 3,000 children every day. The World Bank has been a leader with several other institutions in providing technical assistance, funding, and a procurement tool kit for the acquisition of goods and services. However, for the private sector to remain committed to the challenge and be able to deliver the types of innovative technologies needed, such as long-lasting insecticide nets, the World Bank needs to work proactively with the World Health Organization, other donors, and the private sector as partners.

- Market entrants should be treated equally in qualification processes to avoid appearance of favoritism or “inside” tracks.
- Industry will walk away if the profitability is not there - long-term contract manufacturing should be an option.
- World Bank should reconsider a central purchasing process which would increase transparency and effectively eliminate country discretion.
- Efficiency in distribution in-country has to be improved and the World Bank can take a lead role in working with NGOs and others on the ground keeping core competencies with manufacturers and core distribution competencies where they best fit.
- Standardization of tender specifications would improve production efficiencies such as size and color.
- Purchasing of essential elements that deliver long-term protection (e.g. bursting strength, wash resistance) should be included in specifications and tender decisions.

### **Higher Education**

Due in part to the rising strength of countries such as China and India, as well as the exodus of skilled workers away from many developing countries, countries in Latin America, Africa and elsewhere are concerned about their ability to develop and retain skilled workers and attract private sector investment. We applaud the World Bank’s recent renewed focus on Science, Technology and Innovation and its nascent work with Borrower countries to create the educational capabilities that will deliver a trained engineering and technical labor force able to attract private sector investment and deliver job creation.

This effort is vital to long term country economic development and essential to the ability of companies to invest and grow in markets such as Africa where companies like Oracle have stated publicly that a major constraint to investment and growth is the inability to fill job openings with trained staff. As this focus gains momentum, we hope that the thinking and planning takes gender into account and includes a special focus on attracting and including women in ICT.

We encourage the World Bank to emulate the Inter-American Development Bank in creating a competitive funding window for countries to suggest and develop projects that deliver a regionally-based public good where working together across similar countries can deliver efficiency and leverage energy and enthusiasm.

In a highly innovative and exciting multi-stakeholder program involving the private sector that is being funded by the Inter-American Development Bank, three Caribbean countries will soon begin a coordinated university-level program to harmonize engineering accreditation criteria with the US and Canada. The result will be a market for skilled labor and the encouragement of wide spread educational and employment development in the region.

### **US Commercial Representatives and Procurement Experts at the MDBs**

In the mid-90's, after a highly successful model set by a career employee of the Commerce Department in representing US commercial interests and procurement matters at the World Bank, Congress mandated that the Commerce Department place a commercial representative in each multilateral development bank. Unfortunately, these positions have been filled largely by US and Foreign Commercial Service employees on assignments ranging as little as a few months to several years. Over the last 15 years, the US private sector has seen a steady changing of the guard in these positions at all of the development banks. This practice allows barely enough time for an individual to begin to understand the machinations of these institutions, and certainly deprives the US of continuity as well as institutional memory in the representation of US interests in procurement matters.

Many of our trading partners and competitors, such as New Zealand, the UK, Germany, and Sweden for example, have career employees serving 10, 15 and 20 years in their posts. This gives them a strong advantage over the US in competing for World Bank and other MDB contracts. The US government should staff these positions with highly experienced senior procurement people with a desire and intention to remain in post and learn the Bank from the inside out.

### **Closing**

Thank you for the opportunity to appear today. The challenges facing the World Bank are many as the institution defines its changing role. The private sector is committed to working with the Bank in constructive approaches to the development challenges and opportunities before us.