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“How Can the U.S. Make Development Banks More Accountable?”
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Chairman Huizenga, Ranking Member Moore, and Members of the Committee, thank you for the invitation to testify today. I appreciate the opportunity to discuss Treasury’s engagement with and oversight of the multilateral development banks (MDBs).

Through our leadership in the World Bank, the regional development banks, and the International Monetary Fund (IMF), the United States has an effective means to influence global economic events, promote American values, support our allies, and help drive inclusive growth and poverty reduction both at home and around the world.

The MDBs – the World Bank, African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), and North American Development Bank (NADB) – are vital and cost-effective partners for the United States. These institutions, together with the IMF, promote international economic cooperation, which has shaped the postwar economic and financial architecture and helped support global growth.

The Role of Multilateral Development Banks

The MDBs are designed to serve a broad range of developing countries across many sectors. The MDBs aim to support development through investments that are not possible with private capital and domestic resources alone, and also provide services geared toward building capacity and expertise in developing countries. These services include technical assistance, research, and data.

Developing countries look to the World Bank for financing for global public goods, including in areas such as health and the environment, among others, and provision of knowledge and data on global issues.

The regional development banks complement the World Bank’s global reach through their expertise in areas of high importance to their region, a role that developing countries strongly value. For instance, the AfDB has a strong focus on infrastructure, regional integration, and agriculture and food security. The AsDB has strong expertise on infrastructure, regional market development, and natural disaster risk reduction. The IADB has focused on increasing citizen security and small and medium enterprise development in Latin America. The EBRD has a unique mandate to foster countries’ transition to a market economy and democracy, and has expertise in private sector development in transition economies.

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Notably, the NADB plays a role that no other MDB can through its mandate to finance environmental infrastructure on both sides of the U.S.-Mexico border. The NADB is the only MDB that can provide financing to communities that are among the poorest in the United States and is an important component of the bilateral economic relationship with Mexico. The NADB's financing of projects in areas like wastewater collection and treatment, solid waste management, and air quality improvement enhance quality of life and protect the environment in communities on both sides of the border.

The MDBs' structures allow them to provide financing to the public and private sectors and support both low- and middle-income countries. The MDBs provide grants or highly concessional loans to low-income countries. This support is provided through the World Bank's International Development Association (IDA), the African Development Fund (AfDF), the Asian Development Fund (AsDF), and the IADB's Fund for Special Operations (FSO). These funds rely on periodic replenishments from donors, along with internally generated resources, to finance those grants and concessional loans.

The MDBs use their strong credit ratings to borrow from international capital markets. They then lend to middle-income countries at their borrowing costs plus a small spread. This allows middle-income countries to invest in development priorities, such as health, education, infrastructure, and environmental protection. Even those middle-income countries with access to international capital markets may not be able to borrow at rates low enough or attract sufficient private investment to invest in development priorities without jeopardizing their debt sustainability. MDB financing is thus a key component of their overall development financing.

MDBs' efforts to respond to the growing needs of the global economy, as well as provision of non-income generating services like technical assistance and research, mean that the MDBs occasionally require additional capital from shareholders. This capital ensures that they are able to maintain their strong credit ratings and continue providing development finance at reasonable costs.

The MDBs recognize that the private sector is central to sustainable development. Yet, the private sector continues to view many developing countries and sectors as too financially or politically risky to invest in. In addition to working with countries to create a more enabling business climate, the MDBs also provide loans, equity investments, lines of credit, and risk mitigation products to the private sector to catalyze private investments in developing countries and enhance the development outcomes of those investments. The World Bank and IADB have specialized arms, the International Finance Corporation and Inter-American Investment Corporation, respectively, that invest in the private sector at market-linked rates, while the other MDBs do this through their main window.

The MDBs and the IMF play complementary roles in fostering strong, sustainable, and balanced global growth. The IMF focuses on preserving the stability of the international monetary and financial system, including through financing for short-term macroeconomic stabilization. The MDBs support long-term development. For example, the MDBs finance infrastructure and encourage reforms to facilitate trade and investment and improve fiscal sustainability, which helps developing countries transform and diversify their economies. This assistance helps

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reduce the likelihood of macroeconomic crises and countries' potential need for IMF financing. The MDBs play a countercyclical role in countries that are experiencing severe macroeconomic shocks, but that role must be closely coordinated with the IMF.

The MDBs are a powerful tool for investing in countries and sectors for which other sources of financing are not available. These investments are critical for sustainable and balanced long-term economic growth in the United States and globally and for poverty reduction.

Benefits of Multilateral Development Banks

The MDBs are important contributors to U.S. national security and play an important role in assisting some of our key strategic partners, such as Afghanistan, Iraq, Ukraine, and Mali. The MDBs are helping to address the root causes and effects of state fragility and conflict, including how to meet the long-term needs of forcibly displaced persons, combat gender-based violence, and create job opportunities.

The MDBs are also supporting countries in undertaking reforms to strengthen governance, build transparent and accountable institutions, improve public administration, mobilize domestic resources, and increase citizens' access to information. The United States is urging the MDBs to provide increased technical assistance in areas such as anti-money laundering and countering the financing of terrorism to help reduce illicit finance flows, including to extremists. The MDBs play a critical role in helping countries deliver improved social services, build infrastructure, and reform the business climate, which not only strengthens the bond between states and their citizens, but also creates jobs that are needed to help reduce the lure of extremism.

The MDBs similarly contribute to U.S. and global economic prosperity. The MDBs identify and design commercially viable projects in which U.S. companies can effectively compete and are among the largest official financiers of infrastructure, especially cross-border infrastructure, in Africa, Asia, Latin America, and Eastern Europe. These investments expand markets and complement initiatives to increase U.S. exports.

The MDBs are making significant investments in energy access for households and businesses, and are especially contributing to the development of markets for renewable technology. Combined with support for energy sector reforms, including for energy efficiency and promotion of greater cross-border energy linkages, the MDBs are expanding access to cheaper and more reliable electricity needed for growth.

Job creation is also at the heart of MDB activities, ranging from the financing of small entrepreneurs to regulatory reforms that open up private sector opportunities across the globe. Close to home, the NADB's investments in environmental infrastructure on both sides of the U.S.-Mexico border expand much needed municipal services and reduce the costs of doing business in the region, which supports job growth and builds more prosperous communities.

Last year, the international community made a series of new commitments, signaling a shift toward using official development finance to catalyze private sector investment and mobilize domestic resources. The MDBs are bolstering investment, growth, and private-sector job creation

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by connecting private investors with opportunities in developing countries. The United States has also encouraged the MDBs to develop additional financial tools that can promote increased private investment in lower-income countries.

Modernization of Multilateral Development Banks

The MDBs deliver strong strategic, economic, and development returns for the United States, but they must evolve to meet ever-changing global challenges and strengthen necessary accountability. To achieve these objectives, it is important that the MDBs continue to modernize their governance structures, review their use of existing financial resources, and bolster their efficiency and effectiveness.

As the largest or co-largest shareholder in each of the MDBs, except for the AfDB, the United States is well-positioned to encourage the MDBs to reform their governance structures to reflect the changing realities of the global economy and incentivize donor contributions to support the MDBs' work in the poorest countries. As emerging markets seek greater influence in the MDBs, the United States is asking these countries to assume greater responsibilities, including gradually moving away from MDB borrowing and increasing their role as donors.

The MDBs offer the United States significant financial leverage – the \$1.8 billion request for the MDBs in the President's FY 2017 Budget would support more than \$100 billion in MDB investments in developing countries. In response to calls from the G-20, the MDBs are taking steps to make their existing resources go even further. In particular, they are exploring options to more efficiently deploy their balance sheets, which can boost lending capacity for both low- and middle-income countries, improve capital adequacy, and potentially decrease reliance on donor contributions. The AsDB has already done so and the IADB is exploring such options as well. The NADB has effectively catalyzed more private investment as a portion of projects it invests in. This will further ensure the efficient use of the capital that the NADB receives through its ongoing general capital increase. The United States will continue to press the MDBs to innovate further in the efficient use of resources.

Even as the MDBs maximize their existing resources, they will continue to need strong financial support from the United States and other shareholders. In particular, the MDBs' ability to support the poorest countries will require continued donor contributions. Treasury is working with the Administration in hopes of placing those contributions on a declining trajectory over the longer term as countries continue to develop. However, robust support will still be needed for the IDA, AfDF, and AsDF replenishments that donors, including the United States, intend to make pledges to in 2016.

The United States has encouraged the MDBs to undertake regular and disciplined reviews of their capital needs, including projections for capital adequacy metrics and analysis of how capital can be used as effectively as possible. Last year, shareholders unanimously decided to conduct a review of the World Bank's capital situation in 2017.

As a complement to their efforts to boost their financial efficiency, the MDBs must also take steps to improve the efficiency of their operations. These steps include streamlining processes

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for approving projects, strengthening country procurement practices to speed disbursements, and increasing attention to project preparation. The United States is encouraging the MDBs to respond to shareholders' criticisms that project review and implementation is too slow. This response must not compromise high social, environmental, and fiduciary standards.

The United States – with the strong support and encouragement of Congress – has long been at the forefront of securing improvements in accountability and transparency at these institutions. Not only has the United States led the charge at the World Bank to help secure a new Environmental and Social Framework that will significantly strengthen safeguards, but we have championed the adoption of environmental and social safeguards at all the MDBs. The United States successfully pressed for the establishment of policies on access to information. Additionally, the United States insisted on the creation of independent oversight bodies to investigate allegations of corruption in MDB projects and provide a forum to which people harmed by MDB projects can bring their complaints.

Finally, the MDBs must measure success by the outcomes of projects, rather than by the amount of financing provided. The United States continues to encourage the MDBs to adopt even stronger evaluation policies for both accountability and to fully incorporate lessons learned into their future activities.

For the past 70 years, U.S. leadership has ensured that the MDBs have remained critical partners in supporting U.S. strategic and economic priorities. It is crucial that the United States and the MDBs, working together, continue to deliver on those priorities, including supporting peace, security, and sustainable economic growth.

Thank you and I welcome your questions.