

Testimony

Before the U.S. House Financial Services Sub-Committee on National Security, Illicit  
Finance & International Financial Institutions

Hearing on “International Financial Institutions in an Era of Great Power Competition”

Mark Rosen

Partner, Advection Growth Capital, and former Acting United States Executive Director of the  
International Monetary Fund

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Good morning Chairman Leutkemeyer, Ranking Member Beatty and members of the Financial Services subcommittee. Thank you for inviting me to speak with you today.

I am here to testify on matters relating to the IMF, where I served as acting United States Executive Director between 2019 and 2021. Prior to being nominated by President Trump as his representative to the IMF, I was an investment banker for nearly four decades. Most recently, I was head of Latin America investment banking and later Chairman of that division at Bank of America.

### **Sticking to its Core Mandate**

Firstly, a quick summary of the Fund's core duties: the IMF is the global lender of last resort to countries that are in economic distress. IMF borrowers usually have a balance of payments problem, are running out of foreign exchange reserves, and thus cannot meet their obligations. The IMF negotiates a set of economic policies with the borrowing government to alleviate the crisis and—conditional on the government implementing the agreed policies—provides a loan in tranches, normally over a three-year period.

Along with providing capacity development to countries and monitoring their economic performance, these are the core functions of the IMF.

I would strongly recommend that this committee press the IMF to stick to these core functions, and not to move into ancillary areas, such as development lending or climate change policies, which have long time horizons far beyond the crisis focus of the Fund. It is for development banks and most importantly the private sector to invest in these longer-term issues, not the IMF.

### **Ensuring China is a Responsible Global Stakeholder**

Second, the biggest challenge the IMF faces today is China, which has lent vast sums to emerging market and low-income countries in a non-transparent and irresponsible manner. Many IMF members are now struggling to repay China. The Paris Club of countries of which the US is a member, acts responsibly in providing debt relief to these countries, but China has refused to join the Paris Club. China has also blocked or delayed debt restructurings among its debtors.

The US and its allies need to continue to call out China and insist that it provides debt relief to these poorest countries in the same way the US and other members of the Paris Club agree to do so. A stronger application of the IMF's established arrears policies in cases where China refuses to cooperate could be helpful in this regard.

Another issue facing the IMF is the question of its ownership, or "quota." The United States is the largest shareholder in the IMF and has veto power over certain key decisions. It is critical that the US continues to maintain its ownership at more than 15% which enables it to have this veto power. China, for some time, has been pressing for an increased quota share at the IMF. However, given its irresponsible lending and unwillingness to provide debt relief to poor countries, this is not the time to reward China with increased ownership at the Fund. Should the Administration agree to a larger quota share for China in the context of the IMF's

ongoing 16<sup>th</sup> Quota Review, I would strongly urge Secretary Yellen to achieve specific, measurable, and time-bound commitments from China to act as a responsible stakeholder on matters of mutual interest including debt, intellectual property, trade, and investment.

### **Tackling Corruption to Improve the Rule of Law**

Two other issues I would like to focus on are anti-corruption and the catalytic role of the private sector in the work of the IMF.

Corruption is a severe problem for many emerging market countries, which do not have strong institutions that can confront and root out corruption. The IMF is certainly doing a much better job than it did historically on anti-corruption, but I believe it is critical that it continues to make anti-corruption laws and policies front and center in the conditions of its lending programs as well as a focus of its technical assistance.

Only by reducing corruption will many of these countries be able to attract the vast amount of private sector investment which is potentially available and remains the ultimate key to reducing poverty. Establishing a rule of law, including laws to protect private property, is key to unlocking this investment. It should be a focus of the IMF and the World Bank to encourage these countries to improve the rule of law and to fight corruption. If they do that, IMF members can attract private capital and grow rapidly, as many countries that have followed that path have already done so successfully. In this regard, I note a number of allegations of corruption by Chinese companies in relation to its Belt and Road initiative. This is another area where the IMF and World Bank need to work closely together to press China to improve its government standards in this regard.

In conclusion, my recommendations to this committee are for the IMF to stick to its core mandate and not delve into areas which require long term solutions where other institutions are better suited to tackling these challenges; for the IMF and its member countries led by the US to insist that China provides debt relief to poor countries where it has overburdened them with irresponsible lending; and that the IMF makes anticorruption and the catalytic role of the private sector in growth key parts of its conditionality in lending and technical assistance.

Thank you Mr. Chairman and I look forward to any questions the Committee may have.