

de Marcellus SFRC 11/27 Testimony:
Multilateral Economic Institutions and U.S. Foreign Policy

Chairman Young, Ranking Member Merkley, and Members of the Subcommittee, it is my honor to appear before you today to discuss the important role that the International Financial Institutions (IFIs) play in advancing our national security, foreign policy, and economic interests globally. IFIs include the International Monetary Fund (IMF) and the Multilateral Development Banks (MDBs), which include the World Bank, Inter-American Development Bank, the European Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank.

ENHANCING U.S. LEADERSHIP

The United States was the leading force in establishing the World Bank and International Monetary Fund (IMF) in 1944. The Department of the Treasury has the lead for oversight of the IFIs, but the Department of State has been working closely with Treasury from the very beginning to advance our interests. Our objective was then and is now to strengthen the international economy for the benefit of the American people and U.S. interests globally.

I would like to describe briefly how these institutions work at the most general level. First, they pool contributions from countries around the world. The staff of the institution then works with recipient countries to develop projects and programs for the benefit of the recipients' economic development in the case of the Multilateral Development Banks, or financial stability in the case of the IMF. Those projects and programs then come to the board of the institution for a vote of approval. The United States has the largest vote at nearly all of the IFIs and considerable influence. The Treasury Department gives directions to our representatives at the institutions on how to vote in each case. They do so, however, in close coordination with other agencies, particularly the State Department.

GETTING BANG FOR THE BUCK

We created the IFIs, and remain engaged in them, to advance our national security, foreign policy, and economic objectives as well as to promote the wellbeing of people throughout the world. The question is sometimes asked, which is better – bilateral assistance or multilateral assistance? It is like asking which tool is better for building a house – a nail gun or a power drill? It depends on the particular task at hand. In building the house, we might use the nail gun (or bilateral assistance) more often, but we certainly want the power drill at the job site as well.

As I alluded to earlier, the resources of the IFIs far exceed our own contributions because these institutions draw heavily from other donors and leverage resources from the international capital markets. For example, in the World Bank's non-concessional lending arm, the International Bank for Reconstruction and Development (IBRD), every dollar invested from the United States is combined with about five additional dollars from other countries. These combined six dollars allow World Bank/IBRD to raise additional financing on international capital markets, amounting to up to 30 dollars it can then lend for development assistance. These loans are repaid

to the IBRD – with interest – by the borrowing governments, which finances future IBRD loans. Our contributions, multiplied by the others, contribute to global economic growth and stability that directly benefit American workers and exporters. In addition, we are able to leverage the highly skilled staff at the IFIs, who provide expert advice to developing countries on issues ranging from anti-corruption and proper procurement practices to fiscal policy and debt sustainability, and countless other issues.

ENHANCING AMERICAN NATIONAL SECURITY

The IFIs can also advance our national security. Outward migration and destabilizing threats have frequently come from the world’s fragile and conflict-affected countries. Support to these vulnerable countries is a key priority of the IFIs. For example, the World Bank administers multi-donor trust funds and convenes top financial and policy experts to develop strategies to promote growth and development in countries such as Afghanistan, Liberia, and South Sudan. These engagements decrease the cost of U.S. support and help to meet our policy objectives.

Another excellent example is Jordan, which has been deeply affected by the crisis in neighboring Syria. President Trump stated in his remarks on September 25 to the UN General Assembly: “As we see in Jordan, the most compassionate policy is to place refugees as close to their homes as possible to ease their eventual return to be part of the rebuilding process. This approach also stretches finite resources to help far more people, increasing the impact of every dollar spent.”

It is in that spirit that we had worked with the World Bank to create the Global Concessional Financing Facility (GCFF), an innovative financing mechanism created to help countries – initially Jordan – cope with refugee crises. This is a perfect example of the leveraging that stretches our contributions further. The United States was a founding donor to the GCFF and has contributed a total of \$35 million. Other countries quickly followed our lead and by mid-2018 had provided a total of approximately \$244 million more. Those contributions combined with loans from the World Bank and the European Bank for Reconstruction and Development resulted in \$1.45 billion of low-interest loans to Jordan explicitly to support the refugees and assist the Jordanian host communities. In sum, our \$35 million contribution resulted in almost \$1.5 billion provided to help Jordan support hundreds of thousands of Syrian refugees.

The IMF is another key partner in U.S. efforts to support macroeconomic stability and advance economic reforms in strategically important countries such as Ukraine, Iraq, and Egypt. The IMF’s work has complemented and supported many of our foreign policy objectives. With its powerful voice on economic and financial governance issues globally, the IMF has provided impetus for governments to undertake necessary economic reforms aimed at boosting growth of real median incomes. A good current example is Argentina, where, with IMF support, the Macri government is making important economic reforms to put itself on sustainable financial footing. This will help the Argentine government continue on a path towards sound economic management and restore growth, important for global economic stability.

EXPANDING MARKETS FOR U.S. EXPORTS

Promoting prosperity around the world helps create better conditions for expanding the U.S. and global economy, creating and increasing markets for U.S. exporters and supporting American jobs. America's fastest growing export markets – now representing roughly 40 percent of U.S. exports – are developing countries. The IFIs help these countries to unleash their economic potential, which has helped to lift tens of millions of their citizens out of poverty. As their prosperity has increased, so has their purchasing power, expanding the number of reliable consumers around the world for U.S. products and services.

IMPROVING BUSINESS CLIMATE AND STANDARDS

The IFIs also help U.S. exporters by promoting a transparent business climate and helping to raise global procurement standards, combat corruption, and unleash private investment. For example, the World Bank's annual *Doing Business* report incentivizes countries to undertake reforms to make it easier to open and operate a business. This enables U.S. companies to better compete in the developing world. Thanks in part to U.S. leadership, the IFIs engage with developing countries to strengthen governance and legal frameworks, including respect for the rule of law and property rights. As another example, the World Bank has helped countries around the world establish functional and accountable customs procedures, providing U.S. exporters with faster, more predictable clearance of goods.

Specifically, the Multilateral Development Banks champion transparent and fair global standards for financing and procurement, with open, transparent bidding and terms. Public procurement accounts for 10 to 15 percent of the world economy. By improving procurement standards in developing economies, the MDBs help level the playing field for U.S. business to compete for public contracts globally. The Department of State has worked to expand opportunities for U.S. companies to participate in MDB projects. One initiative to increase such opportunities is the BIDS platform (which stands for Business Information Database System). BIDS (bids.state.gov) aggregates MDB project opportunities and helps link U.S. companies to relevant U.S. government economic officers at overseas posts who can help them navigate the local market.

The transparent financing terms practiced by the MDBs offer governments a better alternative for their people than the opaque terms and financing proffered by some countries in bilateral lending that have helped lead to unsustainable sovereign debt in several cases. At the same time, our engagement at the IMF gives us the ability to press for stringent policy requirements for countries to qualify for IMF programs. For example, the IMF works alongside the World Bank to bring transparency to countries' external debts, helping to shed light on and counter predatory lending practices by other countries.

PROTECTING PEOPLE AND THE ENVIRONMENT

The MDBs employ policies aligned with American laws and values to safeguard people and the environment. Unlike those willing to provide financing to governments with little to no regard for these standards, the MDBs require the borrowing governments to address environmental and social risks in order to receive support for investment projects. Examples of these requirements

include conducting environmental and social impact assessments, consulting with affected communities about potential project impacts, and restoring the livelihoods of displaced people. These requirements not only support sustainable development, they provide additional opportunities for U.S. companies, which lead the world in practices that account for environmental and social impact.

CONFRONTING GLOBAL HEALTH THREATS

The IFIs support U.S. global health security interests by helping address pandemic risks and diseases before they migrate to or affect the United States. For example, in response to the 2014-2015 Ebola outbreak in West Africa, the World Bank provided quick-disbursing funding for a rapid response to the disease outbreak. Helping control Ebola saves us money at home. The National Institutes of Health has estimated the cost of caring for Ebola at as much as \$50,000 per patient per day. Treating just two Ebola cases in Nebraska in 2014 cost \$1.16 million. MDBs also help to prevent disease outbreaks from becoming a pandemic by helping countries to strengthen their health systems, which also boosts the impact of our bilateral health assistance.

In closing, I would like to reiterate that the Department of State is committed to working with the Department of Treasury to ensure that the International Financial Institutions advance our national security, foreign policy, and economic interests globally. Our contributions to the IFIs leverage other countries' resources to deliver global economic growth and development. Over seven decades, this has directly benefitted U.S. exporters, workers, and taxpayers, promoting American prosperity and strength.