

November 7, 2019

Memorandum

To: Members, Committee on Financial Services

From: FSC Majority Staff

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

The Subcommittee on National Security, International Development, and Monetary Policy will hold a hearing entitled, “How America Leads Abroad: An Examination of Multilateral Development Institutions” at 10:00 am on Wednesday, November 13, 2019 in room 2128 of the Rayburn House Office Building. This hearing will receive testimony from the following witnesses:

Panel 1:

- **Charles Kenny**, Senior Fellow, Center for Global Development
- **Nadia Daar**, Head of Washington DC Office, Oxfam International
- **Jolie Schwarz**, Policy Director, Bank Information Center
- **Matthew McGuire**, Vice Chairman, CapZone Impact Investments
- **E. Whitney Debevoise**, Partner, Arnold & Porter

Panel 2:

- **Mathew Haarsager**, Deputy Assistant Secretary for International Development Finance and Policy, U.S. Department of the Treasury

Purpose

This hearing will examine the U.S. Department of Treasury’s request for Congressional authorization for two separate general capital increases for the World Bank Group. The hearing will explore America’s role in advancing international development in the furtherance of broader national security and global stability aims. The witnesses will address areas of development successes and shortcomings within these institutions and American-led reform opportunities. In 2017 the U.S. contributed just \$1.8 billion to MDBs, but in doing so, was able to leverage \$120 billion for development projects. Additionally, due to the size of multilateral development banks (MDBs) and their ability to operate across multiple sectors, they can provide aid in areas that bilateral programs cannot.

Background

The World Bank is a multilateral development bank (MDB), established in 1945, that offers loans and grants to low- and middle-income countries to promote poverty alleviation and economic development. The World Bank has near-universal membership, with 189 member nations.

The World Bank Group includes: the International Bank for Reconstruction and Development (IBRD), which lends to middle-income countries; the International Development Association (IDA), which provides grants and low- or no-interest loans to the world's 77 poorest countries; the International Finance Corporation (IFC), which promotes private sector development in poor and developing countries by making loans and investments in small- and medium-sized companies; the Multilateral Investment Guarantee Agency (MIGA), which provides private investors insurance coverage against non-commercial risk in developing countries; and, the International Center for the Settlement of Investment Disputes (ICSID), which facilitates investor-state dispute settlement.¹

2018 World Bank Group Capital Increase Package

Last year, the World Bank governors endorsed general capital increases for two separate arms of the World Bank Group (See Appendix).

- 1) The World Bank's main lending facility, the International Bank for Reconstruction and Development (IBRD) received a \$60 billion general capital increase (GCI), which would increase the IBRD's capital base by 22% to about \$330 billion. The United States committed \$1.24 billion of paid-in capital to this GCI, which would need to be authorized and appropriated by Congress over a five-year period. The proposed capital increase comes eight years after the previous World Bank capital increase (\$87 billion) in 2010. With the exception of small selective capital increases to adjust relative shareholding, the Bank has raised its capital base four times: in 1959, 1979, 1988, and 2010, all with U.S. support.
- 2) The International Finance Corporation (IFC) received a \$5.5 billion increase, which would more than triple the IFC's capital base from \$2.57 billion to \$8.1 billion. Although the U.S. is not contributing any money to this GCI, the U.S. has veto power over IFC capital increase, so Congress would need to authorize the agreement before it can go into effect.

IFC stops transferring a portion of its annual net income to IDA

Every three years donors come together to negotiate a replenishment of the Bank's International Development Association (or IDA)—the concessional arm of the World Bank for the world's poorest countries.² In addition to donor contributions, the IBRD (since 1964) has contributed a portion of its annual net income to each IDA replenishment. And for the past 12 years (from FY07 to FY18) the IFC has also transferred a portion of its annual net income to the IDA replenishments, which has totaled about \$3.7 billion to IDA. However, in order to allow the IFC to do more work in fragile and conflict-affected states, and therefore take on more risk, and as part of its resource mobilization for its GCI package, the IFC has now suspended any transfers to IDA.

¹ For more information, see: <http://www.crs.gov/reports/IF10895>

² The United States is the largest IDA donor historically, though for most recent replenishment (IDA-18), the U.S. became the second largest donor behind the United Kingdom.

Using IDA Funds to Subsidize Private Firms

The current IDA replenishment, IDA-18, created a Private Sector Window (PSW) that allocates \$2.5 billion of IDA's concessional funds to the IFC and MIGA to subsidize private sector investments in lower-income countries and fragile and conflict-affected states.³

According to the World Bank, the rationale for this mechanism is that by transferring risk to IDA, the IFC would be able to attract private finance investments with high development impact in poor and fragile states that would not otherwise happen. There have been concerns raised, however, that the IDA Private Sector Window provided unreported levels of subsidies to private firms selected without competition on the basis of unsolicited proposals, which runs counter to the World Bank's own principles on the use of concessional public resources to subsidize the private sector.⁴ These principles include ensuring that subsidies are justified on public policy grounds, transparent, competitively based, focused on impact, and guarded against rent-seeking opportunities.^{5, 6, 7}

In response to these concerns, the IFC recently announced more transparency into the PSW.⁸ However, some observers have suggested the IFC needs a new model where the 'clients' are the beneficiary communities/countries, rather than private firms, and that the IFC should be working with governments and beneficiaries to develop projects that should be selected on the basis of public sector priorities, using competitive approaches that ensure an open playing field for private sector subsidies.

The next IDA replenishment and the Private Sector Window

For the next three-year IDA replenishment, IDA-19, which is now being negotiated, the World Bank contemplates an additional \$2.5 billion of IDA's grant and concessional money will again be earmarked for the Private Sector Window, while also commenting that, "while it is too early to assess the financial performance of the current PSW portfolio, estimations of expected losses suggest that financial losses to IDA could be substantial."⁹

Concerns with World Bank Programs and Policies

The hearing will also explore structural and functional issues including: staff diversity, support for public-private partnerships in education, accountability mechanisms, and possible financing of projects that suborn violations of human rights standards. For example, the World Bank has a statement of commitment to diversity and inclusion, but there is little publicly available data to measure diversity at the Bank.¹⁰

³ "IDA18 IFC-MIGA Private Sector Window," brief by the International Finance Corporation.

⁴ "Aid Transparency and Private Sector Subsidies at the IFC," by Charles Kenny, January 17, 2018. Center for Global Development

⁵ "A Framework for Disclosure in Public-Private Partnerships," by the World Bank Group, August 2015 at <http://pubdocs.worldbank.org/en/773541448296707678/Disclosure-in-PPPs-Framework.pdf>

⁶ "Multilateral Development Bank Principles to Support Sustainable Private Sector Operations," April 21, 2012

⁷ "Policy Guidelines for Managing Unsolicited Proposals in Infrastructure Projects," The World Bank and International Finance Corporation. Updated April 1, 2019

⁸ Devex Opinion: *In blended finance, transparency and rigor must rule the day*, by Philippe Le Hou rou, 10 October 2019

See at <https://www.devex.com/news/opinion-in-blended-finance-transparency-and-rigor-must-rule-the-day-95776>

⁹ Proposal for IDA19 IFC-MIGA Private Sector Window, May 24, 2019, by World Bank Management

¹⁰ "Diversity and Inclusion." *The World Bank*, <https://www.worldbank.org/en/about/careers/diversity-inclusion>.

OXFAM research found that a number of World Bank projects are supporting public-private partnerships (PPPs) in education, which require fees from the students, creating barriers for low income families and causing increased gender inequality.¹¹ The Center for Global Development found that students in Liberia enrolled in PPPs paid anywhere from \$40 to \$663, depending on the school.¹²

Concerns have also been raised that the World Bank potentially allows states involved in human rights violations to benefit from access to the institution. In 2017, concerns were raised about ongoing World Bank involvement in Myanmar after the military's "clearing operation" in the Rakhine State was instead ethnic cleansing of the Rohingya Muslim community occurred.¹³ In August 2019 the New York Times reported that \$50 million of World Bank funds marked for education has been link to detention camps in the Chinese province of Xinjiang.¹⁴

Earlier this year, the U.S. Supreme Court ruled the World Bank does not have complete immunity from liability related to a case in which an alleged breakdown in the Bank's accountability mechanisms may have caused harm to a community.¹⁵ Indian fishing communities and farmers sued the IFC for restitution in *Jam v. IFC* due to the negative impact of the coal-fired power plant in Gujarat, India, after it received a loan from the IFC in 2008.¹⁶

Legislative Proposals

- Discussion Draft to authorize the U.S. representative to the World Bank to vote in favor of a general capital increase of \$5.5 billion for the International Finance Corporation.
- Discussion Draft to authorize the U.S. representative to the World Bank to vote in favor of a general capital increase of \$60 billion for the International Bank for Reconstruction and Development.

¹¹ "OXFAM Position Paper on IDA19 Replenishment." *OXFAM*, May 2019, https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/file_attachments/oxfam_ida19_position_paper.pdf.

¹² *Ibid.*

¹³ Ibrahim, Azeem. "The World Bank is rewarding ethnic cleansing in Myanmar." *The Washington Post*, 30 May 2019. <https://www.washingtonpost.com/opinions/2019/05/30/world-bank-is-rewarding-ethnic-cleansing-myanmar/>.

¹⁴ Rappeport, Alan. "World Bank to Investigate if China Loan Funded Muslim Detention Camps." *The New York Times*, 30 Aug. 2019. <https://www.nytimes.com/2019/08/30/us/politics/world-bank-to-investigate-if-china-loan-funded-muslim-detention-camps.html>

¹⁵ "Supreme Court Rules that World Bank Group Can Be Sued in US Courts in Historic Decision." *Center for International Environmental Law*, 27 Feb. 2019, <https://www.ciel.org/news/supreme-court-rules-world-bank-group-immunity-jam-v-ifc/>.

¹⁶ *Ibid.*

APPENDIX

International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC): 2018 Capital Increase Proposals

IBRD & IFC General Capital Increases (GCIs) *							
MDB	Current Capital Base (\$ billions)	Proposed Increase (\$ billions)	Proposed Increase (%)	Capital Base After Proposed GCI (\$ billions)	Total Paid-in Capital (\$ billions)	Paid-in Contribution from U.S. (\$ billions)	Callable Capital from the U.S. (\$ billions)
IBRD	\$275 b	\$60.1 b	22%	\$334.8 b	\$ 7.5 b	\$1.24 b	\$ 8.5 b
IFC	\$2.57 b	\$5.5 b	211%	\$8.1 b	\$ 5.5 b	\$0	n/a

* Source: U.S. Department of Treasury and document titled “Sustainable Financing for Sustainable Development: World Bank Group Capital Package Proposal” prepared by the World Bank Group for the April 21, 2018 Development Committee Meeting.

International Bank for Reconstruction and Development Top 10 countries in voting power (%) *			
IBRD current	%	IBRD post-2018 GCI	%
United States	15.98	United States	15.87
Japan	6.89	Japan	6.83
China	4.45	China	5.71
Germany	4.04	Germany	4.07
France	3.78	France	3.73
United Kingdom	3.78	United Kingdom	3.73
India	2.93	India	2.93
Russian Federation	2.79	Russian Federation	2.72
Saudi Arabia	2.79	Saudi Arabia	2.65

Italy	2.66	Italy	2.62
-------	------	-------	------

* Source: “A Report to Governors on Shareholding at the Spring Meetings 2018,” prepared by the World Bank Group for the April 21, 2018 Development Committee Meeting

International Finance Corporation (IFC) Top 10 countries in voting power (%) *			
IFC current	%	IFC post-2018 GCI	%
United States	20.99	United States	16.39
Japan	6.01	Japan	6.81
Germany	4.77	Germany	4.78
France	4.48	France	4.49
UK	4.48	UK	4.49
India	3.82	India	3.83
Russia	3.82	Russia	3.82
Italy	3.02	Italy	3.03
Canada	3.02	Canada	3.03
China	2.30	China	2.82

* Source: “A Report to Governors on Shareholding at the Spring Meetings 2018,” prepared by the World Bank Group for the April 21, 2018 Development Committee Meeting