HOW AMERICA LEADS ABROAD: AN EXAMINATION OF MULTILATERAL DEVELOPMENT INSTITUTIONS

HEARING

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HOW AMERICA LEADS ABROAD: AN EXAMINATION OF MULTILATERAL DEVELOPMENT INSTITUTIONS

Wednesday, November 13, 2019

U.S. House of Representatives,
Subcommittee on National Security,
International Development
and Monetary Policy,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Emanuel Cleaver [chairman of the subcommittee] presiding.

Members present: Representatives Cleaver, Perlmutter, Sherman, Vargas, Gottheimer, Garcia of Illinois; Hill, Williams, Emmer, Gonzalez of Ohio, and Riggleman.

Ex officio present: Representative Waters.

Chairman Cleaver. The Subcommittee on National Security, International Development and Monetary Policy will come to order. Without objection, the Chair is authorized to declare a recess of the subcommittee at any time. Also, without objection, members of the full Financial Services Committee who are not members of this subcommittee are authorized to participate in today's hearing.

Welcome to the hearing, and we appreciate the presence of all of you who are here.

Today's hearing is entitled, "How America Leads Abroad: An Examination of Multilateral Development Institutions."

Before we go any further, let me just begin by welcoming, as the ranking member of this subcommittee, someone with whom I am very pleased to work, Congressman French Hill. I look forward to working with you over the next year, or maybe longer.

I am eager to partner with our new ranking member on special subcommittee issues. And there are some issues that have historically been bipartisan, and I intend to conduct myself in a manner that would allow them to continue to be such. I am confident that together we will continue the tradition of shared focus and collaboration. So, welcome.

I now recognize myself for 4 minutes to give an opening statement.

Let me also just tell you that there is a visible absence of the media here, and we can understand why they are not here today. So, we will proceed anyway.

I am very excited to convene this hearing, exploring an issue our committee does not regularly discuss: international development.

Development finance is a powerful tool in advancing the strategic and national security aims of the United States. Today, the threats that face the world are not just at America's doorstep; they are in our homes. We are in a heated trade war that is gripping both agricultural heartland and consumers around the country.

In my home State of Missouri, for example, only 6 percent of about 306,000 acres are being used for soybean planting. We have 5.1 million soybean acres, and we are using 306,000. That gives you an idea of how troublesome this whole issue of trade is with our agricultural community.

The headwinds present a risk to the economic outlook of the United States and the rest of the world. It limits our capacity to assist our smaller partners, leaving them more vulnerable. And as this pressure mounts, so, too, does the desire by our competitors and adversaries to displace our country as stewards of global order, regional stability, and balanced growth.

As a member of the Helsinki Commission, I visited and heard from countries beset by China's debt trap diplomacy, a practice which targets fragile developing countries with promises of investment and needed projects, only to face predatory loans and then leave them worse off.

In South Asia, China's harmful loan terms forced Sri Lanka to sign over its critical ship import for 99 years, potentially to be used for Chinese naval basing.

In Africa, China has successfully set up an overseas base in Djibouti. In this very same country, the debt to China has risen to 80 percent of their GDP.

Multilateral development institutions, such as the World Bank, have served as invaluable tools in relieving pressure on the U.S. to confront these disturbing trends. The World Bank has allowed us to join our international partners to uplift those who need development assistance, most without ceding ground as a global leader. From its work on infrastructure projects, to its response to the Ebola crisis, the World Bank has helped confront the needs of the world.

The Bank also carries some of the greatest bang for the American buck. According to the Department of the Treasury, every U.S. dollar paid in capital leads to $25 in lending.

I am pleased that we have before our committee the Treasury Department Secretary's authorization request for the world. As important as this institution is in global development, it is imperfect and requires thoughtful reform.

I continue to look down to see if the Chair of the Full Financial Services Committee, Chairwoman Waters, is coming in, to give her the final minute, so I will recognize her when she comes in.

I now recognize the ranking member of the subcommittee, the gentleman from Arkansas, Mr. Hill, for an opening statement.

Mr. HILL. Thank you, Mr. Chairman. Thank you for your kind words. I, too, look forward to working with you. We have had a great working relationship on this committee over the past 5 years. I particularly have enjoyed my work on the Terrorism and Illicit Finance and Monetary Policy Subcommittees in past Congresses, and I look forward to working with you in the balance of this Congress on these important topics. I am glad we are going to examine the multilateral development institutions today.

Since 1945, the World Bank has been supporting low- and middle-income countries by providing access to financing to alleviate poverty, and promote economic development, and over that time, the United States has approved capital increases 4 times: 1959; 1979; 1988; and 2010. This is the fifth time an Administration is seeking congressional approval for a capital increase.

The Trump Administration has proposed an additional paid-in capital of $1.2 billion for the IBRD and $5.5 billion for the International Finance Corp. Both would be financed by other countries around the world. Regardless of where the funding comes from, both of these amounts of money approved require congressional approval.

As a part of that approval process, the Administration has initiated several reforms that they are in the process of implementing, such as limiting World Bank lending to higher-income countries, capping overall salary growth, and achieving expense savings. These reforms are tantamount to ensuring that the Bank continues to perform effectively and fairly.

One of my goals for this subcommittee is to ensure that the World Bank and other multilateral development banks are using U.S. resources in a transparent, corruption-free, effective manner before committing U.S. taxpayer funds to these institutions. The U.S. must use its leadership at the Bank to fight for an end to corruption and to make sure that all lending is conducted with accountability.

To that end, I want to discuss China and their access to the World Bank. China technically crossed an important World Bank income threshold in 2016, which was supposed to begin a discussion on graduation from Bank assistance. However, the country has received more than $7.8 billion in funding since that time. China continues to borrow an average of $2 billion per year from the Bank.

Even more concerning to this subcommittee is, we often are not confident where those loan proceeds are being used. For example, is part of that money likely being used as a part of China's Belt and Road Initiative?

In my opinion, the lack of oversight in dissemination of funds to a more developed country like China, with $3 trillion in reserves, is not acceptable. I know that others on my side of the aisle share this view. The lending number needs to be wound down and eventually get to zero.

The United States needs to ensure there is greater transparency in how the Bank's money is disseminated and have stricter guardrails on its use. That includes both the Bank and the IDA. There are concerns of lack of competition for certain lending proposals with that arm of the World Bank.

So, Mr. Chairman, I look forward to working with you on these important issues. I thank you for the time, and I look forward to our discussion today. I yield back.

Chairman CLEAVER. I now yield to the gentlewoman from California, the Chair of the Full Committee, Chairwoman Waters, for such time as she may consume.

Chairwoman WATERS. Thank you so very much, Chairman Cleaver. I appreciate that.

In 1993 and 1994, I sat on the International Subcommittee of what was then the Banking Committee at a time when a number of people wanted to abolish the World Bank and the IMF because they believed that the institutions were indifferent to human needs and values such as worker rights, income distribution effects, and the protection of the environment.

We made a good deal of progress enforcing change, including especially the creation of the Inspection Panel. And in doing so, we rescued the World Bank, as well as the IMF, from a reactionary and unenlightened viewpoint that made them legitimate targets. It took a while, but we were able to make them more relevant, and more important, not just on the particular issues we care about, but on their capacity to do better work. So, I am very proud to have been part of that, and I look forward to continuing to engage on these issues as we consider the authorization request before us today.

Let me just say that there is a long history of people saying that certain things are immovable, that some things cannot change, but those things do, in fact move, and do change.

Mr. Chairman, I want to hear about some discussion that has been going on about IDA and the proposals to invest in IDA, taking funds from the IDA appropriation, I believe. That is a serious discussion.

And when we talk about these countries that need so very, very much, we have to really understand whether or not some of these proposals, like coming from the IFC, whether or not it is real and whether or not we are taking away money that should be going to support some very basic things in these poor countries in an effort to support business and privatization.

We are not against business, but we have to take a look at the history and the record of those who claim to want to invest and what they have done in the past, whether or not they have been successful, or whether or not they have actually failed. And we have to take a look at whether or not the capability is there to identify certain projects that can be done; or whether or not this is kind of like pie-in-the-sky proposals that would be given to IFC to proceed in a manner that is not a manner that is proven to be successful.

I will not say any more. I am going to listen. And I yield back the balance of my time.

Chairman CLEAVER. Thank you.

Today, we welcome the testimony of five witnesses. Our first witness is Matthew McGuire, who currently serves as the president of CapZone Impact Investments. Prior to joining CapZone, Mr. McGuire spent nearly a decade in public service, largely focused on increasing economic development through private investment, including as U.S. Executive Director of the World Bank under the Obama Administration.

The second witness is Nadia Daar, who is the head of the Washington, D.C. office of Oxfam International. Ms. Daar has several years of experience working with civil society in the Middle East and North Africa regions, as well as in North America on social and economic justice. She has also promoted the adoption of inclusive, accountable, and sustainable development among international financial institutions.

The third witness is Jolie Schwarz, who is a policy director at the Bank Information Center. Ms. Schwarz is a human rights attorney and has focused on development policy reform at the international financial institutions, with a focus on social inclusion and accountability. She has experience working to promote the rights of the most marginalized through legal advocacy and policy reform.

The fourth witness is Charles Kenny, who is a senior fellow and the director of technology and development at the Center for Global Development. His current work focuses on gender and development, the role of technology and development, governance, and anticorruption, and the post-2015 development agenda. Mr. Kenny is also a former World Bank employee.

Our final witness, E. Whitney Debevoise, is a partner at Arnold & Porter. Mr. Debevoise's practice involves international financial transactions, public policy, international arbitration, multi-jurisdictional litigation, banking, and international trade. Mr. Debevoise rejoined the firm in 2010, having served as U.S. Executive Director of the World Bank in 2007 under President George Bush.

Thank you all for being here today.

Mr. Debevoise, we know that you have a hard stop at 11:30, so we will try to make sure that you are able to get out at that point in time.

You will each be recognized for 5 minutes for an oral presentation of your testimony. And without objection, your written statements will be made a part of the record.

Thank you very much. We will begin with Mr. McGuire. You are now recognized for 5 minutes.

STATEMENT OF MATTHEW MCGUIRE, VICE CHAIRMAN, CAPZONE IMPACT INVESTMENTS

Mr. McGuire. Thank you, Chairman Cleaver. I appreciate it. Ranking Member Hill, I appreciate you having us here, as well. Chairwoman Waters, it's always a pleasure to hear you speak and to be in front of you, as well, so thank you for joining today.

I also should just say that it is a pleasure to be here with such a distinguished group of co-panelists, as well, with such a diverse range of opinions, and I look forward to this discussion.

I have submitted my testimony. Rather than read that, I would like to address a couple of things that Chairwoman Waters raised. And then I would like to speak, if I could, to the larger context in which I see American support for the World Bank being central.

Let me start with the latter, and it is just to say that in the context of economic development broadly around the world, I think it is very important to state the obvious, which Ranking Member Hill alluded to, which is that countries around the world are looking in two directions and trying to figure out how to grow and how to align themselves over time.

One option is towards the view that America has held historically in the World Bank as champion, which is having a rules-based international order with free markets and not having a state-led economy that centralizes decision-making and controls business, and so on.

The other model is one that has had great success in China over the last 20 years, and their state-led authoritarian model of economic development is one that looks attractive to a lot of countries around the world right now because China has been able to pull so many of their people out of poverty.

What I think is important to remind ourselves is that, in this context, the Bank is very much a champion and advocate for opening markets up, to liberalizing economies, to moving away from state-led, state-owned enterprises and other state-led endeavors to drive economic growth over time.

The Bank understands that the historical record and the evidence is quite clear, that that model has not worked very well over the decades, whether in Latin America, Eastern Europe, Africa, or any number of other places.

I think what we need to understand is that the Bank is seen around the world as having the imprimatur of the United States, carrying the values of our approach to economic development and the values that have driven our success and growth over time.

And, so, I do strongly encourage this committee to authorize the capital increases because the Bank can be a powerful tool as we think about our influence globally and we think about helping more people around the world come out of poverty and have healthier, more sustainable lives in the decades ahead.

If I may, Chairwoman Waters, address your question around the private sector, I agree that we always need to have accountability, and we have to be evidence-based in thinking about how we make decisions here.

I would say that foremost for me, when I was serving the country as the U.S. Executive Director at the Bank, what really struck me is how much the Executive Directors and representatives of emerging countries really wanted more private sector involvement. They often said, "We need to figure out how to get more investment in our countries. We cannot do it alone as a government for a range of reasons."

And central to the whole effort to move from billions in aid to trillions in capital inflows, central to that thinking at the Bank has been pulling more private investors into markets they otherwise would not go to.

So, what I would say about the private sector window for IDA is two important things. One, the previous replenishment of IDA was to the tune of $35 billion or $37 billion; I cannot remember exactly what it was. This last one, which includes the private sector window, was at $75 billion. So, because we issued that against IDA for the very first time, we were able to double the amount of money that was going to these poorer and more fragile countries around the world.

Within that, $2.5 billion, as you know, was set aside for the International Finance Corporation (IFC) to create a private sector window. And it was quite targeted, but it was also thought of as a first step. So, for example, one of the instruments that was created was one to help with currency fluctuations. That is one of the primary reasons a lot of investors do not want to invest in poorer countries is they are worried about the currency and getting their money back out.

So, it was quite targeted, it was narrow, and I think I would suggest that we give it time to see how it works. But I would emphasize that it was a small portion of a much bigger pie in the last go-round, and that IFC has quite a good track record over time of moving into markets where others do not. And when IFC is there—and I have seen this personally as I have traveled around the world—it is the imprimatur of the Good Housekeeping seal of approval that other investors are more willing to come into those projects or come into those countries where they might not otherwise.

So, I will stop there, and I am happy to talk in more detail. But again, I think it is very important that we do think about this from an evidence-based perspective, but also that we listen to the countries who are receiving this capital. And when they say it is fundamental to have greater private sector inclusion, I think we should endeavor to follow through on that.

[The prepared statement of Mr. McGuire can be found on page 64 of the appendix.]

Chairman CLEAVER. Thank you, Mr. McGuire.

Ms. Daar, you are now recognized for 5 minutes.

STATEMENT OF NADIA DAAR, HEAD OF WASHINGTON, D.C., OFFICE, OXFAM INTERNATIONAL

Ms. DAAR. Thank you, Chairman Cleaver, Chairwoman Waters, Ranking Member Hill, and members of the committee. Thank you for the opportunity to testify on behalf of Oxfam.

We are an international relief and developmental organization committed to fighting the injustice of poverty and inequality, and we work in more than 90 countries.

My office is responsible for Oxfam's engagement and advocacy on the World Bank Group. I believe this institution plays a critical role in developing countries, and I believe wholeheartedly in its mandate to eliminate extreme poverty and boost shared prosperity.

I also believe it is a role of civil society to raise flags when we see the institution making choices that undermine its mandate or cause harm to vulnerable communities. To that end, my testimony focuses on recent and concerning trends in the World Bank Group's education and financial sector portfolios.

Despite much of the Bank's education work supporting governments to improve public education, we are deeply concerned about the poverty and inequality impact of the institution's increasing support for profit-driven commercial schools. The International Finance Corporation (IFC) has quadrupled its investments in for-profit primary and secondary schools in recent years, while over one-fifth of the International Bank for Reconstruction and Development's (IBRD's) and the International Development Association's (IDAs) projects include support for public-private partnerships (PPPs), that use public funding to support private education.

And it is not just a project here and there that we worry about. Our analysis finds that the World Bank is actively advising governments to expand the private education provision. We have particular concerns around support for so-called low-fee private schools, because no matter how small the fee is, they are simply unaffordable for the poorest families. In Ghana, a poor family will spend 40 percent of its household income to send just one child to one of these schools. Evidence shows that girls disproportionately lose out as parents are forced to choose which child to send.

When it comes to quality, the evidence shows that these schools cut costs by relying on unqualified teachers, who are paid dismal salaries. This flies in the face of the World Bank's own evidence that the presence of a trained and qualified educator is one of the most important factors for achieving strong learning outcomes. These schools also have a track record of resisting government regulation and educational standards.

Mr. Chairman, the lessons from around the world could not be clearer. Pushing profit-driven and market-based alternatives to a public education system creates educational segregation and exacerbates educational inequalities and wider social inequalities. Education is a right, not a market commodity. Investing in free and inclusive public education of good quality is the best way to ensure fulfillment of education for all.

The World Bank Group should urgently redouble its focus on supporting countries to expand and improve the public and free provision of education. Our strong recommendation is that the IFC stop funding for-profit commercial schools at the basic education level, that is K through 12.

It is morally outrageous for companies to be making a profit on the backs of poor families who are sacrificing other basic needs to pay fees. And it is even more morally outrageous for development finance to support that.

Let me now turn quickly to the financial sector. As you are aware, the IFC lends money directly to private sector companies, but it is increasingly lending money to financial institutions such as commercial banks and private equity funds, which then on-lend to companies. As of 2018, Oxfam's research finds that 55 percent of the IFC's portfolio is invested in these financial intermediaries, or FIs. That was a whopping $6.4 billion. Ninety percent of that portfolio is made up of commercial banking clients.

The challenge is an utter lack of information about where the money ends up once the IFC gives it to these intermediaries, and hence, what is the real impact that follows, be it good or bad. Oxfam and others have done in-depth research exposing the IFC's connection to several highly problematic projects through its FI clients, including in Honduras and in the Philippines, cases where the communities are suffering from unmitigated risks, loss of livelihoods, forced evictions, human rights abuses, and in some cases, murders with impunity.

Lack of disclosure about IFC's FI subprojects means a complete lack of accountability. The need for information is real and urgent for communities who are facing day-to-day suffering to know their rights as provided for in the performance standards of the IFC and to know how to seek recourse at the IFC if harm is done.

The U.S. has been a champion for strong environmental and social standards for transparency and accountability at the Bank over the years, and we ask you to continue that leadership to promote systematized and required disclosure of financial intermediary subprojects. There is a voluntary initiative, which was recently announced by the IFC, but this must absolutely be a stepping-stone towards a requirement for the disclosure.

Finally, considering the discussions around IDA's private sector window, we propose banning the use of this window to finance any for-profit schools, as well as mandating the disclosure of subproject information and any financial intermediary investments made through the window.

Thank you.

[The prepared statement of Ms. Daar can be found on page 39 of the appendix.]

Chairman CLEAVER. Thank you, Ms. Daar.

Ms. Schwarz, you are now recognized for 5 minutes.

STATEMENT OF JOLIE SCHWARZ, POLICY DIRECTOR, THE BANK INFORMATION CENTER

Ms. SCHWARZ. Chairman Cleaver, Ranking Member Hill, good morning, and thank you for the opportunity to testify today.

My name is Jolie Schwarz, and I am the policy director at the Bank Information Center (BIC). BIC is an organization which monitors and influences the policies and operations of the World Bank Group and other international financial institutions.

IFIs like the World Bank Group underpin the global financial system. These IFIs set standards for other major players in the broader development community, especially in terms of transparency and accountability. In large part, this is due to the history of leadership by the U.S. Government and Congress, both of which have worked for decades to encourage the adoption of strong social and environmental standards and independent accountability mechanisms.

The World Bank Inspection Panel and the Compliance Advisor Ombudsmen provide critical pathways for impacted communities to raise concerns and ensure that projects supported by U.S. taxpayers do not destroy the environment or undermine human rights.

The current review of the inspection panel toolkit and the recently commenced accountability review at the IFC present clear opportunities for the U.S. Government and Congress to encourage the Bank to adopt specific structural reforms, including: number one, the addition of monitoring and dispute resolution functions to the inspection panel toolkit; and number two, the creation of a remedy fund at the IFC.

Congress generally, and this subcommittee in particular has historically played a critical role in strengthening accountability at the World Bank. The panel was created in 1993 in the wake of the Bank's withdrawal from the hugely controversial Sardar Sarovar Dam on the Narmada River in India. A hearing by this committee contributed to the growing recognition that a lack of accountability in the Bank's approval culture had eclipsed its focus on development outcomes.

Congress took a number of other steps. Most critical among those was Congressman Barney Frank using the authorization authority of this subcommittee to ensure the Panel was established. One of the Panel's most recent investigations highlights its value in enhancing the Bank's development outcomes. In that case, the Panel documented failures associated with the World Bank-financed road project in which dozens of girls in rural Uganda were victims of sexual exploitation and abuse. The Bank responded by adopting sweeping reforms and initiatives to improve the institution's response to gender-based violence and child exploitation and abuse. This, in turn, has catalyzed significant change across the development finance landscape.

Over 2 years ago, the World Bank board of directors initiated a process to modernize the inspection panel by adding additional functions to its toolkit. The United States Government has done a great deal to push the board to adopt the proposed functions. However, the board's inability to come to a consensus calls into question its commitment to strengthening accountability at the institution.

At a time when civic space is closing and evermore restricted around the world, it is critical that the World Bank board brings its accountability system in line with similar institutions across the development finance landscape by: first, giving it the authority to monitor how the Bank responds to the Panel's investigations; and second, by offering affected communities and project proponents the opportunity to seek dispute resolution through the Panel's offices.

While the review of the inspection panel's toolkit continues, the board has also commenced a review of the accountability system at the IFC, including the CAO. The CAO had generally operated with less controversy and resistance from management than the Panel, but in recent years, IFC began to raise more objections to the CAO's compliance findings, and in some cases, appeared to ignore the findings altogether. This trend was exemplified by IFC's inaction with regard to the CAO's findings on the Tata Mundra coal-fired power plant complaint.

With nowhere else to turn, communities took the unusual step of suing the IFC in Federal court in the United States. As part of the response to this lawsuit, the CEO of the IFC, Philippe Le Houerou, has taken some welcome steps to improve the IFC's record in managing environmental and social risks of its projects, but more is needed to strengthen IFC's response to the CAO process and to enable remedy when harm occurs.

Establishing a community remedy and response fund is necessary to protect communities from bearing the disproportionate environmental and social risks of IFC finance projects. As the Bank engages in evermore challenging context, Congress also has an important oversight role to play to ensure that the institution has the tools and resources it needs to continue setting high standards for the broader development community, and to ensure that all people are able to benefit from its projects and programs.

Thank you.

[The prepared statement of Ms. Schwarz can be found on page 67 of the appendix.]

Chairman CLEAVER. Thank you, Ms. Schwarz.

Mr. Kenny, you are recognized now for 5 minutes.

STATEMENT OF CHARLES KENNY, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT

Mr. KENNY. Thank you, Chairman Cleaver, Ranking Member Hill, Chairwoman Waters, and members of the committee. Thank you very much for the opportunity to testify this morning.

My name is Charles Kenny, and I am a senior fellow at the Center for Global Development, a think tank in Washington, D.C.

I would like to make two main points. First, the World Bank Group is a powerful force for global development. It has benefitted from U.S. leadership and support. Second, the IFC, the World Bank Group's private sector arm, needs reform if it is to deliver more in the countries that need its help the most.

As you know, the World Bank Group is a central component of the multilateral financial architecture that has supported global development and furthered U.S. interests in a stable, secure, and prosperous world. Between them, the World Bank and the IFC support the two vital pillars of development: an effective government; and a robust private sector.

The Bank Group leveraged U.S. support to commit $62 billion in development financing in 2019, operating at a scale and across a range of countries and sectors that the U.S. is unable to achieve alone. Continued American leadership and financial support in the World Bank Group should be a high priority.

At the same time, as Ms. Schwarz mentioned, historically, the U.S. Congress, and this committee in particular has played an important role in ensuring that the World Bank Group's activities support development that respects rights and the environment, and targets some of the most vulnerable people in the world.

In that regard, the recent performance of the World Bank Group's private sector arm is concerning. Fragile and conflict-afflicted states accounted for less than 5 percent of IFC commitments, and low-income countries accounted for just 2.6 percent of commitments in 2016—2.6 percent—and that compares to 25 percent in 2003. The problem is not so much a lack of cash as a lack of good projects.

Nonetheless, the Bank Group's response has been to use $2 billion of resources from IDA, the lending arm that usually finances governments in poor countries, to provide subsidies to firms involved in IFC investments. Simply applying subsidies does not significantly expand the pipeline of high-impact, private sector projects in developing countries that the IFC can support. Making matters worse, subsidies risk crowding out other development finance institutions, and that includes the new U.S. International Development Finance Corporation.

The current use of subsidies by the IFC ignores common-sense rules of effective private sector engagement developed by the World Bank Group itself. The Bank Group is a founder signatory to a set of principles that calls for subsidies to be driven by public sector priorities to be allocated fairly, on a level playing field, and to be transparent. In reality, IFC's use of subsidies meet none of these principles.

The IFC needs a change in its fundamental model in order to increase its development impact in poorer countries and make best use of the capital increase. I agree with Mr. McGuire that poorer countries need more private investment, but this current approach of the IFC is not working to deliver that.

Regarding subsidies, as a matter of routine, the IFC should use competitive approaches or open offers to allocate. For any non-competitive subsidy awards that remain, the size of a subsidy should be capped at 10 percent or less of the total value of IFC support. That is a little less than half the average subsidy level reported on the projects that the IFC subsidized in 2017 and 2018. That is because the risks of subsidy are the greatest with these non-competitive allocation approaches.

Subsidy terms should be transparent. The IFC has taken a first step by reporting subsidy estimates, but it should also report the market rate estimate from which the subsidy is calculated, the mechanism of subsidy calculation, and the economic justification for the subsidy. Again, the IFC should mandate disclosure of beneficial ownership and tax jurisdiction of investee firms as Congress has pushed for previously. As Ms. Daar mentioned, this should apply to sub-investees, as well.

It is important that the U.S. shows leadership and commitment to multilateralism, including at the World Bank Group. I strongly support the U.S. taking part in the IBRD capital increase, both as a statement of continued leadership and commitment to multilateralism, and as an incredibly effective tool to leverage U.S. resources for global prosperity.

At the same time, while an IFC capital increase under the current model will strengthen the institution as a tool for engagement in wealthier developing countries, with reforms, it could also have a significant impact in the world's poorest countries. U.S. support for a larger IFC should be matched with reforms for a better IFC.

Thank you very much.

[The prepared statement of Mr. Kenny can be found on page 60 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Kenny.

Mr. Debevoise, you are recognized now for 5 minutes.

STATEMENT OF ELI WHITNEY DEBEVOISE II, PARTNER, ARNOLD & PORTER LLP

Mr. DEBEVOISE. Thank you, Mr. Chairman, Ranking Member Hill, Chairwoman Waters, and distinguished members of the subcommittee. It is an honor to appear before you today to speak about the authorization of capital increases for the World Bank and the IFC.

It was mentioned, I think by the ranking member, that this is only the fifth opportunity for a capital increase at IBRD in its entire history, so these do not happen every year.

It is also the case that the capital increase for IBRD which you are presented with is a reflection of the financial crisis that we went through back in 2008. At that time, the G-20 called on the Bank to open the faucets and to help the rest of the world. And it did. It responded in kind.

That, in turn, led to an increase in lending from a pace of about $13 billion a year to almost $34 billion a year. But that was obviously an unsustainable pace, and that led to the fourth capital increase request, which you had back in 2011. What you see now is a reflection of a further discussion about whether $34 billion a year or something less than that should be the new normal. And it was obviously not sustainable to maintain that higher pace.

So, what has happened is, the United States Treasury has responded intelligently here. And I know there has been some concern expressed about the volume of lending to countries that are at or near the graduation level. This is an important subject, and the Treasury has engaged with the Bank and reached some understandings with the Bank about that. So, I think that is an important reform.

As a shareholder of the Bank, the United States also has been a leader in dealing with the financial structure of the Bank, and we have always been a very strong advocate for watching the budget very carefully, looking at policies like loan pricing. And, in fact, with this capital increase comes a reform in loan pricing, which will now be differential pricing.

When I was the Chair, there was a lot of talk about how we were a big co-op and everybody should pay the same. But I think the world has recognized that that needed to change, and that is one of the reforms which is in this package.

The other point is that in any large institution, there is always room to take a close look at the budget and to make people accountable, and that has been done in this case, as well.

There are new provisions that relate to salaries. I remember quite well. When I was the U.S. Executive Director, this Congress had the wisdom to limit my salary to the level of an Assistant Secretary of the Treasury, which was appropriate. I had no complaint about my salary, because for the average American, it was a very healthy salary. I have colleagues on the board who are earning substantially more because that was the standard salary. But the Bank has agreed to start to limit salaries, and to spend on personnel, which I think is another important item.

There has been some discussion about the question of income transfers from the Bank to IDA not continuing, and the use of the private sector window at IFC as part of IDA. This represents 3.3 percent of the entire IDA18 commitment. I think that this is an experiment worth pursuing. And if you disaggregate some of the programs that are there, one of them, for example, is nothing other than the incorporation of Multilateral Investment Guarantee Agency (MIGA) insurance policies into IFC and IDA.

When I was there, we were constantly pushing for IFC to do more in IDA countries and in fragile countries, and they responded. They stepped up. And I think that this window is an experiment worth pursuing. The countries are crying out for infrastructure, and this is an important initiative.

Thank you.

[The prepared statement of Mr. Debevoise can be found on page 51 of the appendix.]

Chairman CLEAVER. Thank you, Mr. Debevoise.

I now recognize myself for 5 minutes for questions.

Mr. McGuire, I would like to chat with you first. I would like to reference your time as Executive Director (ED) of the World Bank during the previous Administration, the Obama Administration, and the issue of ethnic diversity at the Bank and your willingness to address the issue.

As we were preparing for the hearing today, our staff was trying to get a better understanding of the ethnic diversity of the Bank and could find very little information, very little reporting on that subject. And I believe that where there is little transparency, there is little trust. So, I have an article here, "World Bank Staff Chastises the Board Over Lack of Diversity," and I would like to enter this into the record, without objection.

Without objection, it is so ordered.

This issue comes up year after year after year, and I think everybody has to struggle with the issue of inclusion, including Congress. But I do believe that a diverse workforce in the World Bank is extremely important, and only when we use all parts of our great mosaic are we at our best.

Can you offer me some perspective, your perspective on the inclusion issue?

Mr. MCGUIRE. Certainly. Thank you for the question.

There are several things I would say related to diversity at the Bank. I will separate the board from the staff.

The board, of course, is a little more of a challenge because every country chooses whom they want to send forward, and so there is really nothing that the Bank itself can do in telling countries whom to send forward. And recall that while we, Whitney and I, represented the U.S. alone, other EDs will represent 10, 12, even 20 countries, and so there is a much more complicated calculus in terms of where those members select their EDs from. So, let's set the board aside.

I think that the issue within the staff more broadly, and especially in various levels, the more senior levels, is an ongoing one. It is one that the Bank has talked about at the board level quite a bit, and it is one that I know senior management has talked about quite a bit.

There are two things that I would say. One is that a little bit of a challenge that the Bank has is that they really pay attention to nations as opposed to ethnic minorities within nations. So, when someone comes forward for hire, they definitely track what country they are from for a number of reasons, some quite good. In certain countries, they are very wary of identifying people as an ethnic minority because those ethnic minorities could be disenfranchised in the home countries, or there are other reasons why people do not want to identify as such.

The point is that it is only through self-reporting at this point at the Bank that people—let's say if they are an American hire, people have to choose to identify whether they are African American or European American or Latino American and so on.

Chairman CLEAVER. Excuse me. But you do agree that there should be a higher level of accountability and transparency?

Mr. MCGUIRE. Certainly. And I agree also with your fundamental premise that the more diverse staff you have, the better decisions one makes in a better range of perspectives.

I would say, to that end, I know the Bank has been working on that for several years now. They have a partnership with Howard University, a Historically Black College in this town, of course, working with their law school, and they have had several dozen—I think it is 40—externs who have come to the Bank to get experience in international development. And, so, there are efforts underway that are led out of the corporate secretariat.

So, it is something that the Bank cares about and has been moving on, but I agree it is something we need to keep pushing on to have greater transparency.

Chairman CLEAVER. Particularly, since the level of the participation of the United States in the Bank is high, or certainly higher than the other nations. And, so, if it is something we believe in, I think we ought to try to exploit it.

Can you also speak to the critical need for development finance? And do you believe that the World Bank should be leveraging the private sector to help in areas of need?

Mr. MCGUIRE. I do, very much. And part of it just comes down to basic market demand. The challenge that a lot of IDA countries have is very few investors want to invest there. And, so, pulling them in requires incentives sometimes, and it requires risk mitigants that will make investments in those countries more attractive.

I cannot think of a country at the Bank, IDA countries in particular, that does not want more robust private sector participation. So, while we need to make sure there are guardrails around that, we need to make sure that it is done in the right way. I do get wary when we try to take the judgment away from IFC itself in terms of what is possible in different countries, and we try to limit what they do, because it is hard as it is now, but they have a long track record of doing it and making a difference in low- to middle-income countries.

Chairman CLEAVER. Thank you.

Mr. MCGUIRE. They need to do more in true lower-income countries and in true fragile states, but it is very, very hard. There is very little market demand, so they have to be aggressive in how they pull people in.

Chairman CLEAVER. Thank you very much.

The Chair now recognizes the distinguished ranking member, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. And I thank the witnesses. This is a good panel. I do hope, Mr. Chairman, that we can have the Treasury Department back. I am sorry our Treasury witness was under the weather today, but I think it would be good to have the Administration on the record for this issue.

Chairman CLEAVER. Yes.

Mr. HILL. Thank you.

Mr. Debevoise, thanks for being here, and I appreciate your service, too, as Executive Director. I want to turn to a subject that we have not touched on yet this morning, legislative mandates to the Treasury Department and our Executive Directors in determining and basically telling them how to vote in their role overseeing the Bank.

Do you believe these mandates are supporting or hindering the Executive Director's effectiveness in advancing the United States' national interest? And keep your answer short, because I have several more questions.

Mr. DEBEVOISE. I think that, number one, it is important for the committee to understand that U.S. Executive Directors pay very close attention to these mandates. When I took the job, I was handed a 45-page manual of all of these mandates. I must say, some of them were contradictory. Sometimes, the price of metals is high, and sometimes, the price of metals is low. They are in surplus, or they are in short supply. And yet, we were directed to vote this way or that way on copper or this or that, and that did not seem to make a lot of sense.

Mr. HILL. Thank you. Let me go on.

Do you believe that list, the 45-page manual, is excessive?

Mr. DEBEVOISE. I believe that it could be reviewed from time to time and trimmed, yes.

Mr. HILL. When was the last time it was reviewed, to your knowledge?

Mr. DEBEVOISE. Never.

Mr. HILL. Thank you.

One is a particularly well-known mandate because it is named in honor of our Speaker, Mrs. Pelosi, and this was adopted, I think some 30 years ago. It requires that the Bank report on environmental considerations 120 days before the Bank votes on a particular commitment. Whereas, over in the Ex-Im Bank, those same environmental concerns are done in 30 days. They have to be reported 30 days before the Ex-Im Bank reports.

Can you comment on that particular mandate and its usefulness or challenges to our work?

Mr. DEBEVOISE. Yes, sir. The Pelosi Amendment was a very valuable addition to the toolkit. It was done at a time when communication was very different from what it is today. I think environmental impact statements were being posted on bulletin boards in countries, and now it is all over the internet. I would support a reduction from 120 days to 60 days for this mandate. The mandate itself, I think is important to keep.

If we do not make that reduction, we give IFC, which has as its internal rule a 60-day mandate, the ability to embarrass the United States in its foreign policy whenever it desires. I had to vote against a loan for the Panama Canal expansion—our good ally, Panama—because notwithstanding the fact that the environmental impact statement had been done to the Queen's taste for more than a year, and Ex-Im Bank and IDB were also in the project, the IFC came late because of the financial crisis to replace private banks. It only went up 72 days, and I had to abstain.

Mr. HILL. I think that is a good working example for our listeners to try to understand this. Many times we are asked to abstain based on a mandate, and then that weakens our negotiating ability in changing the terms of agreement.

Mr. McGuire, do you agree with that?

Mr. MCGUIRE. Absolutely. And when our hands are tied, it limits the amount of diplomatic work we can do back and forth.

The thing to keep in mind, as well, is that we may want that project to go forward. There may be a project down the road that someone else wants to go forward, and it is just like here in Congress. The ability to pull both levers and to get one thing done is a compromise for something else, and is core to having an effective U.S. Executive Director.

Mr. HILL. That is good. Thank you both for your thoughts on that.

Mr. Chairman, I do hope we can assist this whole mandate list and see if it can't be streamlined. And certainly the contradictory points that just pile up statutorily with no reform are frustrating the work of two fine gentlemen who carried on this responsibility.

Mr. McGuire, you noted, and I thought it was interesting—you were talking about the temporary facility about dealing with currency fluctuations that the Bank proposed. Isn't that really the International Monetary Fund's (IMF's) job?

Mr. MCGUIRE. Given the challenges in some of these countries, I think a lot of people need to pay attention to it. Where it specifically comes in is in helping investors who come in and invest in another currency to know that they have a hedge when they need to pull those back out, let's say back into dollars. So, it is just one more tool in the toolkit.

The IMF certainly is trying to help at the macro level to stabilize currencies. But on a project-by-project basis, where you may invest today and you may exit in 2 to 3 years, if you do not know where the currency is going there and you have a 10 or 15 percent drop, it is pretty limiting for a lot of investors and they pull back. The IMF is not going to come in at the project level, and so that happens.

Mr. HILL. Thank you, Mr. McGuire, and I yield back my time, Mr. Chairman.

Chairman CLEAVER. The gentleman yields back.

The Chair now recognizes the distinguished Chair of our full Financial Services Committee, Chairwoman Waters.

Chairwoman WATERS. Thank you very much, Mr. Chairman. I want to get back to where I started early on in my opening statement, dealing with the IFC and IDA. First, I want everyone to understand that we are not opposed to business. We believe in economic development. We would like to see the private sector perform, and so I want that to be clear.

However, as I take a look at what is being proposed as a private lender from IDA with the proposal for $5.5 billion that would go to the IFC, and recognizing that, at one time, the IFC was giving $2.5 billion to IDA. So, it is a reversal here.

And I also want to understand exactly what the performance has been. There was something that was put up just a moment ago that showed that IDA basically performed better than the IFC.

I am also interested in knowing why we cannot understand those investments from the financial intermediaries that are used, like the big banks, why there is no transparency? We do not know what they do.

To talk about this kind of enhanced appropriation without having a track record, without having transparency, why wouldn't they be coming with us with reforms now? Because with reforms, I think we could all get together. But without reforms, I don't see how we can.

Let me just ask, who knows who the banks invest in, the fiscal intermediary that the IFC gives its money to? Do you know, Mr. Debevoise?

Mr. DEBEVOISE. This is something which is not known. The loan is made to the financial intermediary. And the IFC may keep track of how the recipient of the loan on-lends it, but that information is not made available.

Chairwoman WATERS. But we do not know whether or not they are investing in small businesses in certain areas and whether or not their investments are hurting or helping in some of these very needy countries, do we?

Mr. DEBEVOISE. I think, Madam Chairwoman, you can ask for more transparency or more information about that, but I think that it would be a big breach of faith with the board, certainly, if the IFC were not fulfilling the commitment that they make—

Chairwoman WATERS. Yes, of course, it would.

Mr. DEBEVOISE. —when they bring the loan to the board. The financial institution is supposed to use it for women-led businesses or minority businesses.

Chairwoman WATERS. Okay. Yes.

Mr. DEBEVOISE. Or small businesses.

Chairwoman WATERS. We know that, but we do not know that—

Mr. DEBEVOISE. And I am assuming that they are tracking—

Chairwoman WATERS. Reclaiming my time, we do not know that they do that. The private equity firms are transparent, is that correct? They do tell us where the money is going, where the money is invested, is that right?

Mr. DEBEVOISE. In my time at the Bank, there was not that much being done through the private equity windows, so I honestly do not know the answer to that question. I think asking for more information is legitimate.

Chairwoman WATERS. Very good. So, we need more transparency. That is extremely important.

And I question the amount of the proposal—$5.5 billion is a lot of money. And the fact that the IFC does not give to IDA, the 2.5 that they were given is just—it is the reversal that concerns me.

Mr. Chairman, what I would like to just kind of end with is this: Come with reforms. Come with reforms to tell us exactly how you are operating, who is benefitting from it, on and on and on, and let's see if we can get together on this. Without those kinds of reforms, I am just not interested in giving any support.

With that, I yield back the balance of my time.

Mr. MCGUIRE. Madam Chairwoman?

Could I address that, Chairman Cleaver?

Chairman CLEAVER. Yes, please.

Mr. MCGUIRE. Several things. I appreciate all of the points that you made, Madam Chairwoman.

What I would say is that, as a person who was on the board when we put through this IDA replenishment, these new changes were a part of a broader set of reforms. This was, as I mentioned in my testimony, a follow-up to safeguard reforms we put in place to make sure there was greater accountability and higher standards. But the idea here was we were actually changing the way IOC was doing business by creating this private sector window.

I would argue we need more time to see its effectiveness. But, again, because we also issued debt for the first time, we were giving much more money to IDA countries, so this is part of a range of reforms that we have made.

And what I would say is that if we do not support it now, it weakens American leadership broadly. But also, I think what we want to do is make sure we are judging it over the full course of time, and then we can take another look at the next replenishment as opposed to restricting it too much now.

Chairman CLEAVER. Thank you, Mr. McGuire.

The gentleman from both of my home States is recognized, Mr. Williams.

Mr. WILLIAMS. Thank you, Mr. Chairman. You are always welcome in Texas.

One of the newest multilateral development banks is the Chinese-led Asian Investment Infrastructure Bank, otherwise known as the AIIB. This bank was opened in 2016. Even though it is relatively young, the Chinese-led institution has already loaned more than $5 billion to projects in over 13 countries. It seems like the AIIB is simply an extension of China's Belt and Road Initiative.

So, my question to you, Mr. McGuire is, can you talk about these differences between the AIIB and other MDBs as it relates to China, who appears to be using this institution to advance their own foreign policy agenda?

Mr. MCGUIRE. Sure. And it really goes to the fundamental difference between the World Bank and the AIIB in that the AIIB is quite explicitly supportive of Chinese state-owned enterprises doing a lot of this work.

As I said earlier, the Bank's historical evidence, but also its orientation, is not to utilize state-owned enterprises and not to directly tie into a national interest of some sort like what China is doing on a bilateral basis through the Belt and Road Initiative.

So, the Bank's approach is fundamentally different. And, again, that is why I think the support is so important because many countries that I have traveled to and I talked to, would much rather work with the American-led system. If we are not there, they will work with whomever is there. So, if we do not have a strong, robust World Bank offering our way of building economies, then they will turn to the other option.

Mr. WILLIAMS. Okay. Thank you.

In 2015, the World Bank suspended the Uganda Transport Sector Development Project due to sexual misconduct by Chinese contractors and the use of child labor. The Bank admitted that there was not proper oversight over this project. But in June 2017, the World Bank lifted its suspension.

Ms. Schwarz, you briefly mentioned the Uganda case in your testimony. Can you elaborate on what reforms have been implemented at the World Bank to ensure proper oversight so that these horrific incidences will never happen again?

Ms. SCHWARZ. Sure. Thank you for the question.

I think with respect to the Uganda Transport Sector Development case, as I mentioned in my testimony, it is also a really great example of how the current accountability system, the inspection panel specifically, is working well at the World Bank. Not only were they able to implement reforms in the context of that specific project on the ground in making sure that the people who were impacted, especially the children in the community, were able to access services, the Bank came in with supplemental projects afterwards and were able to help girls access life skills services, re-enter into school, and things like that. So, there were really important things that happened on the ground with respect to that project because of the accountability process.

The broader sets of reforms that happened after that? As I mentioned, the Bank took the unusual step of actually reviewing its portfolio more broadly. Normally, in the accountability process, the focus is really on the specific project and on the people who were harmed in that specific project. In this case, they took a much broader approach looking at the entire portfolio. They put together a gender-based violence task force, which suggested many different reforms and how they can do this better along procurement policies, as well as in how they interact with their contractors, and how teams are looking to address and mitigate risks up front in the design of projects.

Mr. WILLIAMS. Okay.

Ms. SCHWARZ. There has been a lot of additional guidance and tools that have been made available now to Bank staff to make sure that they are looking for these problems up front, and they are able to put together mitigation plans that help address and prevent these risks.

Mr. WILLIAMS. Okay. Thank you.

Mr. Debevoise, I would like for you to discuss the role of trust funds at the World Bank. There has been bipartisan concern about the trust funds accountability compared to board-approved assistance. So, I guess I would ask you, can you explain why trust funds are preferable to having board members direct funds to be allocated where they will have the greatest impact?

Mr. DEBEVOISE. Thank you, Mr. Williams. The trust fund area is an area which has grown tremendously. I think it now probably exceeds $25 billion. Trust funds come in all kinds of sizes. Many small countries use trust funds just as a substitute for their own development agency, and they essentially get the Bank to do the fiduciary work.

And then there are some very large trust funds, like the Global Fund, which is absolutely fundamental in terms of public health around the world, and the U.S. is a strong supporter of it.

There can always be more oversight of trust funds and more transparency, but I think this is also an area where perhaps some of the problem could be addressed by limiting the minimum size of the trust fund that the Bank is willing to accept because there is a proliferation of funds, and the fiduciary controls are obviously harder to impose the more trust funds you are managing.

Mr. WILLIAMS. Thank you, and I yield back.

Chairman CLEAVER. The gentleman yields back.

The gentleman from Colorado, Mr. Perlmutter, is now recognized for 5 minutes.

Mr. PERLMUTTER. Thanks, Mr. Chairman.

I have just some basic questions, but before I do that, Mr. Williams mentioned China. We have been looking at the screen that shows China's financial influence around the globe. Last night on the Rules Committee, we talked about the Export-Import Bank and whether or not they should be supporting state-owned organizations, businesses that might be owned by China. And I just want to enter into the record from foreignpolicy.com an article dated October 15, 2019. The title is, "Trump is Beijing's Best Asset."

Chairman CLEAVER. Without objection, it is so ordered.

Mr. PERLMUTTER. My questions really are to the basic structure of this lending network that we have that came out of Bretton Woods many, many moons ago.

To anybody on the panel, can you explain to me the lending in the international sphere, from America's point of view? We have the United States Agency for International Development (USAID). We have the Millennium Challenge Corporation (MCC). We have been talking about the International Development Association (IDA), the International Finance Corporation (IFC), the Export-Import Bank (Ex-Im), and the International Monetary Fund (IMF).

So, in the spectrum, how do these things fit together? And then, I want to ask about a basic lending deal and why we do not know where the money goes specifically.

Mr. McGuire, do you want to take a crack at it for me? Just sort of give me a primer on all of our lending entities and who they—USAID is to the poorest. And maybe you, Ms. Daar, can jump in, too?

Mr. MCGUIRE. Sure. And others may want to augment this.

USAID gives grants as opposed to loans, largely for humanitarian interventions of various sorts. For example, in Northern Jordan, to help with the Syrian refugee crisis, they give direct grants there.

Mr. PERLMUTTER. Millennium?

Mr. MCGUIRE. Millennium Challenge Corporation works with specific countries that are lower income and fit a certain set of standards. And what they do is they have an agreement. It is called a compact. If a country does X, Y, and Z, they get X amount of money.

Mr. PERLMUTTER. So it is a loan agreement?

Mr. MCGUIRE. Yes. It is similar. Where the World Bank is different is that it is working with countries—almost every country in the world is a member. And what it is doing is targeting, through their expertise in conjunction with the ministers of finance largely, what specifically would help to build the economic development of that country. And then, it lends relatively cheap money to those countries for them to implement those programs with the Bank's help. So, it is a very hands-on way of helping countries to develop their economies and grow more quickly.

Mr. PERLMUTTER. International Monetary Fund?

Mr. MCGUIRE. The International Monetary Fund is the firefighter that comes in when someone is in big distress, for example, Argentina, when they had their currency devaluation last year. The IMF goes in to try to shore things up and to provide capital necessary to stabilize things. So, it is much more the firefighter in the system.

Mr. PERLMUTTER. Okay. Now give me a basic deal—and maybe I will turn to you, Mr. Debevoise—that the World Bank makes a loan through something, to somebody, for some purpose. How does it work?

Mr. DEBEVOISE. Thank you. Actually, I am not sure that I can give you a primer in the 5 minutes allotted because, within the World Bank Group, there are at least 3 different financial models.

The IBRD has a very small amount of paid-in capital, and then they have a lot of callable capital, which this Congress has authorized.

But the key word there is leverage. With USAID, there is no leverage. With MCC, there is no leverage. With IBRD, there is leverage, about 25 times. So, for every $1 we put in, we get $25 of lending.

Mr. PERLMUTTER. Alright. So, give me a basic deal.

Mr. DEBEVOISE. So that is IDA. IDA is grants. IDA is not going to the market to raise money.

IBRD, small capital, go to the bond market to raise the money that you lend.

IDA is grants. That is an annual appropriation.

IFC is private sector, but it has paid-in capital only. There is no callable capital at the IFC. There is leverage at IFC, but it is not as great as the leverage at IBRD.

Mr. PERLMUTTER. When you say no callable capital, you cannot collect the loan? I'm sorry. I was a banking lawyer but I do not know what you are talking about.

Mr. DEBEVOISE. So, here is the point. This goes back to the founding of the Bank. The big concern was we have limited resources post-World War II. We are going to put in a small amount of capital. We are going to go to Wall Street and sell bonds.

Mr. PERLMUTTER. Okay.

Mr. DEBEVOISE. So we get leverage, okay? Now, in order for those people to buy those bonds, they want to know that they are backed by something. That is where the callable capital comes in. The callable capital can only be called to pay the bonds.

Mr. PERLMUTTER. Okay.

Mr. DEBEVOISE. It cannot be called just because the Bank wants to lend more money.

Mr. PERLMUTTER. Alright. So, in that instance, wouldn't you want to know who the heck the money is going to, ultimately?

Mr. DEBEVOISE. Yes. And with IBRD, you know that absolutely. The borrower is a country and you know absolutely where that—

Mr. PERLMUTTER. But you don't know within the country where it is going?

Mr. DEBEVOISE. You do not know every detail, but you have a lot of mechanisms for understanding how the money is being used. But I am not going to sit here and tell you that we—

Mr. PERLMUTTER. Well, no.

Mr. DEBEVOISE. —know every penny. Money can be detoured. And we have had discussions about corruption, and that is an important agenda.

Mr. PERLMUTTER. Thank you for your testimony.

Chairman CLEAVER. Thank you, Mr. Debevoise.

The gentleman from Ohio, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF OHIO. Thank you, Chairman Cleaver and Ranking Member Hill, for holding this crucial hearing to examine multilateral development institutions. And thank you to our panel.

Properly focused, I think the Bank does help lift nations out of poverty while building a robust institutional integrity, and I think that is important. My fear is that instead of being focused on this task, the Bank has instead become an important tool for China to expand its ambitions.

To that end, this week I introduced legislation to support the Administration's efforts to graduate China from IBRD lending. Currently, a country's potential graduation from IBRD lending stands at a gross national income (GNI) per capita level of $6,975. The Bank calculates China's GNI per capita as equivalent to over $9,000. But, according to the Center for Global Development, China has received $7.8 billion since crossing the graduation, the theoretical graduation threshold in 2016.

So, my first question is, how do we even allow that to occur when you consider that China has the world's fastest super computer, the most powerful hypersonic wind tunnel, and the first quantum-secured satellite communication system? Why on earth should U.S. taxpayers be subsidizing that? And I will ask Mr. Debevoise.

Mr. DEBEVOISE. Thank you. This is a discussion that has been going on for a long time, going back to the Meltzer Commission, as I am sure you know. And there should be graduation for China, and the Bank has been, how do we say, flexible on that standard. But I believe that they are now on a track which is going to produce a winding down of this lending effort.

But the point of the reforms—

Mr. GONZALEZ OF OHIO. Excuse me for one second. How confident are you in that? Because the latest report I read suggests that China will graduate when China has decided that they are in fact a developed country, and they are leaving it to the borrower nations to determine that as opposed to anything else.

Mr. DEBEVOISE. I could be wrong, but I do not believe that is the case. But the historical argument that was used to justify this lending was that, in fact, the Chinese use it to acquire knowledge in key areas of interest to them. The counterargument, obviously, is go to the market and get the money if you want that knowledge.

Mr. GONZALEZ OF OHIO. Right. But also—

Mr. DEBEVOISE. But the Bank does have development knowledge which is not available elsewhere. And, so, the answer to that is if you want the knowledge, pay for technical services; don't borrow.

Mr. GONZALEZ OF OHIO. So, they have not graduated yet. We seem to be in agreement that they should. How do we get them to go from here to there, in your estimation? What is the best way to get them to graduate?

Mr. DEBEVOISE. I think it has to be peer pressure. The other countries in the institution need to have a rule, and they need to enforce it.

Mr. GONZALEZ OF OHIO. Mr. McGuire, do you have a perspective on that?

Mr. MCGUIRE. I was going to say this is, I am sure, a topic of regular conversation with the board. We have a U.S. Executive Director who can be quite forceful on this and can move it forward.

I know that one of the issues some other countries have had is that much of the lending—about half, I think, according to Charles' analysis is going towards public goods, like reducing their carbon emissions.

Mr. GONZALEZ OF OHIO. Right.

Mr. MCGUIRE. And, so, other countries are supportive, but absolutely can be graduated. I think that is the appropriate place for the board to weigh in and our ED to push.

Mr. GONZALEZ OF OHIO. Yes, because money is fungible, right? And, so, if we are lending at subsidized rates, and yes, these might be noble projects, but that means that China can use other dollars more effectively for their SOEs and to expand whatever their ambitions are.

I want to focus on HR specifically for a second. Part of the issue I would argue has to do with leadership structure. Shaolin Yang, as an example, is a Chinese national who serves as the chief administrative officer, and is responsible for strategy, budget, and ethics. Do you see any issue with having someone from a country that deters its own people, restricts birthrates, and denies basic human rights to its people, not to mention what is happening in Hong Kong, Taiwan, and Tibet, as the head of the ethics department? Mr. Debevoise, do you see any issues with that? It just seems odd.

Mr. DEBEVOISE. Well, I happen to know the gentleman. He is an international civil servant. I have seen him in action. And I believe that the Bank generally functions that way. Once you become a bank official, you are not to be taking instructions from your home country. And I think if we believe in the multilateral system, we have to have faith in that.

I agree with you that on the surface, it might look strange to some. But I believe that if the president believes that the person in the job is not doing the job, then the president of the Bank has the ability to suggest that person might be reassigned.

Mr. GONZALEZ OF OHIO. Thank you. I think it is worth additional scrutiny, and I yield back.

Chairman CLEAVER. We are going to have a semi next round of questions. I will begin, and then yield to Mr. Perlmutter for 5 minutes, and then the ranking member will have 5 minutes, as well.

Mr. HILL. Don't forget Mr. Riggleman.

Chairman CLEAVER. Mr. Riggleman?

Mr. HILL. Yes, who missed—

Chairman CLEAVER. Where is he?

Mr. HILL. He was here, had been sitting here before.

Chairman CLEAVER. The late Mr. Riggleman—

Mr. HILL. Well, he is not late. He is still alive.

[laughter]

Chairman CLEAVER. —will also have an opportunity.

I recognize myself for 5 minutes.

Ms. Daar, earlier in the year, concerns were raised, appropriately, from my perspective, about the World Bank's proposed $100 million development project in Myanmar, where there is active and well-known ethnic cleansing taking place. And then, the New York Times, in an investigatory piece, reported that $50 million of World Bank funds marked for education had been linked to detention camps in a Chinese province.

Are you aware of these incidents or alleged incidents? And if so, as the chairwoman of the Full Committee mentioned earlier, what kind of reforms can we put in place to make sure that we reduce, if not completely eliminate, these kinds of acts by bad actors?

Ms. DAAR. Thank you, Mr. Chairman. I think you raise an important point about added scrutiny, especially as the World Bank is increasing and looking to scale up its investments in fragile and conflict-afflicted states.

In the case of Myanmar specifically, I am not aware of the details around one of the projects that you mentioned. I am aware of a proposed project in Rakhine State, and we have concerns around that project and want to make sure that no project is going to be financed that would result in the exclusion of certain communities. In this case, we are particularly concerned around Rohingya communities not being able to fully benefit from a project in Rakhine State.

In terms of the kinds of reforms that can be made forward, I think a lot of scrutiny should be made. While there can be a lot of benefit brought from the World Bank engaging more in fragile and conflict-afflicted states, I think there should be a lot of scrutiny about how they will deal with governments that would be party—that are party to conflict especially.

Chairman CLEAVER. Yes.

Ms. DAAR. And I think enhanced and full transparency around where money is ending up is critical. That is why today, in my testimony, I pushed for full transparency and required disclosure of subprojects and financial intermediaries.

Chairman CLEAVER. Thank you. I have to agree with you strongly.

Mr. Perlmutter is now recognized.

Mr. PERLMUTTER. Thanks, Mr. Chairman.

Mr. Kenny, I would like you to talk about the IFC's business model and whether or not you think they are capable and competent to enter into some of the riskier investments, and whether they are going to do this in IDA countries? I turn it over to you, sir.

Mr. KENNY. Thanks very much, Congressman.

The IFC has been trying and has previously made commitments that it would do more in IDA countries. To date, it has not delivered. In 2011, it said that 50 percent of its projects would be in IDA countries. The actual level is close to 24 percent.

As I mentioned in my testimony, I think that reflects not that the IFC is not trying reasonably hard; it is that there aren't very many projects that fit its model in those countries, and so it needs to change its model. And, of course, the private sector window that is taking money out of IDA and giving it to private firms has been sort of one part of their response.

It has been called an experiment worth pursuing. I would say two things about that. One is, yes, sure, it is an experiment, but actually we have a fair amount of history when it comes to how to subsidize the private sector to deliver better. And, indeed, the World Bank has developed principles around how to subsidize the private sector in order to help it deliver better. The IFC is ignoring those principles in how it uses IDA's money, and I think it needs to stop doing that.

The second part is that if it is an experiment worth pursuing, we need to know if the experiment worked. We will not know if the experiment worked if they are not a lot more transparent about what is going on.

Mr. PERLMUTTER. Thank you. I yield back to the Chair.

Chairman CLEAVER. Thank you.

The Chair now recognizes the ranking member, Mr. Hill.

Mr. HILL. Thank you, Mr. Chairman.

The Senate has included a capital increase for the Bank in the State Foreign Ops Appropriations Bill, and it appears that there is consensus that the World Bank lending will fall significantly without this U.S. contribution. And the credibility of the U.S. maintaining its leadership as the largest shareholder, failing to authorize the capital package might jeopardize the world's work for the most impoverishes countries and fragile states.

I am interested, is there anyone on the panel today who would oppose the capital increase being approved? Would you raise your hand if you are opposed to the capital increase being approved?

So, Mr. Chairman, our panel today all support the capital increase that is being proposed for the Bank. I find that interesting. I had not heard that this morning fully, so that is helpful.

Ms. DAAR. May I make a comment, respectfully?

Mr. HILL. Yes.

Ms. DAAR. Thank you.

Mr. HILL. Quickly, yes.

Ms. DAAR. Yes, sure. Just to say that I think what the consensus that I am hearing also is that there are a lot of reforms needed as the U.S. enters the negotiation and continues conversations around the general—

Mr. HILL. Sure. We all support significant reforms, and I ticked off a few of those in my opening statement, and will put the rest of them in my opening statement for the record. I think the Bank has a lot of things it needs to do, and I am sure Mr. McGuire and Mr. Debevoise would agree with that.

It was created in 1944. Today, is a different world. We have lifted poverty and living standards around the world. We were 50 percent of GDP in 1944. We are 18 percent of GDP now in the world, so there is a lot more that lots of countries can do to help alleviate poverty and increase development around the world. So, reforms are important.

And that brings me to something that Larry Summers said recently, our former Treasury Secretary. Mr. Summers said that he was concerned about the fungibility of money. My friend from Ohio noted that. And he asked questions just specifically about China. He said, "Let's apply that fungibility issue to China, which sits on $3 trillion in reserves."

If the World Bank is financing a project in China, why isn't Beijing doing the project anyway? And if the Bank does finance it, what are we doing permitting Beijing to otherwise spend its resources on it? So, aren't we funding the Belt and Road Initiative around the world—the Majority has put these charts up—by lending them $7 billion?

Mr. Debevoise, do you want to tackle Mr. Summers' concern?

Mr. DEBEVOISE. Yes, indeed. Money is fungible, so from that perspective, it is the case.

As I have said before, I think it is time for China to graduate, and it needs to wind down. Again, though, the Bank is an incredible repository of knowledge about—

Mr. HILL. I know that, and I hear that all the time, and people who push back—

Mr. DEBEVOISE. And they should pay for it. That is the point. We should do fee-for-service.

Mr. HILL. Yes, I agree.

Mr. DEBEVOISE. If they want the knowledge, they should pay for it.

Mr. HILL. Yes, but technical assistance ideas is something we have developed over 7 decades, so why don't we convert it into a revenue stream for the Bank and not necessarily tie it to lending?

Mr. DEBEVOISE. Saudi Arabia does that. There is an example.

Mr. HILL. Yes. Thank you.

Mr. McGuire, based on your experience working in this important job, would you support the World Bank having lending conditionality on disclosure of any other sovereign debt to that country that has undisclosed terms or conditions? In other words, that we increase transparency.

If we are going to lend money for a project in the Congo and we find that they have other sovereign loans, say from China or somewhere else that has undisclosed terms and conditions, should we make our lending through the IBRD conditional on knowing those terms? How do you collect the loan if you have—somebody else might have a first mortgage to be—

Mr. MCGUIRE. I hear that concern, but I don't think I would go down that path.

Mr. HILL. Yes.

Mr. MCGUIRE. Because I think it could open up a Pandora's box of any number of other proposals to come forward and make the Bank's money less attractive to other countries.

Mr. HILL. Right.

Mr. MCGUIRE. And I do think in all countries, you want the Bank there, because they are a very positive interlocutor in shifting the way that other countries operate and bring people out of poverty.

Mr. HILL. But you do think the Bank should continue its efforts that are underway now to collect more transparency and inform the Third World countries, particularly, the poorest countries, about what a benchmark good loan looks like versus a bad loan. Is that fair?

Mr. MCGUIRE. Certainly. As advisors, and as those who are lenders themselves, you always want the countries to whom you are lending to be fully aware of all the parameters of their debt and to understand more of what they are up to, certainly.

Mr. HILL. Thank you, Mr. Chairman. I yield back.

Chairman CLEAVER. Thank you.

The Chair now recognizes Mr. Sherman from California for 5 minutes.

Mr. SHERMAN. When was the last time that the IBRD or any other unit of the World Bank made a loan to Iran?

Okay. Nobody knows.

Mr. DEBEVOISE. I do not know the current answer. I can tell you what the situation was when I was the Chair, which was that there was no new lending to Iran.

Mr. SHERMAN. Has the Bank done everything possible to call the loans that it made previously, or are they leaving those outstanding?

Mr. DEBEVOISE. To my knowledge, the Bank was not calling the loans to Iran.

Mr. SHERMAN. Okay.

Mr. DEBEVOISE. They had—

Mr. SHERMAN. And if they were to make a new loan—

Mr. DEBEVOISE. They are being paid down, to my knowledge.

Mr. SHERMAN. Okay.

Mr. DEBEVOISE. But I am not—

Mr. SHERMAN. So, they are being paid down, but Iran still benefits.

The proponents of the Bank have testified here over the years that we would have an absolute veto over Iran getting loans, and then, they got the loans. Do we have a veto now, or could we be outvoted in the future?

Mr. DEBEVOISE. We have never had a veto on any—

Mr. SHERMAN. I know. The previous experts and proponents of the Bank were lying to me then, and then that was—

Mr. DEBEVOISE. We have never had a veto. But I can tell you when I was the Chair, there was no new lending to Iran. And not only that, we managed to discourage disbursements on existing loans by reminding the Bank of their due diligence duties.

Mr. SHERMAN. But there were actually—

Mr. DEBEVOISE. And eventually, task force actions—

Mr. SHERMAN. —some disbursements—so, you say there are no new loans, but there were new disbursements while you were the Chair?

Mr. DEBEVOISE. No. There were none when I was there because we managed to convince the Bank—

Mr. SHERMAN. Reclaiming my time, have there been disbursements since you left?

Mr. DEBEVOISE. I do not know the answer to that question.

Mr. SHERMAN. Okay. We will try to find the answer to that.

What policy can we have short of withdrawing from the Bank to make sure that no concessionary loans are given to China? Does anybody have any ideas?

Mr. MCGUIRE. I'm sorry. I am confused.

Mr. SHERMAN. Okay. China benefits from this Bank, correct, the IMF?

Mr. MCGUIRE. Yes.

Mr. SHERMAN. That is an attack on the security of the people of the United States.

Mr. MCGUIRE. I'm sorry, you mentioned the IMF?

Mr. SHERMAN. Excuse me. I meant the World Bank.

Mr. McGUIRE. Okay. We have talked quite a bit today about the graduation, China graduating out.

Mr. SHERMAN. Right, and I regard that as insufficient. As long as China benefits one penny from this institution, it is an attack on the national security of the United States. What do we do so that we can still have a World Bank and make sure that not one penny of concessionary aid or loan goes to China? Does anybody have a plan for that?

Mr. McGUIRE. I would say that one of the things we have to continue to do is operate according to a rules-based system. And when they exceed the income limits for further lending, we—

Mr. SHERMAN. So you do not have a plan that—

Mr. McGUIRE. I do.

Mr. SHERMAN. Okay.

Mr. McGUIRE. I do. And, so, we continue the graduation—

Mr. SHERMAN. But your plan is not designed to be effective immediately.

Ms. DAAR. May I just respond on the concessionary—

Mr. SHERMAN. Yes, because I know you are all—

Ms. DAAR. China does not receive, as far as I am aware, any concessionary aid from the World Bank. That is reserved strictly for the poorest countries.

Mr. SHERMAN. But it does get loans from the World Bank on terms that are better than what's available in the commercial market. So, those who advocate the status quo can draw a distinction between better than the market and aid, but any normal person would say that it is certainly an aid to China when they are able to borrow money at costs lower than the commercial market would provide. But we can't engage in sophistry in an effort to tell us that everything is fine and we should approve all the money and don't worry about China's threat to American security.

Is there anyone here who has a plan for how we can achieve the purposes of the World Bank and make sure that not one penny goes to China on any terms better than available in the commercial market?

Mr. McGUIRE. I would say that the consideration that the U.S. ED, I am sure, is considering right now is that you cannot just isolate one set of rules for one country. All countries that move past—

Mr. SHERMAN. We could adopt new rules and say either we do not participate in the Bank—that is option one. Or option two, any country that incarcerates over half a million people in East Turkmenistan or Xinjiang Province is ineligible for all World Bank loans. That could be a new rule. If we do not get acceptance of that rule, we can find other organizations that can take our money and help achieve the world's efforts to alleviate poverty. We do not have to put our money in an organization that subsidizes a threat to American national security.

Mr. McGUIRE. What I—

Mr. SHERMAN. But that is unthinkable in the conventional world, and my time has expired.

Mr. McGUIRE. Can I—

Chairman CLEAVER. Thank you.

The Chair now recognizes the gentleman from Virginia, Mr. Riggleman.

Mr. RIGGLEMAN. Thank you, Mr. Chairman, for calling this hearing today, and thank you for extending it a little bit for me because I think there is another hearing out there today that other people are interested in. But I am glad that we could be here today.

I'm going to go pretty quickly here. Mr. Debevoise, your testimony described the posture of the U.S. towards MDBs as occasionally being tough love, and I know I am sort of following up on some of the questions that have already been asked here.

I just want to get your opinion on what can we in Congress or the folks at Treasury do to ensure that the U.S. is not indirectly funding bad actors or illicit trade throughout the world?

Mr. DEBEVOISE. Historically, the way the subject has been approached has been through mandates. If the Congress believes that it wants to demonstrate its displeasure with lending to a particular economy or a particular structure, they have instructed the U.S. Executive Director on how to vote on that. But as the previous line of questioning showed, I do not think there is currently a mechanism for stopping things outright.

Mr. RIGGLEMAN. Do you think some of those mandates could be increased transparency or additional requirements on exactly where those funds might be going?

Mr. DEBEVOISE. Transparency is a value that the United States has always advocated at the Bank, and I was a big advocate for it. I know that Mr. McGuire was when he was there. And, so, we can always benefit from that, I believe.

Mr. RIGGLEMAN. Yes, I just returned from four countries I think everybody would find interesting. I just went to Honduras, and then to Panama, Argentina, and Peru. We were looking at some of the Chinese trade practices there, so I got to talk to a couple of presidents, the foreign ministries, and also the trade ministries there. I found it interesting that they—and I know this might surprise you—were a little opaque on some of their answers to the questions that I had, especially on the technical side.

I think this is a very important issue, and my worry is—what I really like about this subcommittee is that there are very thoughtful, somber people here. And I like that we try not to politicize it too much, believe it or not, on the National Security Subcommittee, and I think that is a testament to Mr. Cleaver's leadership.

But I would be remiss in not talking about China. Tomorrow, we are voting on the Ex-Im Bank bill, where the SOE portions were removed, which I was in favor of, which was the addition now of some state-owned enterprises. Also, on emerging technologies, based on the fact that I just left as the Senior Consultant for Electronic Warfare and Countermeasures at the Pentagon, as you can probably guess, Asia was a huge priority for us.

In that vein, I want to ask additional questions, but I want to make note of the World Bank's new leadership under David Malpass. There was a great deal of hand wringing by certain people, I believe from the left, but others seemed to have a shocking reaction to this. And I think, as we go forward on China, we have to take some of the politicization of this out of what we are doing because we are really in trouble here.

In Peru, China is the number one trading partner. I was looking at some of the Tweets about David Malpass, and one which was pretty interesting to me, was from a senior fellow at the Center for Global Development, who wrote, "David Malpass' disdain for the World Bank's mission of fighting global poverty rivals John Bolton's respect for the United Nations. There is no case for Malpass on merit."

That same senior fellow is also busy floating conspiracy theories about Malpass and Ukraine.

Another one of the Center's senior fellows tweeted this about Malpass when he was nominated for the World Bank position: "An incorrigible arsonist will now be our fire chief. The man spends his adult life denigrating multilateralism and now has the pleasure of running one of its pillars. When does it end?"

All of these things were re-Tweeted by the Center's then-communications director, a former Obama Administration official, who later left the Center to take a job with the New Hampshire Democratic Party.

And I think when you see that kind of partisanship from the Center, it can be extremely disappointing, because Republicans and Democrats have benefitted from its testimony and research in the past years.

I think these attacks on Malpass were especially silly given how much he has done at the World Bank to restore staff morale after the disastrous leadership of Jim Yong Kim, an Obama-nominated World Bank president whose failed 7-year tenure we are now supposed to conveniently erase from our memory. Well, we remember the World Bank President who came before David Malpass, and the staff of the World Bank certainly remembers.

I urge the Center for Global Development to return to its core mission of rigorous research on development. When it strays into politics, it unnecessarily puts its reputation at risk.

And, Mr. Chairman, without objection, I would ask for unanimous consent to enter into the record a New York Times investigation from 2014 showing how a foreign government paid for the Center to help influence policymakers in Washington. For me, it is very important that we keep those types of lobbying firms out of that.

Chairman CLEAVER. Without objection, it is so ordered.

Mr. RIGGLEMAN. Thank you. I think it is very important for us to do that. And for those who want to take the time to read it, the article claims that Washington think tanks are for sale. Listen, this is what I have been doing for 26 years combined, in the military and also in intelligence work. I think it would vastly undermine the integrity of all those who work there if we continue to allow this to happen.

I hope the Center can say no to foreign influence campaigns, and hopefully the kneejerk trashing of the Administration at this point when we have such an important task in front of us.

Thank you, and I yield back the balance of my time.

Chairman CLEAVER. Thank you, Mr. Riggleman.

Without objection, I would like to enter into the record a letter addressed to me and Mr. Hill from the Sub-Saharan African Executive Directors of the World Bank, who wanted to present their perspective—

Mr. KENNY. Excuse me. Can I—

Chairman CLEAVER. —which has been represented.

Mr. KENNY. —just reply briefly?

Chairman CLEAVER. Time has expired. I'm sorry.

Without objection, it is so ordered.

I would like to thank our witnesses for their testimony today.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

I would like to say as we conclude that you are the real Americans, the great Americans, whose symbol is here in this place, understanding that the most important thing going on, on Capitol Hill, was this committee hearing.

[laughter]

Feel comfortable in the fact that you are a great American for being here. This hearing is adjourned.

[Whereupon, at 11:39 a.m., the hearing was adjourned.]

APPENDIX

November 13, 2019

Representative French Hill--Opening Statement – National Security, International Development and Monetary Policy Subcommittee

How America Leads Abroad: An Examination of Multilateral Development Institutions
November 13, 2019

Thank you, Mr. Chairman, for convening this hearing and to the witnesses for lending your expertise.

I am pleased to serve beside my good friend, Representative Cleaver from Missouri, for my first hearing as Ranking Member on this Subcommittee. He's been a dedicated public servant and strong advocate for ensuring our nation's security.

I've had the pleasure of serving on the Terrorism and Illicit Finance and Monetary Policy Subcommittees my previous two terms and look forward to the bipartisan work we can do to promote and enhance a secure financial system.

I appreciate that we are examining multilateral development institutions and specifically analyzing the need for a capital increase at the World Bank.

Since 1945, the World Bank has been supporting low- and middle-income countries by providing access to financing to alleviate poverty and promote economic development. Over that time, the United States has approved capital increases four times including in 1959, 1979, 1988 and 2010.

This is the fifth time an Administration is seeking Congressional approval for a capital increase.

The Trump Administration is hoping for an additional paid-in capital of $1.24 billion for the International Bank of Reconstruction and Development (IBRD) which would be financed by U.S. taxpayers and $5.5 billion for the International Finance Corporation (IFC) which would be financed by other countries around the globe. Regardless of where the funding comes from, both adjustments require Congressional approval.

As part of the approval process, the Trump Administration negotiated several reform contingencies including:

1. Limiting IBRD lending to higher-income countries, such as China
2. Altering loan pricing to reflect income differences among the IBRD beneficiaries
3. Achieving savings of $3.6 billion between FY19 – FY30, with an additional $1.1 billion in efficiency measures for the Bank
4. Capping overall salary growth for the next four years

5. Targeting 70% of IBRD lending to lower-income borrowers, and 40% of IFC financing to the poorest states

These reforms are tantamount to ensuring the Bank continues to perform effectively and fairly.

One of my goals of this subcommittee is to ensure the World Bank and other multilateral development banks are using U.S. resources in a transparent, corruption-free and effective manner before committing U.S. taxpayer's funds to these institutions.

The United States must use its leadership position at the Bank to fight for the end of corruption and to make sure that all lending is conducted through a transparent and accountable process.

To that end, I would like to discuss China and their access to the World Bank.

China technically crossed an important World Bank income threshold in 2016, which is supposed to begin a discussion on "graduation" from Bank assistance.

However, the country has received more than $7.8 billion in funding since that time. The country continues to borrow an average of $2 billion per year from the Bank.

Even more concerning to this Committee, we often are not confident where loan proceeds are being used. For example, part of that money is likely being used as part of the Belt/Road Initiative.

In my opinion, this lack of oversight and dissemination of funds to a more developed country like China with $3 trillion in reserves is unacceptable. I know that others on my side of the aisle also share this view. The lending number needs to be wound down to eventually get to zero.

I am also concerned with the transparency and debt management process associated with the International Development Association (IDA). There have been concerns raised about the lack of competition for certain lending proposals within this arm of the World Bank. I know the IDA-19 is currently being negotiated and I hope it involves candid conversations about ways to streamline their financing criteria.

The United States needs to ensure there is greater transparency with how the Bank's money is disseminated and have stricter guardrails around its use.

In spite of this lack of transparency regarding China, the Bank is financing important projects across other parts of the world. I look forward to hearing about different financing activities in today's hearing.

I hope we can have a thoughtful discussion exploring what additional reforms are needed to streamline operations and ways to combat fraud and corruption.

Multilateral development institutions help contribute to economic stability around the world and I look forward to finding solutions that to ensure robust economic growth both domestically and abroad.

I yield back.

Testimony to the House Committee on Financial Services Subcommittee on National Security, International Development and Monetary Policy Hearing:

"How America Leads Abroad: An Examination of Multilateral Development Institutions."

November 13, 2019

Submitted by Nadia Daar

Head of Oxfam International Washington D.C Office

Chairman Cleaver, Ranking Member Stivers, and Members of the Committee, thank you for the opportunity to testify on behalf of Oxfam. Oxfam is an international relief and development agency committed to fighting the injustice of poverty. We are part of a confederation of 19 Oxfam affiliates working in more than 90 countries around the globe.

My office is responsible for Oxfam's engagement and advocacy on the World Bank Group and I personally have followed the work of the institution for over a decade. I believe in the tremendous importance of this institution and believe whole-heartedly in its mandate and its twin goals of eliminating extreme poverty and boosting shared prosperity.

I also believe it is the role of civil society to raise flags when we see the World Bank Group making any programmatic choices or operating in a manner that could undermine its mandate or cause harm to vulnerable communities. To that end, I would like to speak about recent and concerning trends in the World Bank Group's education and financial sector portfolios.

I. WORLD BANK GROUP INVESTMENTS IN PROFIT-DRIVEN EDUCATION

We have been following the World Bank's education programming as it is a major source of critical education financing for poor countries. One of the reasons we are such strong supporters of a robust replenishment for IDA19 is particularly because of the important and concessional support the International Development Association (IDA) provides to countries to bolster their public education systems, and indeed the bulk of the World Bank's education work does just that.

However, we are distressed by a growing trend we are witnessing: Our research shows that the World Bank Group is increasingly supporting profit-driven, commercial schools and privatization of education more broadly, through its direct investments via the International Finance Corporation (IFC), as well as through public-private partnerships, and its policy advice to governments.

Concerns about the expansion of profit-oriented and low-fee private schooling

We are especially concerned about IFC's support for **so-called** 'Low Fee Private Schools' which refer to private schools that target lower income segments of the population, often with a profit orientation.

1. Fees mean the poorest lose out: The first big concern about the growth of low-fee and for-profit private education is about the expansion of a model that relies on families paying out-of-pocket school fees. When schools charge fees to parents, no matter how small, they are simply unaffordable for the poorest families.[1] In Ghana, for example, Omega Schools is a major low-fee private school chain that targets poor communities and **charges fees for one student that are equivalent to 40% of the income**

of the poorest families' household income.[2] A **poor, average-sized family in Pakistan would have to spend 127% of its income to send all its children** to a low-fee private school.[3] In other words, that family cannot educate all of their children using these schools. We know that in developing countries, **a child from a poor family is already *seven times* less likely to finish secondary school than a child from a rich family**[4] and we are therefore deeply concerned about exacerbating such inequalities.

The claim is that these schools are filling a gap to provide an education for children who wouldn't have it otherwise, but evidence suggests these schools are generally not reaching out-of-school children for a variety of reasons.[5] Many out-of-school children live in rural areas, where these schools generally do not operate because it is not profitable for them (families are poor and spread far apart).[6] The fees also mean that the most marginalized children are either shut out from these schools completely – or that families are forced to make sacrifices at the expense of other basic needs.[7] Research on access and affordability in low-fee private schools has shown that households accessing these schools are unlikely to be the most disadvantaged or the poorest 20 percent, and that when they do enrol household poverty increases.[8]

The World Bank has suggested that using public funding to subsidize such private schools through "public-private partnerships" or PPPs can alleviate some of these problems. However, PPPs are not a solution to equity concerns in the private sector. Studies have raised strong and consistent concerns about the impact of education PPPs on educational inequalities and socioeconomic segregation. One study found that in the majority of the 17 countries studied, PPP schools are reinforcing social disparities by disproportionately serving upper income students.[9] Research on World Bank-supported PPPs utilizing low-fee private schools **in Uganda and Pakistan also found that there were very few children with disabilities or previously out-of-school children enrolled in these schools.**[10]

2. Fees mean girls lose out: The situation for girls is even worse. Pulled out of school before their brothers, millions more of the world's poorest girls will continue to have their life chances limited by an education that is far too brief. In a poor rural area of Pakistan, girls are three times less likely to attend school than poor boys.[11] The widespread elimination of fees in primary schools in the 2000s meant that tens of millions of girls around the world were able to go to school for the first time,[12] however the expansion of low-fee private education threatens to undermine this progress. A recent review of the academic evidence found that private schools are not equally accessed by boys and girls.[13] To illustrate this, recent government data from India shows that, of children enrolled in private primary schools, 56% are boys, while only 44% are girls.[14] School fees, even those considered low, restrict girls' access to schooling as, **faced with limited household funds, parents often make the difficult choice to send boys instead of girls.**[15]

3. Business interests prioritized over educational quality: There are serious concerns about education quality in for-profit and low-fee private schools. Studies show that **low-fee private schools cut costs by relying on poorly qualified teachers** who are paid very low salaries with often poor working conditions.[16] The reliance on unqualified teachers flies in the face of the World Bank's own evidence that the presence of a trained, qualified, and well-supported educator is one of the most important factors for achieving strong learning outcomes.[17] The pressure to reduce costs may also lead to lower investments in school facilities, materials and other resources that promote learning.

Some prominent commercial chains rely on scripted, standardized lessons to compensate for the absence of well-trained teachers, and increase their scale in order to achieve commercial viability.[18] One study described Omega Schools' standardized approach as the "McDonaldization of education," in which "every aspect in the production of learning and outcomes [is] based on the minimisation of cost."[19]

4. Resistance to government regulation: Another problem with commercial for-profit school chains has been a resistance to government regulation that seeks to ensure compliance with educational standards and legal frameworks. This undermines efforts to ensure education quality and uphold the rule of law in host countries. For example, Bridge International Academies, a for-profit school chain operating in Africa, was ordered by the Ugandan government to close its schools in the country in 2018 after its ongoing refusal to meet standards related to teacher certification and qualifications, curriculum, and school facilities.[20] In Kenya, a formal complaint[21] about the IFC's investment in Bridge Academies was filed with the IFC Compliance Advisor Ombudsman in 2018 by the East African Centre for Human Rights on behalf of teachers and parents in Kenya. It raised concerns about violations of national and international law, labor rights violations, health and safety, and discrimination. Just this month, the CAO announced it is launching a full investigation of IFC's compliance with its own performance standards in this investment.[22] Legal and regulatory violations in commercial and low-fee schools have also been documented in the Philippines, India, and Ghana.[23]

5. Negative impact on public education systems: Finally, investments in profit-oriented private education can negatively impact the wider public education systems. IFC's $13.5m investment in Bridge Academies, for example, aimed to finance the chain's expansion to three other countries and provide a "demonstration effect" for other school operators to enter the market.[24] This relatively small investment therefore can catalyse dramatic changes in host country education systems. Little rigorous research has assessed the cumulative effects of large-scale private schooling on the long-term health of public-school systems. Even if the expansion of private schooling were to bring short-term benefits, it can undermine the political constituency for investment in quality public schooling in the longer term. The reliance of low-fee private schools on underqualified teachers hired on short-term contracts could lead to the creation of an untrained teacher workforce.[25] Moreover, where such schools receive public funding, they displace efforts and funding to expand public education, leaving limited alternatives for those children who are left behind.[26]

Private schools certainly have a place in education systems, and the commercial private sector has an important role to play in education, for example by providing goods and services that support quality improvements in public education. However, when it comes to public funding and especially development finance for education, we must ensure that all can benefit and that none are excluded. The lessons from around the world could not be clearer: pushing profit-driven and market-based alternatives to a public education system creates educational segregation, and exacerbate educational inequalities and thus wider social inequalities. It supports more advantaged students at the expense of those who most need support. This is a dangerous diversion from the essential task of building inclusive, high-quality public education that benefits all children.

Trends at the World Bank Group – increasing support for profit-oriented schooling

Despite these deep concerns about the expansion of fee-based and profit-driven private schooling, the World Bank Group has been increasing its support for these approaches:

The Bank has dramatically increased its direct support for private education companies in recent years through the IFC, which to the best of our knowledge, has an active portfolio of about $700 million in education investments.[27] A recent study by RESULTS Educational Fund found that **IFC investments in direct provision of primary and secondary education quadrupled between 2006 and 2015.[28] It found that these investments increasingly target low- and lower-middle-income groups, and that they are increasingly in commercial school chains.[29]** This includes the IFC's investment in Bridge International Academies, but also includes a number of other for-profit school operators in primary and secondary education.

Other indications point to a further scale-up of these investments. For example, in its newly proposed framework for tracking the impact of its education investments,[30] IFC appears to be significantly shifting its priority and focus within the education sector to the direct provision of education, through investments in for-profit, fee-charging schools including at the basic education level (K-12). In this framework, a majority of the proposed outcome indicators appear to be targeted at the direct provision of education (for example, teacher-student ratios and enrolment numbers), and not to other commercial activities and ancillary services in the education sector such as textbooks and learning materials, ICT and educational software, construction, maintenance, etc.

Oxfam's research[31] finds that a growing number of World Bank public sector (IBRD/IDA) projects are supporting public-private partnerships (PPPs) that use public funding to support private education provision. We reviewed IBRD and IDA funding to governments for primary and secondary education over the last six years, covering 116 projects. We found that **one-fifth (22 percent) of projects included an element of direct support for private provision of education across 14 countries**. This type of support has been gradually increasing over the last decade. While often they are one part of a larger project that supports public education provision, a significant number include a market-oriented approach that seeks to expand the role of private education or support low-fee private schools. In Burkina Faso, for example, we found a project that includes support for the construction of new private secondary schools where the ownership and management is leased to private providers.

Oxfam's analysis of the World Bank's technical assistance and policy advice to governments[32] finds that **it is actively pushing countries to expand private education provision through PPPs and other reforms that reduce regulations and incentivize the growth of private education markets and for-profit schools**. Case studies from Uganda and Pakistan highlight the instrumental role of World Bank advice and lending in supporting the expansion of private education provision.

Given the concerns about gender and economic exclusion in private schools, it is our opinion that these investments contradict and undermine the World Bank Group's stated commitments to girls' education and gender equality,[33] its significant public sector funding for girls education,[34] and the its twin goals to end extreme poverty and increase shared prosperity.

Meanwhile, others such as the European Parliament and the Global Partnership for Education (GPE), the biggest multilateral fund for education, have taken strong positions against directing their own aid funding to support commercial or for-profit education provision.[35] The UN Human Rights Council, the African Commission on Human and Peoples' Rights and various UN Treaty Bodies have recognized the obligation to progressively secure free, public – not commercialized – education in fulfilling the right to education.[36] These positions uphold the principle that **education is a right, not a market commodity**. Investing in free and inclusive public education of good quality is the best way to ensure fulfilment of education for all.

In a unified and strong voice, last month over 170 civil society organizations from 63 countries, told the World Bank and its donors that it is time to recommit to public free, quality education for all and cease support to for-profit commercial schools.[37]

Recommendations

While the challenges and problems of public delivery in many countries are real, neither education PPPs nor low-fee, for-profit schools are a shortcut to achieving quality education for all, or gender equality.

It is our position that the **World Bank Group should urgently redouble its focus on supporting countries to expand and improve the public and free provision of education both through financial**

and policy support. It should stop funding commercial schooling at the basic education level (K-12) through the IFC. It should also ensure that no funding through IDA's Private Sector Window goes to support for-profit schools.

II. IFC INVESTMENTS IN FINANCIAL INTERMEDIARIES

Let me turn now to the financial sector, in light of our concern for ensuring positive development impact and no harm caused to communities in the course of development interventions.

As you are aware, the IFC lends money directly to private sector companies, but an increasing trend we are witnessing is that the IFC is also lending money to companies indirectly through the financial sector. In other words, it lends money to financial institutions such as commercial banks, private equity funds and others, which can then on-lend to companies. The idea is that the IFC can have a broader reach using these so-called financial intermediaries (FIs), particularly in markets or sectors they can't reach as easily directly. The objective is to expand their financial reach through these financial intermediaries.[38]

As of 2018, Oxfam's research finds **that the IFC had 55% of its total portfolio invested in financial intermediaries – that was USD6.4 billion. And between 2015 and 2018, the IFC invested a total of USD24 billion in financial intermediaries.**[39] Of those financial intermediaries, private equity funds made up around 6-10% while the other 90% or so of that portfolio is made up primarily of commercial banks.[40]

Our big concern has been **whether IFC can have this financial reach without compromising its development mandate – with transparency and environmental and social standards being applied.** The current situation is not a promising one: there is a huge lack of information about where the money ends up once the IFC gives it to these intermediaries. We have very limited information about what we would call financial intermediary sub-projects and hence the real impact that follows, be it good or bad.

Lack of transparency:
After much pressure from civil society and repeated follow up, the IFC is now disclosing on its website sub-project information for funds, i.e. that 6-10% I mentioned. However, the information is still not adequate and it is difficult to find.

For the commercial banks the situation on disclosure is even worse – we would say non-existent so far. **Once the IFC lends to commercial banks, which remember make up 90% of their FI portfolio, if you or I wanted to find out where that money ends up - what high risk projects they might be financing - we would not be able to.** All we would know, is that the money went to Bank X, and that the overall objective of that loan or equity investment was either for general purposes, and/or in some cases targeting specific sectors like the housing or energy sector, for example.

With this context, there is **no way to assess the development impact of such loans.** Critically, we can't make sure this money is not doing harm to the environment or to communities.

Along with small and medium enterprises, microfinance loans, and other seemingly harmless loans, this money can also - and we have ample proof that it is - end up in environmentally and socially high-risk projects in sectors ranging from agribusiness, to energy, infrastructure, extractives, and others.

The IFC's independent accountability mechanism, the Compliance Advisor Ombudsman (CAO) has said: "IFC has, through its banking investments, an unanalyzed, and unquantified exposure to projects with potential significant adverse environmental and social impacts. Without disclosure of information related to these projects this exposure is also effectively secret and thus divorced from systems that are designed to make sure that IFC and its clients are accountable to project affected people for delivery on their environmental and social commitments."

Lack of transparency means unmitigated risks to communities:

Proof that there are some hugely problematic investments is the **17 and growing number of CAO cases related to IFC's financial intermediary investments.**[41] Each one of those is linked to a high-risk project where communities believe environmental or social harm has been done. Half of those cases are projects linked to IFC's commercial banking clients while the other half relate to private equity funds.

Examples:
- Banco Ficohsa, a large Central American bank with main operation in Honduras. IFC invested equity in Ficohsa including debt to support trade finance, housing and SME loans.[42] However, Ficohsa also had significant investments in Dinant Corporation, a palm oil company found to be involved in land rights violations, evictions, human rights violations and even killings.[43]

- Nedbank, one of the leading South African banking groups where IFC has given a subordinated Tier II qualifying loan.[44] Nedbank has investments in AngloGold Ashanti, and one of AngloGold Ashanti's subsidiaries in Guinea was found to be involved in forced displacement and land rights violations of communities while acquiring the land for a massive open-pit oxide gold mining operation.[45]

- Rizal Commercial Banking Corporation (RCBC) –where IFC has made two equity investments (2010 and 2012) in addition to providing two general commercial banking loans in 2013 and 2015. The IFC states that its additionality is to lend credibility to the bank's efforts and business, as well as support expansion of its lending to infrastructure projects.[46] RCBC has significant investments in more than 20 coal related investment in the Philippines with significant concerns related to "climate change, inadequate compensation, health harms, loss of livelihoods, environmental and social management system."[47]

These and a multitude of other cases are documented extensively in several reports by Oxfam[48] and several other civil society organizations.[49]

However, to uncover this information, it was not easy. It took thousands upon thousands of dollars and years of work. We had to trace backwards from projects to financial institutions cross checking with the IFC's website on which FIs it was investing in. **We believe that what we found is just the tip of the iceberg.** Given the magnitude of the investment – let me remind you: USD24 billion to financial intermediaries in just three years – this is highly concerning.

Lack of transparency means lack of accountability:

There is no way to measure development impact, or importantly, ensure that risks are managed properly and that communities who are harmed by such projects, can seek recourse from the IFC if and when harm is done. **Disclosure of investment information is a central tenet of accountability in development finance.**
When a community suffers harm as a result of a project, it is extremely difficult for them to know where they can turn to. Given the IFC's money is invested in these projects, communities should have the right

to seek redress or support through the IFC and its accountability mechanism, the CAO. But that information is not available to communities. There is no way for them to know their rights; there is no way for them to know the IFC is involved or that its performance standards - which are a high standard in the private sector - should have been applied.

The need for this information is real and urgent for communities who are facing day to day fears, and suffering the impacts of projects with unmitigated risks, whether they are loss of livelihoods, forced evictions, ill health, human rights abuses, and in some cases murders without impunity as seen in the different cases. **Ultimately, without communities knowing who is financing projects that impact them, there is no way to hold those actors accountable. We believe that transparency and access to information are at the core of good governance, informed participation in decision-making, and public accountability.**[50]

Progress to date:

Because of all these concerns which have been raised through several means by civil society and impacted communities, since 2015, there has been some progress which I would like to note. IFC has discussed measures to[51]:

- Reduce exposure to high risk FI investments and apply greater selectivity of clients
- Better focus of environmental and social resources for due diligence, appraisal, supervision and capacity support for FI clients deemed higher risk
- And most recently as of October 2019, we have been told verbally that the IFC will begin an initiative for its commercial bank clients to voluntarily disclose sub-project information in a similar manner of IFC's fund sub-project disclosure. I want to be clear that this is not mandatory, only voluntary for financial intermediary clients to agree to or not with no implications for IFC's support one way or another as far as we know. The details of the initiative are not fully clear yet. Nor is this initiative in writing.

This is a welcome first step but it is just the first step and we have to be vigilant, and most important, be able to hold the IFC accountable to these commitments.

Recommendations:

We would like to see IFC developing a clear strategy and roadmap towards financial intermediary sub-project disclosure, which makes clear that the voluntary disclosure initiative is only a stepping stone towards a requirement for disclosure.

This involves IFC including as a condition of investment for Banks, a requirement for the Bank to disclose basic sub-project information for higher risk transactions, including their environmental and social management systems that are already required by IFC's Performance Standards. In this way, the IFC would necessarily screen out financial intermediaries that are not willing to be transparent in the same way that the IFC screens out private sector companies that are not willing to adhere to its own disclosure of information policy.

The US has been the leading voice and champion for strong environmental and social standards, transparency, and accountability at the World Bank Group over the years and it should proudly take credit for many of the rigorous policies and mechanisms we see today. We now urge you to use your congressional oversight role to hold the IFC accountable to those standards and promote a clear path towards required disclosure in IFC's financial intermediary portfolio.

Finally, as the Bank also discusses the private sector window through the International Development Association, we ask the committee to use its oversight capability to consider how to maximize the development effectiveness of this window, through transparency and accountability at all levels, and ensuring positive development impact. As such, we would propose banning the use of the private sector window for any for-profit schools as mentioned, and also ensuring maximum transparency in financial intermediary projects as well.

Thank you for your time and I am happy to take your questions.

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[1] Various country studies demonstrate this, for example: Barakat, S.; Hardman, F.; Rohwerder, B.; and Rzeszut, K. (2012). Low-Cost Private Schools in Afghanistan and Pakistan: What evidence to support sustainable scale-up? EPPI-Centre, Social Science Research Unit, Institute of Education, University of London; Heyneman, S.P.; Stern, J.M.B.; and Smith, T.M. (2011). The Search for Effective EFA Policies: The Role of Private Schools for Low-income Children; Riep, C. (2014). Omega Schools Franchise in Ghana in Macpherson, I, Robertson, S and Walford, G (eds) (2014). Education, Privatisation and Social Justice: case studies from Africa, South Asia and South east Asia

[2] J. Walker et al (2016) Private Profit Public Loss: why the push for low-fee private schools is pushing quality education off-track: Global Campaign for Education

[3] B.R. Jamil, K. Javaid, B. Rangaraju (2012) "Investigating Dimensions of the Privatisation of Public Education in South Asia," ESP Working Paper Series 43, Open Society Foundations. http://www.periglobal.org/sites/periglobal.org/files/WP43_Jamil_Javaid&Rangaraju.pdf

[4] J. Walker et al (2019) *The Power of Education to Fight Inequality*. Oxfam International. https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620863/bp-education-inequality-170919-en.pdf

[5] For example, a recent survey of 437 children in low-fee private schools in Ghana, for example, found that all but one of the children had previously been in a public school. Riep, C. (2014). Omega Schools Franchise in Ghana in Macpherson, I, Robertson, S and Walford, G (eds) (2014). Education, Privatisation and Social Justice: case studies from Africa, South Asia and South east Asia. London: PERI.

[6] Srivastava, P. (2013) "Low-fee private schooling: issues and evidence" in P. Srivastava (Ed.) Low-fee Private Schooling: aggravating equity or mitigating disadvantage? Oxford Studies in Comparative Education Series (Symposium Books, Oxford, 2013).

[7] See Day Ashley L. et al (2014) *The role and impact of private schools in developing countries: a rigorous review of the evidence*, DFID.

[8] Day Ashley L., et al. (2014) op. cit. See also: Lewin, K. (2007) "The Limits of Growth to Non-government Private Schooling in Sub-Saharan Africa" in P. Srivastava and G. Walford (Eds.) *Private Schooling in Less Economically Developed Countries: Asian and African perspectives*, pp. 41–65. Oxford: Symposium Books.

[9] Baum, D. (2018) The Effectiveness and Equity of Public-Private Partnerships in Education: A Quasi-Experimental Evaluation of 17 Countries. Education Policy Analysis Archives Vol. 26, No. 105. https://doi.org/10.14507/epaa.26.3436

[10] Bous, K.M. and J. Farr (2019) False Promises: How delivering education through public-private partnerships risks fueling inequality instead of achieving quality education for all, Oxfam International Briefing Paper https://policy-practice.oxfam.org.uk/publications/false-promises-how-delivering-education-through-public-private-partnerships-ris-620720

[11] *How can education systems become equitable by 2030? DFID think pieces – Learning and equity* August 2015 Pauline Rose and Benjamin Alcott

[12] United Nations (2015) *The Millenniumm Development Goals Report*.

[13] See Day Ashley L., et al. (2014) op. cit. Since the DFID review, several new studies have also come out that have added to the body of evidence on female disadvantage in private schools. See for example: Sahoo, S. (2015) *Intra-household gender disparity in school choice: evidence from private schooling in India*. University of Goettingen; Indian Statistical Institute, New Delhi; Maitra, P., S. Pal and A. Sharma (2016) *Absence of Altruism? Female Disadvantage in Private School Enrolment in India*. World Development; Alcott, B. and P. Rose (2015) *Schools and learning in rural India and Pakistan: Who goes where, and how much are they learning?* Prospects 45.

[14]Government of India, National Institute of Educational Planning and Administration (2018), *School Education in India: U-DISE Flash Statistics 2016-17*.
http://udise.in/Downloads/Publications/Documents/Flash_Statistics_on_School_Education-2016-17.pdf

[15] See discussion on the role of school fees in hindering girls' access to education, in: Tembon and Fort eds. (2008) *Girls' Education in the 21st Century Gender Equality, Empowerment, and Economic Growth*. The World Bank.

[16] Srivastava, P. (2013) "Low-fee private schooling: issues and evidence" in P. Srivastava (Ed.) *Low-fee Private Schooling: aggravating equity or mitigating disadvantage?* Oxford Studies in Comparative Education Series (Symposium Books, Oxford, 2013).

[17] See World Bank (2018) WDR op. cit., and Bruns et al. (2014) *Great Teachers: How to raise student learning in Latin America and the Caribbean*. World Bank.

[18] See Riep, C. (2015) *Omega Schools Franchise in Ghana: A case of "low-fee" private education for the poor or for-profiteering*? ESP Working Paper Series. http://www.periglobal.org/role-state/document/omega-schools-franchise-ghana-case-%E2%80%9Clow-fee%E2%80%9D-private-education-poor-or-profiteer; Kenya National Union of Teachers and Education International (2016) *Bridge vs. Reality: A study of Bridge International Academies' for-profit schooling in Kenya*. https://download.ei-ie.org/Docs/WebDepot/Bridge%20vs%20Reality_GR%20Report.pdf

[19] Riep, C. (2015), ibid, pp. 267.

[20] Janet K. Museveni, First Lady of Uganda, Minister of Education and Sports, February 15, 2018, "Enforcement of the Standard Operating Procedure (SOP) for private schools and school charges in Uganda." *New Vision*. https://www.newvision.co.ug/new_vision/news/1471272/enforcement-standard-operating-procedure-sop-private-schools-school-charges-uganda

[21] Compliance Advisor Ombudsman website, Letter of complaint submitted by the East Africa Centre for Human Rights on April 2018. http://www.cao-ombudsman.org/cases/case_detail.aspx?id=1272

[22] Compliance Advisor Ombudsman (2019), Compliance Appraisal, Bridge International Academies http://www.cao-ombudsman.org/cases/document-links/documents/CAOAppraisalReport_BridgeInternationalAcademies_English.pdf

[23] See Riep, C. (2015) op. cit (for Ghana); Srivastava, P (2013) op. cit (India); Education International, *Regulatory framework for Philippine private schools and practices in APEC schools* https://download.ei-ie.org/Docs/WebDepot/Regulatory%20framework%20PHL%20and%20APEC%20practices.pdf, (for Philippines).

[24] Compliance Advisor Ombudsman (2019), op.cit.

[25] Macpherson, I. Robertson, S & Walford G (eds). (2014). Education, Privatisation and Social Justice: case studies from Africa, South Asia and South East Asia, Oxford: Symposium Books

[26] Ibid.

[27] As mentioned in various recent blogs and speeches by IFC and World Bank staff, including the following blog: Sergio Pimenta, March 28, 2017, "Global Youth Urgently Need New Models—Public and Private—for Education and Skills" https://medium.com/@IFC_org/global-youth-urgently-need-new-models-public-and-private-for-education-and-skills-a363f8bed49a

[28] Baker, T. and W. Smith (2017) *From Free to Fee: Are for-profit, fee charging private schools the solution for the world's poor?* RESULTS Educational Fund. https://www.results.org/wp-content/uploads/From_Free_to_Fee.pdf The report cites a total of $162.28 million invested in direct provision of K–12 (primary and secondary) education between 2011–2015 as compared to $38.9 million during the previous five years (2006–2010), an increase of more than four times.

[29] Baker, T and W. Smith (2017), ibid.

[30] International Finance Corporation (July 2019) *AIMM Sector Framework Brief, Education*. Sector Economics and Development Impact Department https://www.ifc.org/wps/wcm/connect/93122a67-8062-4ea2-8635-03b45029a7a8/AIMM-SFB-Education-Consultation.pdf?MOD=AJPERES&CVID=mNNGUzw

[31] Bous, K. M. and J. Farr (2019) *False promises: How delivering education through public-private partnerships risks fueling inequality instead of achieving quality education for all.* Oxfam International. https://www.oxfam.org/en/research/false-promises

[32] Bous, K. M. and J. Farr (2019). World Bank technical support to countries on education is delivered through the Systems Approach for Better Education Results (SABER) program. This finding is based on our analysis of SABER "international best practice" recommendations and policy framework, as well as its country-specific reports.

[33] For example, see the World Bank's IDA18 gender commitments, World Bank (2017) Additions to IDA Resources: Eighteenth Replenishment. *Towards 2030: Investing in Growth, Resilience and Opportunity* (pp. 78–80). http://documents.worldbank.org/curated/en/348661486654455091/pdf/112728-correct-file-PUBLIC-Rpt-from-EDs-Additions-to-IDA-Resources-2-9-17-For-Disclosure.pdf

[34] For example, see World Bank website: *World Bank Invests US$3.2 Billion in Adolescent Girls' Education in 2 Years*, March 7, 2018. Accessed on April 1, 2019. https://www.worldbank.org/en/news/press-release/2018/03/07/world-bank-invests-us32-billion-in-adolescent-girls-education-in-2-years

[35] June 2019 Global Partnership For Education Board Decision https://www.globalpartnership.org/sites/default/files/2019-06-gpe-board-decisions-rev3.pdf

[36] For statements by international human rights bodies, see bit.ly/2kld8nP. See also the Report of the UN Special Rapporteur on the Right to Education, (2019) *Right to education: the implementation of the right to education and Sustainable Development Goal 4 in the context of the growth of private actors in education bit.ly/2kwj90S*; and the 2018 *Report of the UN Special Rapporteur on Extreme Poverty and Human Rights on privatization and its impact on human rights*, undocs.org/A/73/396.

[37] *An Open Letter to the World Bank and its Donors* (2019) http://www.coalition-education.fr/depotWeb/Open-letter-from-civil-society-October-19-pdf.pdf

[38] IFC's Priorities in Financial Institutions. Retrieved from https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities

[39] These figures are derived from IFC annual reports for fiscal years 2015, 2016, 2017, and 2018. http://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/previous-annual-reports

[40] N. Bugalski. (2016). Owning the Outcomes: Time to Make the World Bank Group's Financial Intermediary Investments More Accountable. Oxfam International and Inclusive Development International.

https://www.oxfam.org/en/research/owning-outcomes This figure is taken from the IFC's 2015 Annual Report and describes FY2015 figures. If one is to take the entire FI portfolio, including short term trade finance, Private Equity funds would make up 6 percent of the portfolio. If we are to look only at long-term investments, the figure would reach 10 percent.

[41] CAO cases portal. http://www.cao-ombudsman.org/cases/

[42] IFC's project portal for Ficohsa Project ID 26394: https://disclosures.ifc.org/#/projectDetail/SPI/26394 Ficohsa Project ID 29257: https://disclosures.ifc.org/#/projectDetail/SPI/29257

[43] CAO case Honduras / Ficohsa-01/ CAO Vice President Request http://www.cao-ombudsman.org/cases/case_detail.aspx?id=209

[44] IFC's project portal for Nedbank Tier II, Project ID 26014. https://disclosures.ifc.org/#/projectDetail/SPI/26014

[45] CAO case Guinea / Nedbank-01/Kintinian. http://www.cao-ombudsman.org/cases/case_detail.aspx?id=1259

[46] IFC's project portal for RCBC Equity, Project ID 30235 https://disclosures.ifc.org/#/projectDetail/SPI/30235 CF RCBC Equity II, Project ID 32853 https://disclosures.ifc.org/#/projectDetail/SII/32853 RCBC Short Term, Project ID 34115 https://disclosures.ifc.org/#/projectDetail/SII/34115 RCBC Bond, Project ID 30235 https://disclosures.ifc.org/#/projectDetail/SII/37489

[47] CAO case Philippines / Rizal Commercial Banking Corporation (RCBC)-01. http://www.cao-ombudsman.org/cases/case_detail.aspx?id=1266

[48] Land and Power (2011) Oxfam: includes two FI cases in Uganda, further discussed in the case study: The New Forests Company and its Uganda Plantations (2011). Risky Business (2012): Oxfam Highlights the risks with Financial Intermediaries (FIs) lending for communities, and the increasing trends of DFIs lending through FIs. The Suffering of Others (2015): Research and evidence linking IFC through commercial banks to damaging projects where thousands of people were displaced from their homes and lands and have their livelihoods devastated. Owning the Outcomes Oxfam with IDI (2016): Challenged the main assumptions and arguments that IFC put forward to avoid responsibility for these risks.

[49] Out of Sight, Out of Mind (2010) Bretton woods Project and Ulu Foundation. This paper analyses IFC lending through financial intermediaries, and finds a number of causes for concern, including a worrying lack of transparency, inadequate attention to social and environmental concerns, and a failure to link directly to proven developmental impacts. It sets out recommendations for a complete reformulation of IFC's approach. Follow the Money (2013) Bretton Woods Project. Down the Rabbit Hole (2014) Program for Social Action, India. Outsourcing Development: Lifting the Veil on the World Bank Group's Lending through Financial Intermediaries (2016): Introduction to the Outsourcing Development series of exposés. "Disaster for Us and the Planet": How the IFC Is Quietly Funding a Coal Boom (2016): Exposé of IFC links to the Asian coal boom via financial intermediaries. Bankrolling India's Dirty Dozen (2016): Exposé of IFC links to 12 of India's most irresponsible companies and gross human rights and environmental violations via its investments in Indian banks. Reckless Development: The IFC's Dodgy Deals in Southeast Asia (2017): Exposé of IFC links to numerous dodgy deals in Southeast Asia via FIs, highlighting the Ban Chang coal mine in Myanamar. Unjust Enrichment: How the IFC Profits from Land Grabbing in Africa (2017) Exposé of IFC links to land grabs across Afica via FIs, highlighting the Siguri gold mine in Guinea. Time to Come Clean: How the World Bank Group and International Investors Can Stop the World's Most Dangerous Coal Plant (2017): Exposé of IFC links to the Rampal coal plant in Bangladesh via FIs. Broken Promises: The World Bank, International Investors and the Fight for Climate Justice in the Philippines (2018): Building on "Disaster for Us and the Planet" this piece delves into IFC's exposure to 20 new coal plants in the Philippines. Digging Deeper: Can the IFC's Green Equity Strategy Help End Indonesia's Dirty Coal Mines? (2019): Profiles the Kalti Prima Coal mine in Indonesia along with IFC intermediary links to other major players in Indonesia's coal mining industry, and analyses the proposed Green Equity Strategy through this lense. IDI Database of Harmful IFC Sub-Investments: Database of over 160 harmful projects that IFC is exposed to through its FI portfolio.

[50] Donaldson, C. and Hawke S. (2018). Open Books: How development finance institutions can be transparent in their financial intermediary lending, and why they should be. https://www.oxfam.org/en/research/open-books-how-investments-financial-intermediaries-can-be-transparent-and-why-they-should

[51] Media blog by Philippe Le Houérou (2017). Re-examining our work with financial institutions retrieved from https://medium.com/@IFC_org/re-examining-our-work-with-financial-institutions-208c4161d9e3

THE HON. ELI WHITNEY DEBEVOISE II

**FORMER U.S. EXECUTIVE DIRECTOR,
THE WORLD BANK GROUP,
SENIOR PARTNER, ARNOLD & PORTER**

WRITTEN TESTIMONY BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE SUBCOMMITTEE ON NATIONAL SECURITY, INTERNATIONAL DEVELOPMENT AND MONETARY POLICY

ON

HOW AMERICA LEADS: AN EXAMINATION OF MULTI-LATERAL DEVELOPMENT INSTITUTIONS

NOVEMBER 13, 2019

Chairman Cleaver, Ranking Member Hill, and distinguished members of the Subcommittee, it is an honor to appear before the House Financial Services Committee, Subcommittee on National Security, International Development and Monetary Policy regarding American leadership at the World Bank Group and the authorization of capital increases for the World Bank and the International Finance Corporation (IFC).

Legislation to authorize capital increases for the International Bank for Reconstruction and Development (IBRD) and the IFC comes at a crucial moment for the United States, the institutions and the global economy.

We all recall the dangerous moment in 2008, when the world economy fell off a cliff, and the strong response of the World Bank and the MDBs to the G-20 call to stretch their balance sheets. In large measure, that response is why you have capital increase authorization requests before you today.

Speaking of the institution I know best because I lived these moments in the U.S. Executive Director's chair, the IBRD component of the World Bank dramatically increased its loan commitments from the $13 billion per year range to an average of $34.6 billion per year in the three years from July 1, 2008 to June 30, 2011, for a total of $103.8 billion in commitments during the period.

Without more capital, the World Bank could not continue that pace, let alone return to the pre-crisis commitment level of $13 billion per year, without slicing through the bottom of its target risk coverage range, which is part of its strategic financial adequacy framework. That is why the World Bank came to the Congress in 2011 for a capital increase. Notwithstanding that increase, for some, even though the crisis subsided, increased levels of lending became the aspirational new normal. IBRD lending commitments have averaged $23 billion per year for Bank fiscal years 2015-2019, and the capacity of the Bank to confront any new crisis disappeared. Many said that more capital was needed.

The United States Treasury has responded intelligently. The Treasury realized that the Bank needed to maintain the capacity to increase its commitments in the event of a crisis, but to preserve this capacity, the Bank could not carry on lending at an ever accelerated pace, particularly by continuing to lend in high volumes to middle-income countries with per capita incomes near the graduation level and ready access to the capital markets. Instead IBRD needed to increase the volume of its lending going to its members further down the per capita income range. At the same time, IBRD needed to discipline its spending.

In light of the package of reforms negotiated by Treasury, which would restrict annual lending commitments to a level that can be sustained in real terms over a rolling ten-year horizon through organic capital accumulation alone, we can now say that without Congressional support for more capital, the crucial economic development and poverty reduction mission of the World Bank will suffer, along with the American reputation for leadership in important international institutions. The same will hold at the IFC, which also confronts depleted capital following its strong response to the financial crisis of 2008 and its new initiatives to expand investment in low-income and fragile states.

What is the role of the World Bank Group (WBG) and its relevance in today's world? As it has been since 1944, the WBG plays a vital role in U.S. national security, the U.S. economy and U.S. job creation by promoting global economic growth and reducing poverty. The Bank also contributes to the promotion of U.S. foreign policy objectives of sustaining peace and stability, promoting security and combatting terrorism.

U.S. leadership is vital in ensuring that WBG operations contribute to safeguarding national and economic security. The WBG does not automatically pursue our interests. It takes strong leadership to achieve that result.

On the leadership question we start from a good point. We were leaders in the creation of IBRD at the Bretton Woods conference in 1944 and present at the creation of the IFC.

Our leadership manifests itself in part through our financial support. We are the largest shareholder in IBRD and the IFC, because we have contributed the most capital. Without U.S. participation in the capital increases, that situation would change and it will be said that the United States is withdrawing from the world and making way for other ascendant powers.

Our leadership also manifests itself through the quality of the ideas we present for pursuit of the MDBs' economic growth and poverty reduction mission. We do not possess 50% of the votes in any of the MDBs, so we cannot unilaterally block any particular loan or impose any particular policy. Although the MDBs have a strong American presence, they are not U.S. government agencies or U.S.-controlled entities, so we must use our diplomatic voice to secure the outcomes we desire.

If the United States does not subscribe to the capital increases, our soft power, our ability to persuade others will be reduced. Other shareholders will simply say we do not care anymore. In some cases they may even take up the subscriptions we cast aside and try to install themselves as the dominant force in the institutions.

We should not forfeit the position we currently have. At times, our approach to the MDBs can be seen as tough love, but frequently tough love is appreciated by other shareholders. They know that the institutions would not be financially sustainable if we did not speak up for stronger financial discipline, improved governance and accountability and enhanced development impact and effectiveness. But if we do not participate in the capital increases, our messages in these areas will fall on deaf ears.

Members may be asking themselves what was the process for determining the need for capital contributions and the level of the U.S. capital contributions? Why is any new capital needed in a world with large amounts of capital flowing to many emerging markets?

Indeed, to some markets, there do appear to be significant capital flows. But those flows are increasingly volatile. In fact, some of the countries which experienced substantial inflows and currency appreciation in recent years have witnessed reduced inflows and currency depreciation as global capital markets have retreated. Many African countries entered the capital markets in the last decade, but nowadays markets are ever more selective.

The communiques from the October meetings of the G-20, the International Monetary and Finance Committee (IMFC), the Development Committee and the speech of Treasury Secretary Steven Mnuchin to the IMFC all resonated with warnings of downside risk, potential over-indebtedness and potential declines in economic growth. If major developed countries have difficulties, developing countries will be affected. Indeed with globalization, the correlations among markets have become very high.

Growth cannot come only from developed nations; in fact, more than half of all economic growth in the planet is now coming from developing countries. They represent export markets for us. If global growth stalls, those markets could be lost. Therefore, it is extremely important for us that the World Bank and the IFC carry on with their financial support for economic growth and poverty reduction among their clientele, particularly the lower income IBRD clients and the private sector in low-income and fragile states. Without more capital this will not be possible.

How does an MDB know it needs capital? How does an MDB measure the shortfall? At the World Bank, management and the Board of Executive Directors followed a rigorous analytical process employing a strategic financial adequacy framework. This involved examination of the Bank's risk bearing capacity, stress testing and measurement of the sustainable equity-to-loans ratio (E/L ratio).

There was a debate about the proper trajectory for future Bank lending. Some thought the status quo was adequate. Others wanted the Bank to move to a much higher level of lending. If those voices had prevailed, the capital increase would have been three times as large. As negotiated, however, the IBRD capital increase will require $206.5 million per year for six years from the United States, about 20% of what the United States currently provides annually to the International Development Association, the soft-loan window of the WBG for the poorest countries.

In the negotiations, the United States insisted that a hard look be taken at all elements of the financial equation, including loan pricing, compensation, administrative budgets, and net income allocations. As a result, many reforms were adopted in these areas. For example, the IBRD has already adopted a differential loan-pricing system and new discipline on the single-borrower limit.

The United States also sought reforms to make the Bank a more efficient and effective vehicle for development financing. These included a greater focus on development results. The United States had successfully pushed the results agenda in IDA negotiations, and now it is included for IBRD projects. The Bank now releases a Corporate Scorecard to demonstrate that it not only measures money disbursed but development results.

The United States also insisted on improved governance and accountability. This started with a very significant change in the approach to the Bank's disclosure policy. As a result, those who follow the Bank now have access to much more information about its policies, plans and decisions.

The Inspection Panel has also been nurtured from a fledgling pilot twenty-plus years ago to an active oversight mechanism available to individuals and communities that feel themselves aggrieved by the Bank's failures to follow its own safeguards and procedures in undertaking a project. The United States has been a stalwart defender of the Inspection Panel's independence, and it has become the model for similar mechanisms at the other MDBs. Following a review, currently underway, it should become even more effective.

One of the very attractive features of the World Bank for the United States is the ability to leverage U.S. contributions. At the same time, the Bank is very conservatively managed in order to remain in high standing in the financial markets. Since 1945, the United States has paid in a little less than $3.0 billion in capital contributions. With that capital and that of others, the Bank has made more than $600 billion of loans to 137 countries.

The Congress can calculate that for every dollar it authorizes for World Bank paid-in capital, more than six dollars will be paid in by other shareholders. The Bank itself is then able to leverage the paid-in capital by borrowing in the capital markets of the world to obtain lendable resources five times greater than the paid-in capital. The resulting loans generate income and through the build-up of retained earnings, the Bank can fund even more lending. World Bank capital contributions are truly a force multiplier for American taxpayers.

Committee members about to embark on the legislative process may wonder what policy directives or conditions should accompany an authorization to participate in MDB capital increases. Based on the experience I had deploying the voice and vote of the United States, please allow me to suggest the following general philosophy.

Politics is politics, and there will always be subjects on which the Congress or even individual Members will want to influence U.S. policy. Nevertheless, please try to resist the urge to legislate everything. Maybe report language will do. Certainly in my experience, report language was taken very seriously. Treasury brought these items to my attention, and I advocated as strongly for these positions as for others that appeared in legislation.

Second, when the Congress feels that the Executive needs legislative guidance, whether because the Congress thinks the Executive is evading an issue or because the representatives of the American public need to go on record on a particular point, please pay careful attention to precise wording. Please remember that the World Bank Group has both public and private sector windows. In many countries the private sector cannot change policy the way the public sector can. In such situations, it makes little sense to oppose all IFC or MIGA operations for companies operating in a country because we do not like what the government of that country is doing. Yet, if the Congress does not make its intention clear, Executive Directors will have to oppose all operations at both the public and the private-sector windows, without distinction.

Today's passions and circumstances can change. Please remember this and periodically review mandates or consider the inclusion of sunset provisions. Also, inconsistent or contradictory mandates have been known to exist.

Finally, when adopting mandates, please remember that we cannot veto individual loans. As much as U.S. Executive Directors may advocate, there may be subjects on which we stand alone. Once Bank managements realize what those subjects are, they have the ability to embarrass the United States by presenting loans for our allies in circumstances in which they know that we will have to oppose. This happened on several occasions during my tenure. If the legislation had been less prescriptive, there would have been more room for diplomacy, and the overall objective of the Congress might have been met. Unfortunately, with very tight language, counterparties had no incentive to negotiate.

In conclusion, I respectfully submit that this Committee should move forward with authorization legislation for the World Bank and IFC capital increases. It is the right decision for U.S. national and economic security.

Further, now is the time to act; the consequences of waiting are potentially severe. If we do not move forward, we risk our voting rights falling below the 15 percent threshold needed to prevent amendments to the articles of agreement, something the financial markets count on to be sure that callable capital is reserved only to pay bondholders. In short, negative action, inaction and delay would all be detrimental to U.S. interests.

I commend the World Bank and the IFC capital increases to you and thank you for your attention. I stand ready to answer any questions you may have.

Statement of Deputy Assistant Secretary Mathew Haarsager
Department of the Treasury
Before the Committee on Financial Services Subcommittee on National Security, International Development and Monetary Policy
United States House of Representatives
November 13, 2019

Chairman Cleaver, Ranking Member Hill, and Members of the Subcommittee, thank you for inviting me to testify this morning.

The multilateral development institutions are important tools through which the United States supports broad-based and robust private sector-led economic growth, job creation, and poverty reduction. These institutions make vital investments in areas such as infrastructure, health, education, and agriculture in developing countries. They are a critical source of support for improving governance and strengthening institutional capacity – leading to better business environments, greater economic stability, reduced corruption, and increased opportunities for U.S. businesses.

U.S. engagement with the multilateral development banks (MDBs) also helps bolster our national security. These institutions are major sources of funding for fragile and conflict-affected states, with a focus on helping address the root causes of instability. The MDBs are at the forefront of efforts to respond to and sustainably rebuild from global crises, including famines, pandemics, natural disasters, environmental degradation, and migration spillovers.

U.S. participation in the MDBs provides a vital complement to our bilateral assistance. The United States has worked hard to ensure the MDBs finance high-quality and impactful programs by adhering to robust social, environmental, and fiduciary standards. The MDBs are coordinating closely with the International Monetary Fund, the United States, and our allies to enhance debt sustainability and promote improved debt management capacity and transparency in developing countries. The MDBs' high standards, technical and policy support, and assistance volumes, often on grant or highly concessional terms, combine to ensure that they offer developing countries a high-quality financing alternative to unsustainable borrowing from other creditors, including China.

Although these institutions continue to serve U.S. interests well, further reform efforts are needed to expand their development impact, deliver assistance more efficiently and effectively, and ensure that U.S. financial contributions are used wisely. To this end, Treasury and the U.S. Executive Directors in these institutions, with valuable support from this Subcommittee and other Members of Congress, have continued to advocate for reform progress at the MDBs across a broad range of areas. These include:

- Implementing financial sustainability mechanisms that promote financial discipline and decrease the need for periodic capital increases. This includes budget and salary constraints;
- Graduating wealthier, more creditworthy borrowers and shifting the allocation of MDB assistance toward poorer, less creditworthy countries;

- Introducing differentiated loan pricing based on income level and loan tenor;
- Improving accountability and safeguard mechanisms and ensuring that oversight, accountability, and compliance functions are sufficiently resourced;
- Increasing project selectivity, with more focus on priorities such as energy security and access, women's economic empowerment, addressing fragility, good governance and enabling the private sector, and food security;
- Promoting debt sustainability, including by contributing to better debt transparency;
- Encouraging countries to take on appropriate roles and responsibilities as shareholders;
- Maintaining U.S. institutional influence and strong governance, including through Board oversight;
- Reversing the trend toward complex financial engineering that increases risks to shareholders;
- Discouraging cooperation with non-transparent, non-market based bilateral initiatives in third countries;
- Measuring the impact of projects, including crowding in private sector financing, both ex ante and ex post;
- Advocating for better coordination of country programs and best practices across the MDBs; and
- Strengthening staffing in more challenging environments.

Success in advancing these priorities depends on strong U.S. leadership and participation in the MDBs, including through our financial contributions to maintain U.S. shareholding and voting power and to support the world's poorest countries. While these efforts are important and ongoing across all of the MDBs, I would especially like to highlight the results of what U.S. leadership has achieved at the World Bank Group.

The capital increase package for the International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC) that we negotiated with other shareholders and World Bank Management in 2018 includes a set of transformational reforms to make the World Bank more financially disciplined, focus its operations in countries that have less access to other sources of finance, and ensure it operates more efficiently. The IBRD has adopted a financial sustainability framework to restrain annual lending commitments and maintain the ability to respond to crises through organic capital accumulation. The IBRD and IFC will direct more funding to countries where scarce development resources are needed most, by increasing the share of annual lending to countries below the IBRD's graduation income threshold and increasing the share of IFC investments in poorer and fragile countries. The IBRD has adopted differentiated loan pricing and will implement its graduation policy more robustly, and World Bank staff salary growth will be constrained.

Authorization for the United States to vote in favor of the capital package and subscribe to our IBRD shares in a timely manner, as requested in the President's Budget for Fiscal Year 2020, is critical to ensure continued U.S. influence over the implementation of this reform package and avoid jeopardizing U.S. voting power in the IBRD. We look forward to engaging with the Subcommittee in securing the authorizations required to cast our votes.

In addition, the United States and other donors are currently negotiating a new replenishment of the International Development Association (IDA), the World Bank's concessional arm for the poorest countries. During the negotiations, the United States is playing a leading role in having IDA adopt stronger incentives for improved debt management and transparency; differentiating and enhancing its approach to delivering assistance in fragile and conflict-affected countries; boosting opportunities for women and girls; confronting gender-based violence; and with the help of this Subcommittee, improving transparency regarding the use of IDA resources to support private sector transactions in conjunction with the IFC.

Finally, the United States is working to modernize policies and accountability mechanisms. That includes increased resources and guidance to implement the updated Environmental and Social Framework and procurement standards that the World Bank Executive Board approved in recent years. The World Bank Inspection Panel and IFC Compliance Advisor Ombudsman have also initiated reviews of their toolkit with the goal of ensuring that those claiming harm from World Bank Group projects have an appropriate means of redress, and Treasury is working to gain support from the Board for these reforms in the near future.

Treasury looks forward to further cooperation with the Members of this Subcommittee to help advance U.S. objectives in the multilateral development institutions.

Testimony of Charles Kenny

Senior Fellow, Center for Global Development

Before the House Committee on Financial Services Subcommittee on National Security, International Development, and Monetary Policy Hearing
on
How America Leads Abroad: An Examination of Multilateral Development Institutions

10:00 a.m., Wednesday, November 13, 2019

Chairman Cleaver, Ranking Member Hill, members of the Subcommittee, thank you for the opportunity to testify this morning. My name is Charles Kenny and I am a senior fellow at the Center for Global Development, a non-partisan think tank in Washington, DC.

I am going to focus my testimony today on the General Capital Increase requests of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC), which await congressional approval. In particular I will address the role of the IFC in the world's poorest countries and explain why I believe further reform is important to ensure that the proposed capital increase helps benefit those countries.

The World Bank Group, including the IBRD, the International Development Association (IDA) (which provides grants and concessional loans to the poorest countries) and the IFC (which invests in private companies), is a central component of a multilateral financial architecture that has supported global development and furthered US interests in a stable, secure and prosperous world. Between them, the World Bank and the IFC support the two vital pillars of development: an effective government and a robust private sector. The Bank Group leveraged US support to provide commit $62 billion in development financing in FY 2019, operating at a scale and across a range of countries sectors that the US is unable to achieve alone. Continued American leadership in and financial support of the World Bank Group should be a high priority.

Historically, the US Congress (and this committee in particular) has played an important role in promoting the adoption of rules and standards that help ensure the World Bank Group's activities support development that respects human rights and the environment and targets some of the most vulnerable populations in the world.

In that regard, the recent performance of the World Bank Group's private sector arm is concerning. The private sector plays a central role in development and the IFC's overall portfolio includes many projects that generate jobs, profits and needed service provision. But the institution is delivering declining development returns to the poorer countries that need support the most. Without reform, it is unlikely that an IFC general capital increase will help fix that problem.

I would like to make three points and three suggestions for reform: First, the IFC is doing less in the poorest countries not because of lack of cash but because of lack of good deals. Second, the IFC's use of subsidized finance transferred from IDA does not help this problem and, third, they way that the IFC is using subsidies ignores the World Bank Group's own principles as well as common sense. To help fix these problems, the IFC should move towards competitive subsidy award, cap subsidies, and provide far greater transparency across all of its operations.

The volume of support that the IFC is providing to poorer countries is declining. In 2011, 26 percent of IFC's investments were in today's (2019) IDA countries. In 2018, 24 percent of IFC's investments were in IDA countries. Looking at the economies most in need of support, fragile and conflict affected states account for less than five percent of IFC commitments, and low-income countries accounted for 2.6 percent of commitments in 2016 (that compared to 25 percent in 2003).

Beyond volume is the quality of support: Between 2015-17, the Independent Evaluation Group at the World Bank rated only 45 percent of IFC private sector investment projects as mostly successful or better in terms of development outcome. In Sub-Saharan Africa, just 38 percent of IFC projects were rated mostly successful or better. That compares to a 76 percent satisfactory rating globally and 71 percent in Africa for World Bank IBRD and IDA projects with the public sector over the same period.

Looking forward, as part of discussions around the capital increase, the IFC has made promises to increase its focus on lending in poorer countries. To meet them, IFC's investments in low-income IDA countries would have to expand by a factor of eight over 2016 levels and in fragile and conflict-affected states, the portfolio would likely have to increase by even more. But it has struggled in the past to meet similar commitments. In its FY 2011-13 'Road Map' document, for example, the corporation said that around 50% of IFC's projects going forward were expected to be in IDA countries. Between 2005–2008, 30 percent of IFC's investments were in IDA countries. That climbed to 32 percent over 2009–2012 but declined to just 25 percent in 2013–2016.

As this past record implies, the problem is not so much lack of cash as lack of good projects. Nonetheless, the Bank Group's response has been to reverse funding flows between the IFC and IDA so that now some IDA resources are being used by the IFC to give subsidies to private firms.. As part of the discussions around IFC's general capital increase, the Corporation's previous policy of transferring a portion of its annual net profits to IDA was terminated, with the intent that this would free even more resources to work in challenging markets. And as part of the last round of IDA funding negotiations, a $2.5 billion 'Private Sector Window' (PSW) was set up, of which $2 billion was to support IFC's investments in IDA recipient countries using IDA resources.

But simply applying subsidies does not significantly expand the pipeline of high-impact private sector projects in developing countries that are amenable to IFC support. To quote the mid-term review of IFC's IDA Private Sector Window, "deal origination in PSW-eligible markets does not come easy." To date, the unsurprising result of these reforms has been significantly reduced net financing flows from the IFC to the World's poorest countries.

Making matters worse, subsidies on IFC deals increase the risk of financing lower-impact projects and crowding out other development finance institutions willing to support the same projects –including the US International Development Finance Corporation. That would leave the total volume of quality private sector investment in poorer countries no higher than it would be absent the PSW, all while reducing the financing available to support governments to deliver public services in IDA countries.

And the current use of PSW subsidies by the IFC ignores commonsense rules of effective private sector engagement developed by the World Bank itself. The Bank Group is a founder signatory to multilateral development bank principles that call for identification of "a clear market or institutional failure or public policy goal that is best addressed through a subsidy" before selecting that instrument. They also suggest subsidies should be transparent and that there should be an "equal opportunity for funding to qualified companies on a non-discriminatory basis."[1]

In reality, the process to date for setting the level and recipient of PSW subsidies has not once been competitive or based on an open offer to all qualified firms. Instead it has relied on secret negotiations with select beneficiary firms. The IFC provides no public justification for a negotiated PSW subsidy as the most efficient mechanism to deliver on public policy priorities, for the subsidy level, or for the selection of a particular subsidy recipient. And while the IFC has recently committed to releasing an estimate of the subsidy amount on PSW projects, it will not report on how the subsidy calculation is made.

The IFC needs a new approach in order to increase its development impact in poorer countries and make best use of a capital increase. In particular, the corporation should move more aggressively to a model of creating deals –market making—in poorer countries rather than its traditional model of waiting for project sponsors to emerge and negotiating secret deals with them.

Especially when it comes to the use of subsidized resources, that process should begin with an understanding of country-level public policy priorities with regard to private sector development and delivery of services --because scarce aid resources should be used to achieve the maximum development impact, not allocated to private firms on a first-come, first-served basis.

As a matter of routine, the IFC should use competitive approaches or open offers to allocate subsidies because negotiated approaches are less efficient and more likely to result in crowding out other development finance institutions including the US International Development Finance Corporation. The World Bank Group has considerable experience in competitive subsidy award approaches to build on—the Global Partnership on Output-Based Aid (now GPRBA), housed at the Bank, has backed 49 projects across infrastructure, education, and health that involve open, competitive subsidy allocation to private sector investors.

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[1] MDB Working Group on to Principles to Support Sustainable Private Sector Operations (2017) Multilateral Development Bank Principles to Support Sustainable Private Sector Operations. EBRD: London. Downloaded from https://www.ebrd.com/downloads/news/mdb.pdf

The size of subsidy under any non-competitive projects that remain should be capped (at 10 percent or less of the total value of IFC support), on the grounds that the larger the subsidy, the less likely the project is sustainable and the greater the risk of crowding out rather than adding to the level of private investment in poorer countries. The IFC argues that subsidy scale is already small in most deals. Given that, a cap should be a minor inconvenience while helping to reassure stakeholders that firms are not receiving large payoffs in non-competitive agreements.

And subsidy terms should be transparent: the market rate estimate from which the subsidy is calculated, the mechanism of subsidy calculation, the economic justification for public intervention in support of the project and for the use of negotiated subsidy as the preferred tool should all be published. The distribution of subsidy amounts to sub-projects through financial intermediaries (when the IFC invests in banks for on-lending to enterprises, for example) should also be published.

More broadly, the IFC is not releasing sufficient information and reassurance to allow governments and civil society to verify that its projects have positive development impact. Amongst reforms that should apply to all IFC projects, there should be an exclusion to investing in public-private partnerships where details are not fully disclosed as laid out in the World Bank's framework for disclosure in PPPs. That framework mandates disclosure of financial information including financing structure, government support (grants, tax breaks), tariffs and tariff methodology, performance targets and metrics, termination provisions and handover provisions, and renegotiations or changes in contract terms.

The IFC should also mandate disclosure of beneficial ownership and tax jurisdiction of investee firms (including sub-grantees). Global norms (as highlighted by the G-20 summit in Brisbane, Australia in 2014, for example) increasingly demand release of beneficial ownership information. And the US Consolidated Appropriations Act, 2018 mandated that the US executive directors at these multilateral development institution push for that information to be released on projects. While the IFC posts project descriptions on its website, which often include the names of sponsors and major shareholders in the company, it does not publish full beneficial ownership or tax jurisdiction information.

This mandate should also apply to recipients of finance through financial intermediaries including banks and equity funds. IFC safeguards including exclusions on harmful child labor, unsustainable forest products, tobacco, weapons and alcohol all apply to financial intermediaries, but it is impossible to know if safeguards are being followed or subprojects are achieving development impact without information on recipients of on-lent funds. The IFC has announced a pilot to report on these recipients but the information should be public as a matter of routine. This applies most urgently to ultimate beneficiaries of PSW financing.

It is important that the US shows leadership and commitment to multilateralism, including at the World Bank Group. At the same time it is equally important that multilateral development efforts have the maximum impact on improving the lives of poor people in poor countries, and this is where the IFC is falling short. Without reforms it is difficult to see how a general capital increase to the IFC has any significant development impact in the world's poorest countries. US support for a *larger* IFC should be matched with reforms for a *better* IFC.

Hearing before the Sub-Committee on National Security, International Development, and Monetary Policy of the Committee on Financial Services

How America Leads Abroad: and Examination of Multi-Lateral Institutions

November 13, 2019

Written Testimony by Matthew T. McGuire, Ph.D.

Chairwoman Waters, Ranking Member McHenry, and other members of the Committee, thank you for this opportunity to address the topic of America's leadership at the World Bank. I served as the United States' board member at the Bank from 2015 to 2017, and I greatly enjoyed the opportunity to represent the country during that time. There is no doubt in my mind that American leadership is crucial to the Bank's success in achieving its stated goals of eliminating poverty and creating inclusive growth around the world. It is also clear to me that America's national interests can be well served by the Bank, and it can be an important instrument for achieving our foreign policy goals. To that end, I hope that this Committee continue to show strong support for the Bank and that is supports authorization of the both capital increases under discussion.

The context of these increases is important, as they have come after a series of reforms and developments at the Bank which have strengthened it and allowed it to become larger and more effective than it might be otherwise. These reforms included adoption of new "safeguards" that govern the Bank's lending to ensure that rules and processes are in place to ensure that the borrowers of World Bank monies utilize those funds according to high standards of conduct and accountability. Equally important was the issuance of debt backed by the International Development Association (IDA), because doing so allowed the Bank to double to amount of money it could lend to the poorest countries in the world. That major increase in capital was strongly supported by the countries receiving the resulting capital, and it allowed the Bank to do even more in countries that are considered "fragile", or on the cusp of economic, social, or military collapse.

What is crucial to note in this context is that the ratings agencies that gave the IDA a triple-A rating were very focused on the U.S.'s political support for the Bank while they were doing their analysis. As the U.S.'s Executive Director at the Bank at that time, they asked me repeatedly how strongly the U.S. would support the Bank and IDA in particular in the future, because if the largest shareholder of an issuer were not fully committed that would offer notable risk to the bonds' creditworthiness. I assured them that it was in the U.S.'s interests to continue exercising strong leadership at the Bank, and that was true regardless of which party were in control of the Executive and Legislative branches of our government.

Exercising leadership in this context means authorizing the capital increases, of course. But it means sending signals to other shareholders of the Bank - the majority of whom shareholders have already authorized their increases. Crucially, some that have not are waiting to see what the U.S. does, as is often the case when the largest shareholder is considering important decisions. I cannot tell you how many times other Executive Directors came to me in my time at the Bank to ask what the U.S.'s position on an issue was, because they wanted to align their own positions with us. For something as important to the Bank as these capital increases, that is doubly true.

Yet the decision to authorize is not the only thing other countries are watching. Those that are the beneficiaries of the Bank's work are also watching to see if the U.S. stands with them at this moment. It is my understanding that the Executive Directors from Africa have been particularly eager to hear this Committee's decision, as they consider the work the Bank does to be vital to their own aspirations for growth and development. And it goes without saying that many of the countries those E.D.'s represent are being offered loans from China that can be quite attractive. In my experience, many countries would prefer to work with the Bank due to the quality of its expertise, the safeguards that come with its funds, and the imprimatur of the U.S. that also attaches to those funds. Yet they have no choice but to consider all options, and the less active the Bank is, the more active other lenders will be in Africa and beyond.

A related issue is the role that the private sector can play in helping IDA countries to grow and achieve their goals. When the board moved to issue IDA debt, we wanted to be sure the Bank used those new funds in ways that would enhance its effectiveness, rather than simply doing more of what it had always done. One of the things that governments that borrow from IDA asked for was the increased participation of the private sector in their development, and they asked the Bank to consider how it might spur more private investment. The result was the Private Sector Window (PSW), which provides risk mitigation to catalyze investments that otherwise would not happen.

By using a small portion of the IDA debt proceeds to fund the PSW, the International Finance Corporation (IFC) created several financial instruments that help it to invest more money in IDA countries. It is a small start but an important one, because investors often look to the IFC to gauge whether it makes sense to invest in a particular place or in a particular project. Time and again over the years I have seen companies and investors make that assessment, and when the IFC participates it effectively leverages multiples of its own money into those places and projects.

Some would say that the better route is for governments themselves to finance their country's development, and that the private sector should not need incentives to make money. I would say, however, that those governments themselves are saying they want both public and private money supporting their growth. To that end, the Bank continues to work with many countries on improving "domestic resource mobilization", or improved tax collection, so that they can be more self-sufficient in building infrastructure, delivering quality education and healthcare, improving their legal systems, and the like. But in many of those countries much of the economy is informal, there have been legacies of tax avoidance, and the norm is often that just 12-15% of GDP is collected in taxes. That compares to the 25-35% that is collected in most vibrant, economically developed countries.

As a result, the private sector's involvement in development programs is necessary and is being demanded. The impulses that have driven America's success over the years, including the impulses to innovate and to create wealth, are no less present elsewhere. It is the Bank's role, and IFC's role, to lead the way and to strengthen institutions in developing countries, including through drawing more private investment into markets that they currently shun - so that IDA countries can graduate out of IDA, and eventually graduate from receiving any monies from the Bank at all. Korea is an exemplar of just this progression, moving from a country that even IDA didn't want to lend to in the early 1960's to one that now has one of the strongest economies in the world and has been a steadfast ally of the United States for decades. Our goal in providing leadership at the Bank and beyond should be to see that success carried out in other countries time and again. By authorizing the capital increases in front of you, we will take one more step in doing so.

I thank you for the opportunity to be here today, and I look forward to any questions you might have.

BANK INFORMATION CENTER

Testimony of

Jolie Schwarz
Policy Director
Bank Information Center

Before the
House Financial Services Subcommittee on National Security, International Development and Monetary Policy Hearing

Hearing on
"How America Leads Abroad: An Examination of Multilateral Development Institution"

November 13, 2019

Chairman Cleaver, Ranking Member Hill,

Good morning, and thank you for the opportunity to testify today. My name is Jolie Schwarz and I am the Policy Director at the Bank Information Center (BIC). BIC is an independent, non-governmental organization whose mission is to advance social, ecological, and economic justice by amplifying community voices and democratizing international development finance. BIC partners with civil society in developing and transition countries to monitor and influence the policies and operations of the World Bank Group and other international financial institutions (IFIs). In partnership with international, regional, and local CSOs, BIC conducts research and advocacy aimed at reforming and improving IFI policy and practices.

IFIs like the World Bank Group underpin the global financial system, and while they are imperfect, they are considered standard setters for other major players in the broader development community, especially in terms of transparency and accountability. In large part this is due to the history of leadership by the U.S. government and Congress. Both of which have worked for decades to improve and reform the IFIs, encouraging the adoption of strong social and environmental standards, access to information policies, and independent accountability mechanisms (IAMs) that together have enhanced the development impact of the institutions. The World Bank Inspection Panel in particular represents one of the most important innovations ever to be adopted by an IFI, and together with its sister institution, the Compliance Advisor Ombudsman (CAO) continue to provide critical pathways for impacted communities to raise environmental and human rights concerns. These two mechanisms—the Panel and the CAO—help to ensure that projects supported by U.S. taxpayers through the World Bank Group do not destroy the environment or undermine human rights.

The World Bank Group is once again at a crossroads, as it was when it first created the Panel in 1993—facing a crisis of multilateralism as well as pressure to lower its high standards in order to engage in ever riskier contexts and to compete with new rivals. The ongoing review of the Inspection Panel toolkit as well as the recently commenced accountability review at the IFC present clear opportunities for the U.S. government and Congress to encourage the Bank to renew its commitment to transparency and accountability by adopting specific, structural reforms, including:

1) The addition of monitoring and dispute resolution functions to the World Bank Inspection Panel toolkit; and
2) The creation of a remedy fund at the IFC to enhance accountability and responsiveness to the CAO's work.

The Creation of the Inspection Panel

More than twenty five years ago, under pressure from Congress, the World Bank created the Inspection Panel—the first IAM to be established at an IFI. At the time, the Inspection Panel was an important innovation in development finance—an effort to democratize the accountability and oversight process by giving a voice to people impacted by the development activities of the Bank. So often, the risks of development are borne by the poorest and most marginalized communities—those that lack the influence, opportunity, or resources to engage in the process. But through the Panel, affected communities have the opportunity to bring their concerns directly to the highest levels of the institution and seek redress through an independent process, without having to hire a lawyer or go through their own government or legal system.

Congress generally, and this subcommittee in particular, have historically played a critical role in strengthening the accountability of the World Bank Group. The Panel was created in 1993, in the wake of the World Bank's withdrawal from the hugely controversial Sardar Sarovar dam on the Narmada River in India. A hearing by this committee regarding the Sardar Sarovar project contributed to the growing recognition among many countries that the lack of public accountability and the Bank's "approval culture," had eclipsed its focus on development outcomes.[i] By that time, Congress had already been working for several years to improve transparency and accountability at the World Bank. Legislation spearheaded by now Speaker Nancy Pelosi that was passed in 1989 led to unprecedented access to information for affected people at the World Bank and other IFIs.[ii] Senator Leahy, in a letter to then World Bank President Lewis Preston initially called for the creation of a "permanent, independent commission for investigating public concerns about Bank-financed projects," but it took Congressman Barney Frank—using the jurisdiction of this subcommittee, and its authorization authority over U.S. contributions to the Bank—to ensure the Panel was established.[iii]

The creation of the Inspection Panel has been the most enduring and effective reform at the World Bank to date. It has been enormously successful—investigating dozens of cases over the last 26 years, and improving countless others by ensuring the Bank is accountable to the people it is meant to serve.[iv] One of the Panel's most recent investigations highlights its continued importance. In that case, the Panel documented a particularly devastating situation in which dozens of girls in rural Uganda were victims of sexual exploitation and abuse due to failures associated with a World Bank-financed road project.[v] As a result of the Inspection Panel investigation, the World Bank funded programs to help many of the girls access services such as life skills training, school reintegration, psychosocial support, and support in seeking legal redress.[vi] In addition, the Bank's response to the complaint went beyond project-level actions to address broader systemic issues within the institution and the Government of Uganda that had contributed to the harm.[vii] With the additional attention from Congress, and this Committee in particular,[viii] the Bank has since adopted sweeping reforms and initiatives to improve the institution's response to gender based violence and child sexual exploitation and abuse. This in turn has catalyzed significant change across the development finance landscape in how institutions address these issues that for decades have been ignored or swept under the rug.

Inspection Panel Reform

Over two years ago, the World Bank Board of Directors initiated a process to modernize the Inspection Panel. As the first of its kind, the Inspection Panel was essentially an experiment, but over the last two decades similar mechanisms have proliferated—all major development banks have adopted an IAM and there now exist over two dozen similar mechanisms at other institutions. The Panel served as an important model for these newer mechanisms, but subsequently created or revised IAMs have surpassed the Panel in both mandate and functionality. For example, all other IAMs—including the CAO—have a formal dispute resolution function, where parties can voluntarily come together to negotiate mutually agreeable outcomes,[ix] as well as the authority to monitor management's progress toward addressing findings of noncompliance identified through its investigations.

Because the Panel lacks a monitoring function, the World Bank Board of Directors has no independent way to verify that management has addressed the Panel's findings of noncompliance, or whether the harm experienced by complainants has been remedied. Other institutions have recognized that an independent mechanism[x] is much better placed to perform this function, and have given their IAMs the power to monitor and report back to the Board.

Management's ability to self-report, with no one to hold them accountable means that a remedy for complainants is often delayed or denied entirely. In the case of the Bujagali Dam, for example, complainants have filed 4 complaints at the Inspection Panel over the course of nearly 20 years.[xi] Even after several findings of noncompliance by the Inspection Panel, many complainants continue to face delays in receiving compensation for land and livelihoods lost. In this case, the inability to follow up after the first complaint to ensure the noncompliance was addressed, undoubtedly contributed to missed opportunities for complainants to receive redress.

Despite shortcomings in the system, the Inspection Panel has played a critical role in opening up political space for people to raise concerns about World Bank projects and the role of IFIs in their countries. While the United States government has done a great deal to push the Board to adopt the proposed reforms, which many other influential shareholders also support, the delay and the Board's inability to come to consensus around adding these tools to the Panel's mandate, calls into question the Board's commitment to strengthening the Panel or the system more broadly. At a time when civic space is closing and ever more restricted around the world, it is critical that the World Bank Board of Directors bring its accountability system in line with similar institutions across the development finance landscape by 1) giving it the authority to monitor how the Bank responds to the Panel's investigations and 2) offering affected communities and project proponents the opportunity to seek dispute resolution through the Panel's offices.

Accountability Reform of the World Bank's Private Sector Arm

While the review of the Inspection Panel's toolkit continues, the Board has just commenced a review of the accountability system at the Bank's private sector arm, the International Finance Corporation (IFC), including the CAO. The CAO has generally operated with less controversy and resistance from Management than the Panel, but in recent years IFC began to raise more objections to the CAO's compliance findings, and in some cases appeared to ignore the findings altogether.

The IFC's weak responses to CAO findings of non-compliance was exemplified by its response to the CAO's report on the Tata Mundra coal-fired power plant. In 2011, with the support of the Bank Information Center, complainants from Gujarat India approached the CAO with concerns about an IFC-financed coal fired power plant that was disrupting their fish catch and water supply.[xii] After a compliance investigation, the CAO found the IFC had failed to comply with its own policies and procedures. The IFC, however, failed to recognize the CAO's findings—rejecting them categorically and refusing to take action that would remedy the harm suffered by poor seasonal fishing communities that relied on land and water resources destroyed by the coal plant.[xiii] With nowhere else to turn, communities took the unusual step of suing the IFC in federal court in the United States.

Although the IFC and other IFIs have operated under the assumption that they enjoy absolute immunity from lawsuits filed in the United States, the U.S. Supreme Court accepted the case—known as *Jam v. IFC*—and decided that, in fact, IFC's immunity is not absolute.[xiv] That case, along with a second case involving IFC palm oil investments in Honduras, continue to work their way through the courts. Although the outcomes are still uncertain, the decision has accelerated significant reform efforts already underway at the IFC and across the World Bank Group to address the deficiencies that led to the lawsuit.

As part of this response, the CEO of the IFC, Philippe Le Houérou, has taken some welcome steps to improve the IFC's record in managing environmental and social risks of its projects.[xv] . Most recently, IFC has created a new Environmental and Social Risk Management Unit that addresses the serious conflicts of interest and power imbalances inherent in the former system by providing greater oversight of and resourcing to addressing environmental and social risks, as well as support for IFC project teams to respond to complaints.

The independent review commissioned by the Board also has the potential to strengthen IFC's approach significantly, but Congress should monitor this review closely and send a message to the IFC that the review should not result in weakening the CAO, or curtailing its independence.[xvi] In addition to reaffirming the CAO's independence, the review should also lead to more proactive steps to address the current accountability gap at IFC. Most importantly, IFC should proactively establish a community remedy and response fund in order to protect communities from bearing the disproportionate environmental and social risk of IFC-financed projects.[xvii] Adding such a fund to the existing accountability system would not only set an important precedent for accountability across the development finance landscape, it is also consistent with the most important transparency and accountability reforms of the last 30 years that Congress has supported—including the Pelosi Amendment, which opened the door for communities to access information and influence the development process, as well as the Inspection Panel and CAO which provide an avenue to complain when harm occurs. Congress should work to address this shortcoming in the system it has done so much to help create and support by calling for a platform by which complainants can also access resources for meaningful remediation.

Conclusion

For decades, Congress has maintained close vigilance over the Bank's adherence to the principles of transparency and accountability, and should continue to use the levers at its disposal—including hearings like these—to maintain and build on the important legacy that the creation of the Inspection Panel inspired across the development finance landscape. At a hearing before this subcommittee last year, Congresswoman Gwen Moore suggested the failure to adopt the three remaining Panel reforms was the result of a lack of leadership. The U.S. continues to be a strong advocate for enhancing transparency and accountability at the World Bank. As the Bank engages in more challenging contexts—at the urging of Treasury and other major shareholders—Congress also has an important oversight role to play to ensure that the institution has the tools and resources it needs to continue setting high standards for the broader development community and to ensure that all people are able to benefit from its projects and programs.

Endnotes

[i] An internal Bank task force established in 1992 had been formed to look into reasons behind the recent "steady deterioration in portfolio performance," including the rising share of projects with "major problems." The report came to be known as the "Wapenhans Report," and highlighted fundamental problems at the Bank that would set the stage for major subsequent reform efforts. *See* Report of the Portfolio Management Task Force, *Effective Implementation: Key to Development Impact* (1992), http://documents.worldbank.org/curated/en/596521467145356248/pdf/multi0page.pdf

[ii] *See* United States General Accounting Office, *Report to Congressional Requesters: Multilateral Development Banks: Public Consultation on Environmental Assessments* (1998), https://www.gao.gov/archive/2000/ns00192.pdf.

[iii] *See* Ian A. Bowles and Cyril F. Kormos, *Environmental Reform at the World Bank: The Role of the U.S. Congress*, 35 Va. J. Int'l L. 77 (1995).

[iv] The Inspection Panel has also shown significant restraint throughout its history—the flood of cases that so many within the Bank were concerned about at the time of its creation has never materialized. Since the start of FY2014, of the 133 requests received, 22 cases were registered, and 8 investigation reports issued. It has also operated on a relatively flat budget which, over the last five years has averaged $3.75 million—amounting to a tiny fraction of the Bank's operating budget and far less than the Bank's other independent oversight and accountability functions receive. *See* United States Treasury Department, *Report on the World Bank's Inspection Panel and the International Finance Corporation's Compliance Advisor Ombudsman: Issues and Recommendations*, pg. 3 (April, 2019), https://home.treasury.gov/system/files/206/2019-04-08-World-Bank-Panel-and-CAO-report-to-Hill.pdf, and International Bank for Reconstruction and Development, International Development Association, *FY19 World Bank Budget* (August 31, 2018), http://documents.worldbank.org/curated/en/793471537214192071/pdf/FY19-World-Bank-Budget-for-Public-Disclosure-FINAL-vF-09112018.pdf.

[v] *See* Bank Information Center, Uganda Transport Sector Development Project, https://bankinformationcenter.org/en-us/project/uganda-transport-sector-development-project-tsdp/ (last visited, Nov. 11, 2019).

[vi] *See* Report of the Global Gender Based Violence Task Force, *Working Together to Prevent Sexual Exploitation and Abuse: Recommendations for World Bank Investment* Projects, pg. 67 (2017), http://documents.worldbank.org/curated/en/482251502095751999/pdf/117972-WP-PUBLIC-recommendations.pdf.

[vii] *See* Uganda Transport Sector Development Project, *supra,* note 5.

[viii] *See Examining Results and Accountability at the World Bank: Hearing Before the Subcomm. on National Security, International Development and Monetary Policy* (2017), https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=400325.

[ix] While the Inspection Panel was established as only a compliance function, all other IAMs now have both with both compliance and dispute resolution functions and have adopted operational solutions to address any potential conflicts to having both functions housed under one unit.

[x] The Panel's independence from World Bank management and staff was an important aspect of its design when it was created, and continues to be critical to its effectiveness today. The Panel does not sit within the management hierarchy, but rather reports directly to the Board of Directors—a design feature intended to ensure investigations would be impartial and robust. Panel Members are selected based, in part, on their ability to be independent from management and are barred from working for the World Bank Group after their service on the Panel.

[xi] The case has also been the subject of several complaints at the CAO, as well as the accountability mechanism of the African Development Bank, around concerns stemming from inadequate compensation, worker health and safety, and unpaid wages, among others.

[xii] *See* Bank Information Center, Tata Mundra Power Plant, https://bankinformationcenter.org/en-us/project/tata-mundra-power-plant (last visited Nov. 11, 2019).

[xiii] IFC Response to CAO Audit (September 12, 2013), http://www.cao-ombudsman.org/cases/document-links/documents/IFCresponsetoCAOAudit-CoastalGujaratPowerLimited.pdf (last visited Nov. 11, 2019).

[xiv] Vijaya Ramachandran, *In a 7-1 Decision, The United States Supreme Court Rules that IFC is Not Above the Law*, (Feb. 27, 2019), https://www.cgdev.org/blog/7-1-decision-united-states-supreme-court-rules-ifc-not-above-law.

[xv] For example, under Le Houérou's leadership, the IFC has implemented a new system for measuring and monitoring the development impact of its projects, as well as adopted a policy of zero tolerance for retaliation against civil society and project stakeholders when raising concerns around IFC projects.

[xvi] The CAO's independence, credibility and effectiveness depend on maintaining (1) the dominant role of external stakeholders in the process for selecting the head of the CAO; (2) the CAO's ability to decide eligibility without interference from the Board or Management; and (3) the CAO's ability to release publicly its findings without censure from the Board or Management.

[xvii] The fund could be structured in different ways, but should be designed to (1) provide redress to communities where the CAO has found that IFC's non-compliance has contributed to the harm done to the community; and (2) provide support for implementing agreements completed through the CAO's dispute resolution process.

The Subcommittee on National Security, International Development, and Monetary Policy hearing entitled, "How America Leads Abroad: An Examination of Multilateral Development Institutions."

November 13, 2019

CHAIRWOMAN'S NOTE:

Near the end of this hearing, one of the witnesses on the panel was denied the opportunity to reply to several assertions made by a minority member of the subcommittee about the organization on whose behalf the witness was testifying. In response, the president of that organization, the Center for Global Development, sent a letter to Congressman Riggleman to discuss his organization's mission and the value it has placed on its relationship with the World Bank over the years. I am inserting this letter from the Center for Global Development into the record.

Center for Global Development

Ideas to Action: Independent research for global prosperity

November 21, 2019

The Honorable Denver Riggleman
1022 Longworth House Office Building
Washington, DC 20515

Dear Congressman Riggleman,

I took note of your comments about the Center for Global Development at the November 13th subcommittee hearing on the World Bank, and I wanted to take this opportunity to tell you more about our organization. Founded in 2001, CGD is a non-partisan think tank focused on the critical task of reducing global poverty. As a Washington-based institution, we have prided ourselves on the political diversity represented on our board of directors and in our work. Since our founding, we have hosted senior officials from every administration, Members of Congress from both parties, and every president of the World Bank. Just two weeks ago, I hosted David Malpass for a public event at CGD, during which he was able to lay out his agenda for the bank. I was very pleased with this event and would encourage you or your staff to view the video (https://www.youtube.com/watch?v=YwMdRP3t438).

We have particularly valued our relationship with the World Bank over the years given the critical role the bank plays in the global development agenda. Of course, CGD's fellows have long held a wide range of views about various aspects of the institution. But I am confident in saying that our role as an independent critic and partner has always been valued by the World Bank's senior leadership, no less so today with David and his team.

Finally, I should note that CGD is strongly committed to transparency, including in our funding. The center has been awarded the highest possible ratings by Guidestar, Transparify, and Charity Navigator for our commitment to open disclosure of funding. You can find information about all our sources of funding on our website.

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Center for Global Development

Ideas to Action: Independent research for global prosperity

I very much appreciate the important oversight role that you and other Members of the House Financial Services Committee play when it comes to the World Bank and other international financial institutions, and I do hope that CGD can continue to be of assistance in that work.

Best regards,

Masood Ahmed
President

CC: Chairwoman Maxine Waters
Ranking Member Patrick McHenry
Subcommittee Chairman Emmanuel Cleaver
Subcommittee Ranking Member French Hill

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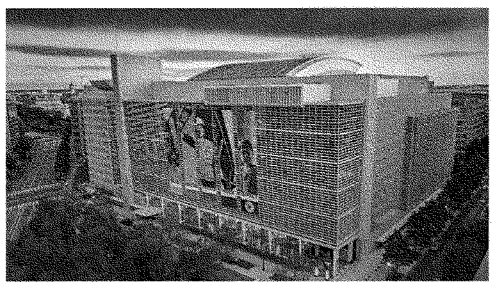
INSIDE DEVELOPMENT | GENDER EQUALITY

World Bank staff chastise the board over lack of diversity

By ***Sophie Edwards*** *// 07 November 2019*

Topics: *Social/Inclusive Development, Institutional Development, World Bank*



The World Bank's headquarters in Washington, D.C. Photo by: World Bank / Grant Ellis (https://flickr.com/photos/worldbank/48920931296/) / CC BY-NC-ND (https://creativecommons.org/licenses/by-nc-nd/2.0/)

LONDON — The World Bank (https://www.devex.com/organizations/world-bank-group-38382)'s board of executive directors is failing to live up to its own standards on gender equality, which is preventing the multilateral development bank from hitting international diversity and inclusion targets, staff say.

Despite setting tough gender equality targets for the World Bank's staff, only 5 of the board's 25 executive directors are women (http://pubdocs.worldbank.org/en/241041541103873167/BankExecutiveDirectors.pdf) — representing the governments of Thailand, Uganda, Nigeria, the United States, and India.

(https://devex.zendesk.com/hc/en-us/articles/115000959451)

The lack of gender diversity on the board has been the norm for the past 10 years, and extends across the executive team: Only 5 of the bank's 23 alternative executive directors, who act for the director when they are away, are women, according to a 2018 board report (https://www.devcommittee.org/sites/www.devcommittee.org/files/download/Documents/2018-10/DC2018_0006DiversityattheBoardupdate_329.pdf).

For Pro subscribers: A holistic approach to closing the gender pay gap (https://www.devex.com/news/a-holistic-approach-to-closing-the-gender-pay-gap-95582)

Rosanna Duncan, chief diversity officer at Palladium, discusses the organization's 'holistic' approach to tackling the gender pay gap.

The power to nominate executive directors lies with the bank's governors, usually ministers of finance from shareholder countries. While the governors have said that they are in favor of gender diversity (https://www.worldbank.org/en/news/press-release/2019/04/13/world-bankimf-spring-meetings-2019-development-committee-communique) at the board level, its makeup continues to be male-dominated.

In contrast, the bank itself has made strong progress on gender and inclusion in recent years. Former President Jim Kim became a HeForShe champion (https://www.devex.com/news/where-should-the-un-s-heforshe-campaign-go-from-here-91014) and vowed to close the gender gap (https://www.worldbank.org/en/news/feature/2017/06/26/accelerating-womens-economic-empowerment.print) within senior management by 2020. The bank's latest diversity and inclusion figures, seen by Devex, show that women accounted for 49% of senior management in 2019, although it still struggles to hire more women into technical and professional roles.

> *"Apart from the uncomfortable optics, this imbalance genuinely compromises our ability to achieve Level 3 EDGE certification."*
>
> — *Daniel Sellen, chair, World Bank Staff Association*

The bank was also the first international finance institution to receive EDGE gender certification (http://edge-cert.org/about-us/) — a global marker of workforce gender equality — and has vowed to reach level 2 by 2020. It is one of only a handful of public institutions (http://edge-cert.org/certifications/certified-organizations/) to be certified to date but is behind the Asian

Development Bank (https://www.devex.com/organizations/asian-development-bank-adb-5156) and UNICEF (https://www.devex.com/organizations/united-nations-children-s-fund-unicef-20131), which have both already attained level 2 certification.

However, even if the bank reaches level 2, its chances of progressing to level 3 look slim while the board continues to be "one of the least diverse places in the World Bank," according to Daniel Sellen, chair of the World Bank Staff Association, which has been raising the issue for years. The top EDGE certification requires women to hold at least 30% of board seats.

"Apart from the uncomfortable optics, this imbalance genuinely compromises our ability to achieve Level 3 EDGE certification," Sellen wrote in a statement, seen by Devex, that was shared with the board and the bank's president in September. In the statement, Sellen "respectfully ask[s] the Board what they plan to do about it."

Executive directors agree there is a problem and have been looking for solutions. In 2018, a working group of executive directors submitted a report to the governors (https://www.devcommittee.org/sites/www.devcommittee.org/files/download/Documents/2018-10/DC2018_0006DiversityattheBoardupdate_329.pdf), which recommended that they "recognize the importance of gender diversity when considering candidates for the position of Executive Director," and try to grow the pipeline of female candidates.

"Everyone wants to see gender diversity on the board and the strength that would bring, but the issue for me is how would you make it happen? The governors are the people who nominate ... it's a sovereign decision of member countries ... [and] don't think you can tell governors that you want the next nominee to be a female," one executive director, who asked to remain anonymous, told Devex.

Furthermore, many countries that are outwardly strong advocates for gender equality currently have men in the role — such as the Netherlands, Germany, Australia, and the United Kingdom — the executive director observed, saying they are not "walking the talk."

Another executive director, who also asked not to be named, said that it will be difficult to increase numbers until the board's work schedule changes to make it easier for women to take the role. Directors currently start two-year terms in Washington D.C. in November, which means moving after the beginning of the school year and can be difficult for those with children, they said.

The 12-strong working group is still meeting — although it recently lost a vocal champion in Christine Hogan, former executive director for Canada, who left earlier this year. Anne Kabagambe, executive director for one of the African constituencies, now co-chairs the working group alongside the U.K's Richard Montgomery.

Neither of the chairs were available for interview. However, the new U.S. executive director DJ Nordquist told Devex in a statement: "This is an important issue. The female Executive Directors have met to discuss it and we are working together as part of a gender working group to promote diversity and inclusion at the Board."

ABOUT THE AUTHOR

Sophie Edwards

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ARGUMENT

Trump Is Beijing's Best Asset

Chinese officials want the U.S. president reelected—because he's so weak.

BY PAUL HAENLE, SAM BRESNICK | OCTOBER 15, 2019, 3:29 PM

Among the many themes of Donald Trump's presidency, his contentious policies toward China stick out. U.S. foreign-policy experts have noted that Trump's almost three years in office have witnessed the long-held bipartisan consensus on China shift further and faster than in any other period in history, leading to a rapid and dramatic deterioration of one of the world's most consequential bilateral relationships.

Though there's broad political agreement on the need for the United States to take a tougher line on China, the administration's mercurial approach has led to criticism from Republicans and Democrats alike. Trump has prosecuted a costly trade war against Beijing, banned Huawei's technology from U.S. 5G networks, and recently placed visa restrictions on Chinese Communist Party officials involved in the extrajudicial incarceration of millions of Muslims in Xinjiang. He has marketed himself as the first U.S. president who is willing to get tough on China.

But for China, Trump's weaknesses are more important than his bluster. During numerous off the record discussions with Chinese government officials and scholars, we are finding that an increasing number are hoping for Trump's reelection next year. At a time when China's political influence and military capabilities are growing, they argue that in spite of his anti-China bluster, Trump has afforded Beijing the space to expand its influence across Asia and, more importantly, comprehensively weakened Washington's global leadership. From a zero-sum standpoint, many Chinese have concluded that Trump's policies are strategically very good for China in the long run.

These thinkers believe that Trump, by polarizing U.S. domestic politics, damaging Washington's international credibility and traditional global stewardship, and undermining long-standing alliance arrangements, has presented Beijing with its "greatest strategic opportunity since the end of the Cold War," as Yan Xuetong, one of China's foremost strategic thinkers, put it.

These Chinese thinkers see Trump as a dog with a big bark but little bite. He tested Beijing's patience by accepting a phone call with Taiwanese President Tsai Ing-Wen, in what the Chinese viewed as a violation of the "One China" policy, shortly after his election in 2016. Trump publicly questioned whether he would stick with the policy before saying he would, but he also said he would have to check with Chinese President Xi Jinping before taking another call with Tsai. Though the administration has greenlighted some arms sales to Taiwan, whether Trump would back Taipei were Beijing to attack remains doubtful, especially given his mercenary attitude toward U.S. military power.

Beijing has already gained significantly from Trump's term in office. Despite prosecuting trade spats with India and the European Union, as well as China, the administration has largely given up on using World Trade Organization courts to litigate trade complaints and has blocked appointments to the organization's Appellate Body. These actions not only get in the way of the world's most important trade dispute settlement system but also embolden other countries to ignore international law.

When not damaging global governance institutions and mechanisms that helped establish the United States as the world's preeminent superpower, Trump's antipathy toward trade deals such as the Trans-Pacific Partnership has afforded China an opening. While Trump is shredding the cooperative trade agreements that have been central to U.S. international economic policy, Beijing is in the late stages of negotiations for the Regional Comprehensive Economic Partnership, a deal that would tie China, India, Japan, South Korea, Australia, New Zealand, and the 10 Association of Southeast Asian Nations members into the world's largest trade bloc. If that agreement is ratified, the United States will be left out of the two largest global free trade deals, the other being the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, negotiated among 11 countries involved in the original Trans-Pacific Partnership negotiations. This would add insult to injury, as China already trades more with every major Asian economy than the United States does.

When not damaging global governance institutions and mechanisms that helped establish the United States as the

trade deals such as the Trans-Pacific Partnership has afforded China an opening.

These relinquishments of U.S. leadership in multilateral institutions provide China the space to take a greater role in global governance and in setting international rules and norms. Beijing has taken notice, asserting itself at the United Nations and submitting trade war-related complaints to the WTO, while promoting the Asian Infrastructure Investment Bank as a viable alternative to the World Bank and International Monetary Fund. Though Beijing has moved to make the Belt and Road Initiative the unparalleled vanguard project of global infrastructure development, the Trump administration has yet to provide a viable alternative.

Previous U.S. presidents have recognized that the United States gains strength from working with partners with which it shares values, history, and a sense of purpose. This is no more true than in its approach to the Asia-Pacific, and as Michael Green, a former senior director for Asian affairs at the National Security Council under President George W. Bush, recently said in testimony before Congress, "without allies, we have no China strategy."

But Trump has taken a starkly different approach, and his rhetoric, actions, and decisions have led countries to question whether they can count on the United States. Trump's has abandoned the Kurds, longtime partners in the Middle East; questioned America's commitment to NATO; and let the U.S. post-World War II East Asian alliance network decay.

As China expands its reach, South Korea and Japan, U.S. allies that have formed the backbone of the U.S. military's Northeast Asia security strategy for over 70 years, are locked in a bitter dispute that has led them to partially suspend their trade relationship. The Trump administration has largely ignored the dispute, displaying little understanding of the importance of these regional partners. Notwithstanding its long history of disagreements with both Tokyo and Seoul, Beijing has now stepped forward and offered to assist in settling the dispute, highlighting the absence of U.S. leadership on the issue.

The Trump administration's lack of diplomatic skill is also evident in Southeast Asia, as the Philippines, a U.S. ally, has drifted toward Beijing in recent years. Philippines President Rodrigo Duterte has made five trips to China and none to the United States since assuming office in 2016. In an all-too-apt display of Duterte's strategic alignment of Clark Air Base, a U.S. military installation established during the Spanish-American War. These developments come while Beijing continues to ignore a U.N. ruling in favor of the Philippines in a South China Sea dispute, showing just how much Washington's relationship with Manila has regressed.

As for the trade war, the much-hyped mini-deal, which included agreements on purchases of agricultural goods and the elimination of future tariffs, fell well short of Trump's original goal of forcing Beijing to adopt critically important structural economic reforms that would help establish a balanced trade relationship with China over the long term.

Instead of rolling back Chinese subsidies and improving intellectual property protections, the deal mostly helps Trump relieve political pressure in agricultural states as he heads into the presidential campaign. This is part of a pattern where Trump sets high objectives, boasts he will achieve them, and then fails to deliver. The mini-deal was clearly welcomed in China, viewed as a victory for Xi, and provided further evidence that Trump's capricious behavior can be tolerated, if not managed. The Chinese will see Trump's acceptance of the watered-down deal, made up mostly of Chinese purchases that have been on the table for more than a year, as a sign of weakness as he faces possible impeachment and another grueling campaign.

Though the Chinese leadership certainly finds Trump to be personally annoying, that he largely views U.S.-China ties through the lens of trade has, according to several of the scholars we spoke with, limited further deterioration of the relationship. Trump has pushed back against his advisors' more provocative and aggressive policy proposals while watering down others, such as the recent Xinjiang sanctions, which many members of Congress wanted to include Global Magnitsky Act provisions. In contrast, several Democratic presidential candidates, most notably Elizabeth Warren, have called for a tougher line on many China-related issues, including Hong Kong and human rights.

Though the Chinese leadership certainly finds Trump to be personally annoying, that he largely views U.S.-China ties through the lens of trade has, according to several of the scholars we spoke with, limited further deterioration of the relationship.

A different U.S. president could, and likely would, take a tougher tack on human rights and use the vast resources of all departments and agencies of the U.S. government to operationalize and execute a new and updated approach to China. Meanwhile, as the bilateral relationship becomes more contentious, many Chinese think that four more years of Trump weakening the United States' international standing could yield Beijing the space to consolidate its global gains and welcome a new American president in 2025 from an even more favorable strategic position.

To be clear, not every Chinese scholar or official with whom we talked wanted to see another four years of Trump. Some, such as the University of International Relations professor Da Wei, have argued that Trump's damaging of both Chinese and U.S. interests could result in a deeply compromised international order and complicate Beijing's continued rise.

But those who hope for a second term see an unprecedented strategic opportunity for China in Trump's destruction of what they view as the key U.S. pillars of strength. By gutting U.S. political advantages at home, eviscerating America's reputation and credibility abroad, and subverting the heretofore solid alliance structure in the Asia-Pacific, Trump is weakening the United States. In doing so, he is granting China the opportunity to gain critical geopolitical advantages and create a more favorable international environment in which to advance its own interests.

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WORLD BANK GROUP
IBRD · IDA IFC MIGA

REF: WBG/SSA/1/19 **November 11, 2019**

The Honorable Emanuel Cleaver
Chairman
The Honorable French Hill
Ranking Member
Financial Services Committee Subcommittee on National Security, International Development and Monetary Policy

Dear Mister Chairman and Representative Hill,

We, the undersigned Executive Directors representing Sub-Saharan Africa (SSA) countries on the Executive Board of the World Bank Group (WBG), are writing to you in respect of the WBG capital increase. The purpose of our letter is to seek your kind and expeditious consideration and authorizations of the capital increase for the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD), as well as the funding for the first tranche of the U.S. commitment to the IBRD. As you know, no funding is required for the IFC capital package; what is required is authorization.

The IFC and IBRD capital increase package has a lot embedded in it to help the economies of countries in Sub-Saharan Africa, which we represent on the WBG Board. This agreement was achieved through dialogue that facilitated the inclusion of innovative approaches to address development challenges faced by our countries. As such, the capital package received strong support from the entire Board including the United States.

We believe that poverty anywhere is a problem everywhere, therefore poverty afflicting our countries is a problem that can only be solved through collective commitment. But to eradicate poverty, we need to create jobs, and we believe the engine of job creation must come, predominantly, from the private sector. In an effort to attract private sector funding and create markets and jobs, especially in situations of fragility, conflicts and violence (FCV), the International Development Association (IDA) Deputies approved the creation of the Private Sector Window (PSW) to respond to the pressing need of getting private sector money into markets that would otherwise be ignored.

In response to her comments earlier this year on the PSW, we are grateful that Chairwoman Waters took the time to meet with us to discuss the importance of that program to our Countries. We shared with her our views on how the IBRD and IFC Capital Increase Package embodies essential elements to developing private sector markets and creating jobs. We hope that the Chairwoman, you, and your colleagues will support not only the capital increase for the IFC and IBRD but also the PSW.

Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Congo, Cote d'Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Eswatini, Ethiopia, Gabon, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan ,Sudan, Tanzania, The Gambia, Togo, Uganda, Zambia & Zimbabwe

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Today, small businesses cannot obtain funding, especially when they are women-owned. There are well over a million net new entrants to the Sub-Saharan African labor force <u>every month</u>, and for the most part, they find no jobs. There will be no progress without tackling these issues. But governments often have limited capacity, and they are financially constrained (40% of IDA countries are critically indebted). As such, there is now growing consensus in developing countries that success will require the private sector to step up and join the development effort - businesses that adhere to high integrity and environmental and social standards, well-regulated utilities and local small and medium-sized enterprises (SMEs).

For example, through the West African Mortgage Refinancing Company, millions of modest homes are needed to reverse the growth of slums, but currency risks make long-term credit prohibitively expensive. The fact that good, job-creating ideas never make it is both symptom and cause of poverty and under-development. Good private ideas need to be massively enabled. Through the PSW, IFC has been able to provide solutions with the help of "blended finance," which is aimed at reducing financial risks. Blended finance combines concessional funds with commercial funds to finance essential projects that are otherwise unattractive to the private sector.

These are not give-aways to private companies, but risk cushions that allow the financing of such projects to proceed. PSW is aimed at four buckets of risk: currency risk, political risk, infrastructure regulatory risk, and a more flexible general risk category. The funds are invested and have to be returned. U.S. programs such as Power Africa, the Small Business Administration or housing finance schemes use comparable mechanisms.

The PSW is proving effective. Its use is growing cautiously in order to ensure there's no waste (2 out of 3 proposals have been rejected). But the pipeline of projects enabled by PSW – projects that would otherwise not happen – now exceeds a total investment volume of US$10 billion (including just over US$2 billion of PSW funds). This represents hundreds of thousands of jobs created. IFC processes ensure these are high-quality, climate-smart investments with no tolerance for corruption.

The PSW is only a small slice of the overall IDA 18 allocation: US$ 2.5 billion out of the US$ 75 billion total, with the remainder aimed at the public sector. It can only be used in the poorest countries, with a focus on fragile states, and its use is subject to a very carefully designed set of principles and processes to prevent waste or misdirection.

The PSW is strongly supported by recipient nations, and in particular, the Countries we represent have emphatically endorsed this instrument. We want the PSW to continue to underpin the central theme of "Jobs and Economic Transformation."

While we recognize that that PSW is still new and evolving, we as Executive Directors have been consistent in reinforcing the need for IFC to continuously improve the effectiveness of the program. As members of the IFC Board, we take our fiduciary responsibility very seriously. For example, regarding transparency, we have encouraged IFC to set the standards for international financial institutions by raising the bar. At present, IFC is disclosing the concessional element in PSW funds <u>to the Board</u> and its 189 shareholders. It is the only International Financial Institution to do so. Information on the use and amounts of PSW support, project by project, is disclosing <u>publicly</u>.

Additionally, in response to the House Committee's request, IFC will publish the concessional element of PSW funding on a project by project basis going forward.

We appreciate the Committee's concerns over the use of the PSW, and we also understand its responsibility to oversee the WBG on behalf of the American people. In order to ensure the WBG is doing what it is intended to do—use development as a tool to eradicate poverty and increase shared prosperity—we ask that our voices be heard as representatives of our Countries, about what works in the context of WBG development programs. The PSW is an effective and essential tool for development. Holding back or otherwise slowing down the IFC and IBRD capital increase authorizations, even with the best of intentions would hurt, not help us with our efforts to deal with fragility, poverty, and security.

We invite you and your colleagues to visit some of our countries and engage with both our Government's and citizens, so you can see first-hand what we mean.

Sincerely,

ANNE N KABAGAMBE | JEAN-CLAUDE TCHATCHOUANG | LARAI H SHUAIBU

Sub-Saharan Africa Executive Directors
World Bank Group

CC: The Honorable Maxine Waters
The Honorable Patrick McHenry

November 13, 2019

Subcommittee on National Security, International Development, and Monetary Policy hearing entitled,

"How America Leads Abroad: An Examination of Multilateral Development Institutions,"

Responses of Witness E. Whitney Debevoise to Questions for the Record of

Rep. Jesús "Chuy" Garcia (IL-04)

Question re IDA Private Sector Window: Do you feel it is appropriate for the World Bank to continue subsidizing private profit through the Private Sector Window, especially in light of a lack of evidence of its current performance?[1]

Answer: The World Bank Group, which includes IBRD, IDA, IFC and MIGA, comprises development finance institutions with a broad toolkit of mechanisms for reducing poverty and supporting economic growth. As the Group approaches this mission, options have value. The IDA Private Sector Window contains options for achieving development goals through the private sector. These options include tried techniques such as risk insurance for the non-honoring of sovereign obligations which can make the difference in the development of crucial infrastructure projects about which the three African Executive Directors of the World Bank have written the Committee. Techniques such as these have formed part of the WBG toolkit for some time and have a proven track record. Therefore, I support the use of a portion of IDA-19 funding for the Private Sector Window.

Question re World Bank Group's Conflicts of Interest: Given the World Bank Group's apparent unwillingness to adequately address this conflict of interest while continuing to engage in overlapping investment and advisory activities, is it fair to characterize the World Bank Group as an objective advisor on water policy?

Answer: The question cites Representative Gwen Moore's letter of April 12, 2016, concerning alleged IFC conflicts of interest in connection with water projects, focusing particularly on the Philippines. A letter like Rep. Moore's would have been taken very seriously by IFC and responded to promptly. The matter of potential IFC conflicts of interest is one on which the U.S. Executive Director is vigilant. The question does not cite IFC's response of April 13, 2016, which describes the steps taken to mitigate any perceived risk in the Philippines. Based on my experience as U.S. Executive Director, the steps described adequately addressed the conflict of interest issue.

Question re World Bank's Promotion of Water Privatization: Given the human rights and development track record of water privatization, in addition to its widespread rejection by communities, do you feel that it's time for the World Bank Group to end its promotion of water privatization once and for all?

Answer: As indicated in response to the first question above, as a collection of development finance institutions, the World Bank Group works with a broad toolkit of mechanisms for reducing poverty and supporting economic growth, and options have value. Many water systems in the United States and elsewhere are privately owned or managed. It seems inappropriate to say that the WBG cannot offer

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[1] See attachment for all questions presented with their introduction.

this option to communities in poor countries. In fact, IFC has supported successful water projects in Rwanda, Benin, Uganda, Egypt, Gabon, Morocco, Romania and the Philippines resulting in expansion of access to water and sanitation for millions of people and lower indices of diarrhea.

November 13, 2019
Subcommittee on National Security, International Development, and Monetary Policy hearing entitled,
"**How America Leads Abroad: An Examination of Multilateral Development Institutions**,"
Rep. Jesús "Chuy" García (IL-04)

IDA Private Sector Window

- The World Bank itself has acknowledged that "it is too early to assess the financial performance of the current [Private Sector Window] portfolio" and that "estimations of expected losses suggest that financial losses to IDA could be substantial." Despite this, the World Bank is proposing another $2.5 billion Private Sector Window for IDA19 which would include adjustments that "may also add some new risks to IDA." It even describes this transfer of risk "from IFC, MIGA and their private sector clients to IDA" as a "design feature" of the Private Sector Window.[1] **Do you feel that it is appropriate for the World Bank to continue subsidizing private profit through this Private Sector Window, especially in light of a lack of evidence of its current performance?**

McGuire: *Yes, I strongly support the continued existence of the Private Sector Window (PSW), in large part because it is strongly supported by the very governments in which it operates. I firmly believe that our country's international development policy is most effective when the U.S. government begins by listening to the governments that are impacted by those policies. In this instance – both when we were negotiating IDA 18 and right now - the governments of IDA countries have been overwhelmingly supportive of the PSW, and I remain fully supportive of their interests and wishes.*

It is also important to note that we were able to double the size of IDA during the IDA 18 negotiations, allowing for innovations such as the PSW. As with any new initiative, it takes time to determine its efficacy. Yet if we ended all policies while they were nascent, we would be much less effective as a government and as an ally than we might otherwise be.

The IFC has proven to be an effective and important element of spurring growth and reducing poverty in dozens of countries over the last several decades. The PSW is an effort to increase their investments in the poorest countries around the world, and I wonder why we would want to limit the dollars allocated for such an effort. Surely we don't think only non-IDA countries need to stimulate and support their private sectors, and surely we don't think that poorer countries who ask for that support are any less clearsighted about their needs than those from wealthier countries who ask for the same.

World Bank Group's conflict of interest

- The World Bank Group has failed to meaningfully address the concerns raised over three years ago by Representative Gwen Moore regarding the conflicts of interest created when the International Finance Corporation (IFC) takes an equity stake in water corporations involved projects where it has also acted as a water sector adviser.[2] This issue is compounded by the

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[1] Proposal for IDA19 IFC-MIGA Private Sector Window, May 24, 2019, http://documents.worldbank.org/curated/en/956921564075213413/pdf/Proposal-for-IDA19-IFC-MIGA-Private-Sector-Window.pdf, pg. i-ii.
[2] Representative Gwen Moore, "Re: International Finance Corporation Conflicts of Interest Policy," April 12, 2016, https://gwenmoore.house.gov/uploads/mooreifcletter%20final.pdf.

negative human rights impacts stemming from the privatization of water[3] – ranging from rate hikes to service disconnections – which run counter to the World Bank's stated mission. **Given the World Bank Group's apparent unwillingness to adequately address this conflict of interest while continuing to engage in overlapping investment and advisory activities, is it fair to characterize the World Bank Group as an objective adviser on water policy?**

McGuire: *Yes, it is fair to characterize the World Bank Group as an objective adviser on water policy. While there may be ways in which the Bank can improve its transparency on potential conflicts, I did not see any evidence in my time as U.S. Executive Director that its dedicated and talented professionals ever made decisions about how to address water shortages, lack of clean water, flood management, or any other related challenges, with anything in mind other that what would do the most good for the most people. The Bank's goals of eliminating poverty and increasing shared prosperity are what drive the professionals making decisions about policy interventions the Bank, and I have confidence in their fidelity to those goals in doing so.*

World Bank's promotion of water privatization

- During the hearing, there was much discussion on the role of the private sector in development. However, from Santiago, Chile to Lagos, Nigeria, there is a growing movement of communities rejecting the privatization of essential services such as water. It is no secret that the World Bank has been influencing water policy across the Global South – including Chile and Nigeria – for decades, often with an overwhelming emphasis on privatization and "public-private partnerships." **Given the negative human rights and development track record of water privatization, in addition to its widespread rejection by communities, do you feel that it's time for the World Bank Group to end its promotion of water privatization once and for all?**

McGuire: *No, I strongly disagree with the idea that the World Bank should end its support of water privatization across the world. As the United States' Executive Director at the Bank and the IFC, I traveled to numerous countries and seen the positive effects of public/private water projects that have saved lives, improved health, increased water access, and been exceptionally well-received by people living in the communities affected by those partnerships. I believe that public policies are most effective when they are supported by the people they impact, and in all of the Bank and IFC's water projects I visited, the local communities were overwhelmingly supportive of the efforts and results.*

Furthermore, in many instances local governments have not been able to provide clean water by themselves as effectively as they have been when partnering with private entities. Policy makers simply must retain multiple options in order to be effective, and eliminating one of those options out of hand would make for less effective policy making by the Bank and the local governments serving their constituents.

Privatization is not the right solution for every community, in the same way that no one policy proposal is the right answer for every situation in any field of development (such as health care, education, judicial independence, et cetera). The World Bank and the IFC should continue to assess the merits of various solutions with the skill and expertise I've seen them show repeatedly on every

[3] Corporate Accountability, "Shutting the Spigot on Private Water: The Case for the World Bank to Divest," April 2012, https://www.corporateaccountability.org/resources/shutting-spigot-private-water-case-world-bank-divest/.

continent, and they should continue to amend their approaches when they see more effective ways to help people around the world move out of poverty and into greater prosperity.

November 13, 2019
Subcommittee on National Security, International Development, and Monetary Policy hearing entitled, "**How America Leads Abroad: An Examination of Multilateral Development Institutions**,"
Rep. Jesús "Chuy" García (IL-04)

IDA Private Sector Window

- The World Bank itself has acknowledged that "it is too early to assess the financial performance of the current [Private Sector Window] portfolio" and that "estimations of expected losses suggest that financial losses to IDA could be substantial." Despite this, the World Bank is proposing another $2.5 billion Private Sector Window for IDA19 which would include adjustments that "may also add some new risks to IDA." It even describes this transfer of risk "from IFC, MIGA and their private sector clients to IDA" as a "design feature" of the Private Sector Window.[1] **Do you feel that it is appropriate for the World Bank to continue subsidizing private profit through this Private Sector Window, especially in light of a lack of evidence of its current performance?**

The World Bank has been moving toward a more integrated, "one World Bank Group" model for some time. Rather than solely focusing on limiting financial risk, the public and private sector arms of the World Bank should work together ensure all PSW programs are designed and implemented in such a way that avoids, mitigates, and addresses negative risks and impacts on people and the environment. Decision-making around PSW projects, including subsidy design and outcome tracking, should also be done in consultation with civil society and communities in order to maximize the development impact of the PSW. IFC generally should also work to strengthen its accountability system, including by ensuring that the Compliance Advisor Ombudsman has the resources it requires to carry out its mandate.

World Bank Group's conflict of interest

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BIC does not have a position on whether the World Bank Group's advisory activities on water policy are objective.

World Bank's promotion of water privatization

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[1] Proposal for IDA19 IFC-MIGA Private Sector Window, May 24, 2019, http://documents.worldbank.org/curated/en/956921564075213413/pdf/Proposal-for-IDA19-IFC-MIGA-Private-Sector-Window.pdf, pg. i-ii.

[2] Representative Gwen Moore, "Re: International Finance Corporation Conflicts of Interest Policy," April 12, 2016, https://gwenmoore.house.gov/uploads/mooreifcletter%20final.pdf.

[3] Corporate Accountability, "Shutting the Spigot on Private Water: The Case for the World Bank to Divest," April 2012, https://www.corporateaccountability.org/resources/shutting-spigot-private-water-case-world-bank-divest/.

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The World Bank Group should support development that is driven by communities, reduces poverty and inequality, sustains the environment, and fulfills human rights. Projects and programs that are opposed or rejected by communities should not be supported by the World Bank Group.