

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
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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.