

# Testimony Before the U.S. House of Representatives Sub-Committee on International Organizations at the Hearing on “Modernizing International Development Assistance: Opportunities and Challenges”

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Thank you very much, Chair Joaquin Castro, Ranking Member Nicole Malliotakis, and other distinguished members of the Subcommittee on International Development, International Organizations and Global Corporate Social Impact. I am incredibly honored at the opportunity to testify before you today. My name is Zainab Usman. I have worked in academia, at the World Bank, and now I am the Director of the Africa Program at the Carnegie Endowment for International Peace. The views I express in this hearing draw from my experience but should not be construed as representing any official position of the Carnegie Endowment for International Peace.

This hearing on “Modernizing International Development Assistance: Opportunities and Challenges” is timely. The world is at an inflection point, with a confluence of crises that present significant challenges and opportunities for the rest of the century. Infact, many low and middle-income countries are on the verge of a debt distress. A global energy and food crisis exacerbated by the fallout of the war in Ukraine is disrupting trade flows. The climate crisis is disproportionately wreaking havoc on small islands, countries like Pakistan, and others that are the lowest emitters of greenhouse gases and with less resources to adapt. To limit global warming to 1.5 degrees Celsius, annual clean-energy investments will need to triple by 2030 to more than \$4 trillion, while adaptation in developing countries will cost up to \$340 billion a year. There is a global infrastructure investment gap of \$5.5 trillion through to 2035.<sup>1</sup> Overall, we may be seeing a reversal of gains in global poverty reduction due to covid-19 shocks as well as rising food and energy prices as a result of climate disasters and conflict.<sup>2</sup> Africa will be the epicenter of global poverty by 2030, according to the World Bank. Latin America is experiencing economic failure worse than the lost decade of the 1980s.<sup>3</sup> There is an urgency for action to put low and middle-income countries back on track.

In this hearing, I will focus on four broad principles to guide the modernization of U.S. international development assistance to be more responsive to these global development challenges of the 21<sup>st</sup> century. In summary, U.S. international development assistance should be oriented towards a new narrative that resonates globally, focus on select high-impact areas and leverage U.S. influence to advance the reform of multilateral development banks (MDBs). My testimony is with particular reference to Africa, although it also draws on other parts of the world.

1. **U.S. international development assistance has done a lot of good around the world, but it needs to be better attuned to the challenges and opportunities of the 21<sup>st</sup> century.** The Marshall Plan helped rebuild Europe from the devastation of World War II, closely associated with American leadership in the creation of the Bretton Woods institutions, the World Bank

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<sup>1</sup> Jonathan Woetzel, Nicklas Garemo, Jan Mischke, Priyanka Kamra, and Robert Palter, “Bridging infrastructure gaps: Has the world made progress?”, McKinsey Global Institute, October 13, 2017

<sup>2</sup> World Bank, “Poverty and Shared Prosperity 2022: Correcting Course,” Washington D.C.: World Bank Group, 2022

<sup>3</sup> Michael Stott, “Latin America’s Stagnation ‘Worse than the 1980s’, Says UN Official”, Financial Times, November 27, 2022

and the International Monetary Fund, the United Nations as well as the World Trade Organization. In East Asia, U.S. investments helped propel South Korea, Taiwan, and Singapore to prosperous high-income economies which today remain reliable U.S. allies. In Africa, some humanitarian aid programs have been impactful. The President's Emergency Plan for AIDS Relief (PEPFAR), unveiled by President George W. Bush in 2003 to combat HIV/AIDS, has saved millions of lives. The U.S. Agency for International Development recently announced \$1.3 billion for food assistance and the prevention of infectious diseases in the Horn of Africa, which will help alleviate deprivation in the region. Yet, today's global development challenges which threaten to roll back the gain in poverty reduction, create a new debt crisis, widen the already large financing gaps and exacerbate the climate crisis are not being addressed.

2. **Build a new narrative of U.S. objectives in international development assistance in a way that resonates with LMICs and address global threats.** This narrative should encompass a theory of change about how development is achieved based on historical experience of now-wealthy countries, the needs in these LMICs and U.S. own strategic priorities. This new narrative should aim to increase productive capacities to generate shared prosperity, improved well-being, and security of lives and property in at least two ways.
  - a. *Development assistance should empower people to take charge of their lives.* It should help strengthen productive capacities at subnational, national and regional levels in LMICs echoing the industrial policy orientation in the new U.S. National Security Strategy, and recent legislation enacted – Infrastructure Act, American Competitiveness Act, CHIPS and Science Act, Inflation Reduction Act – to strengthen U.S. domestic productive capacities. Many LMICs too aim for effective industrial policies to increase the productivity of workers and firms, create jobs and improve well-being. Although the U.S., in many regions of the world is often the largest donor of foreign aid, these financial flows are not always aligned to the needs, priorities and stated development aspirations of these recipients. For low and middle-income economies, development is defined in terms of shared prosperity, improved well-being, and security of lives and property. Central to the achievement of these development outcomes is a productive, resilient and globally integrated economy. To build the productive capacity and resilience of an economy requires crucial inputs especially investments in building physical capital (energy, transport and digital infrastructure), and human capital (a healthy, educated and skilled population). The integration of an economy with the rest of the world is characterized by robust two-way trade with external partners. Development assistance that is effective should help provide crucial inputs to LMICs as public investments or by catalyzing private investments in physical and human capital. It should also facilitate the expansion of trade.
  - b. *The new narrative should also be constructed around the provision of global public goods to address shared global threats.* U.S. development assistance should support initiatives around blocking illicit financial flows from LMICs so that they can retain their resources and invest themselves in their infrastructure, healthcare, education, digital connectivity and other public services. In the case of Africa, the continent loses around \$90 billion every year to illicit financial flows, more than the \$60 billion it receives in development assistance.<sup>4</sup> Efforts to curb IFFs can help retain scarce resources in African economies to be directed towards economic and social investments.
3. **Streamline U.S. bilateral development assistance to focus on select high-impact areas.** Such selection should be based on criteria that overlay of U.S. comparative advantage, strategic interests, and narrative on a theory of change. The U.S. has unparalleled strengths in advanced

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<sup>4</sup> "Tackling illicit financial flows, a matter of survival for Africa's development", UN – Africa Renewal, 15 June 2021

technologies and private capital, for investments in LMICs, particularly Africa. In terms of technologies, U.S. pharmaceutical companies for instance are global leaders. With guarantees from public agencies such as the U.S. International Development Finance Corporation, the Export-Import Bank of the United States, and the United States Trade and Development Agency, American companies can invest in building out supply chains to produce medicines, medical equipment, and vaccines in African countries. Such investments would help strengthen vulnerable supply chains for medical products in Africa, increase the ability of local pharmaceutical industries to comply with international quality standards, create jobs, and reduce the United States' reliance on Chinese supplies. The U.S. government can also support human capital development in African countries through exchange programs for medical professionals. In terms of finance, U.S. development finance and policy instruments should be used to mobilize the private capital investment flows to LMICs and to invest in clean energy, digital connectivity, modern transport networks, schools, hospitals and other public services. A fraction of the trillions of U.S. private capital could make a positive difference for the hundreds of millions of MSMEs across Africa, South Asia and Latin America that remain stuck in the informal sector. De-risking, project finance and guarantees are needed to unlock private capital flows. Initiatives such as the Partnership for Global Infrastructure Investment hold a lot of promise provided they overcome commitment and implementation bottlenecks of predecessor programs.

4. **Leverage U.S. influence to push for MDB reform to be more responsive to the needs of LMICs and the provision of global public goods.** The U.S. should advance the agenda for the reform of MDBs to make them leaner, more focused on their key areas of comparative advantage and more responsive to 21<sup>st</sup> century global challenges. Areas of focus should be the provision of needed feasibility studies, project finance, guarantees and other de-risking mechanisms for infrastructure investments, climate adaptation and digital connectivity. Several LMICs are vocally advocating for reforming global finance, with proposals being put forward for MDB reform including the Bridgetown Initiative. The United States can and should lead on global financial architecture reform. It was, after all, the absence of Western financing for infrastructure in the early 2000s that prompted African countries to turn to Chinese policy banks. Now, with large financing needs of around \$50 billion per year for African states to invest in climate adaptation and of \$4 trillion for global clean energy investments, the United States should seize the moment and push multilateral development banks to provide more concessional financing.