# INTERNATIONAL FINANCIAL INSTITUTIONS IN AN ERA OF GREAT POWER COMPETITION

## HEARING

BEFORE THE

SUBCOMMITTEE ON NATIONAL SECURITY, ILLICIT FINANCE, AND INTERNATIONAL FINANCIAL INSTITUTIONS

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# INTERNATIONAL FINANCIAL INSTITUTIONS IN AN ERA OF GREAT POWER COMPETITION

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**Thursday, May 25, 2023**

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON NATIONAL SECURITY,
ILLICIT FINANCE, AND
INTERNATIONAL FINANCIAL INSTITUTIONS,
COMMITTEE ON FINANCIAL SERVICES,
*Washington, D.C.*

The subcommittee met, pursuant to notice, at 9:01 a.m., in room 2128, Rayburn House Office Building, Hon. Blaine Luetkemeyer [chairman of the subcommittee] presiding.

Members present: Representatives Luetkemeyer, Barr, Williams of Texas, Loudermillk, Meuser, Kim, Nunn, De La Cruz; Beatty, Nickel, Foster, and Gottheimer.

Ex officio present: Representative Waters.

Also present: Representative Hill.

Chairman LUETKEMEYER. The Subcommittee on National Security, Illicit Finance, and International Financial Institutions will come to order.

Without objection, the Chair is authorized to declare a recess of the subcommittee at any time.

Today's hearing is entitled, "International Financial Institutions in an Era of Great Power Competition."

I now recognize myself for 4 minutes to give an opening statement.

First, thank you to our witnesses for being here today. You offer a wide and deep expertise in international financial institutions (IFIs) and global economics, and we look forward to your insights.

Over the past year, in an effort to rein in the decades-high levels of inflation sparked by reckless government spending, central banks shifted from a prolonged period of extraordinary monetary policy ease to one of aggressive monetary tightening.

The Federal Reserve, the European Central Bank, and the Bank of England all increased interest rates at the fastest pace in decades, while also withdrawing liquidity by not rolling over a meaningful part of their large bond portfolios. One consequence has been that 60 percent of low-income countries now face debt distress, meaning that there is a risk they may be unable to meet their financial obligations without debt restructuring or debt forgiveness, especially as global economic growth slows.

This perilous international economic situation makes today's hearing especially timely and relevant. The international financial institutions were established after the Second World War to address global economic challenges, both to help cultivate economic growth and, in the case of the IMF, to be the world's financial crisis firefighter. However, many now question whether these organizations remain up to or even focused on these, their core responsibilities.

There are two major reasons for this. First, China is playing a growing and uncoordinated role of providing funding far beyond what could be provided by traditional sources for white elephant projects that sink countries into debt traps. At least 65 countries owe Chinese lenders more than 10 percent of their external debt.

When countries enter financial distress, these large levels of opaque Chinese debt impede restructuring attempts, as the Chinese refusal to cooperate in the process leads to fears that any support will just flow to Chinese creditors rather than helping to resolve the borrowing nation's economic crisis.

Ironically, at the same time, the World Bank continues to loan China more than $1 billion annually, and China remains one of the Bank's largest debtors. China is also, by far, the largest beneficiary of World Bank spending.

The GAO recently released a study entitled, "World Bank Borrower Countries' Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern"—that is a mouthful—which I would like to ask unanimous consent to submit for the record.

Without objection, it is so ordered.

The study found that between 2017 and 2021, Chinese companies won about 29 percent of all World Bank contract dollars.

The second reason for concern about the IFIs' fitness is that these institutions are increasingly diverging from their traditional development agenda to impose Western elites' green agenda on the developing global south.

Nowhere was that neocolonial effort more clear than in the vital area of energy, where institutions like the World Bank will fund neither nuclear power, the cleanest, most-productive zero-emissions source, nor natural gas, the incremental improvement from coal or wood, to allow that country to reduce emissions more than any other country in the world, this even as European nations scour the African Continent for alternatives to Russian gas for themselves, while hypocritically denying these very countries financing for natural gas projects.

In the meantime, because developing nations are demanding nuclear, gas, and mining projects that the Bank sanctimoniously refuses to consider, Russia and China fill the gap, setting standards and establishing long-term relationships, even as the European countries and the Biden Administration pat themselves on the back for their own green purity.

In the budget request for Fiscal Year 2024, the Biden Administration sought a 70-percent increase for IFIs, largely to fund this counterproductive green agenda. This Congress needs to take a hard look at how such an investment would possibly help hard-

working American taxpayers or whether it would instead help Russia or China.

The Chair now recognizes the ranking member of the subcommittee, the gentlewoman from Ohio, Mrs. Beatty, for 4 minutes for an opening statement.

Mrs. BEATTY. Thank you, Mr. Chairman.

And thank you to the witnesses.

Today, we are here to discuss the critical role of international financial institutions in the global economy and the increasingly large role that China is playing as a global lender to supplant U.S. leadership. And certainly, we know that IFIs are in an era of great power competition.

IFIs, including the International Monetary Fund, the World Bank, and Multilateral Development Banks (MDBs), are essential in providing financial assistance to countries in crises, supporting social and economic development around the world, and promoting the United States' economic and foreign policy goals.

In recent years, IFIs have been particularly instrumental in helping developing countries respond to the global pandemic, COVID-19, providing vital aid to Ukraine in the face of its war with Russia, and addressing the economic implications of climate change. Whether the United States remains a strong leader in the IFIs, other countries, particularly China and Russia, seek to supplant U.S. leadership and reshape international order.

China's Belt and Road Initiative, designed to craft a China-controlled global infrastructure, strategically seeks to lend and invest in developing countries to spread Chinese influence. To this end, China launched its own Multilateral Development Bank, the Asian Infrastructure Investment Bank (AIIB).

These loans and investments come with strings and conditions that allow Chinese influence to become entrenched in the borrowing country, from adoption of Chinese labor practices to the use of China's central bank digital currency (CBDC).

Through its obscure lending practices and unwillingness to restructure loans in line with global norms, China has been pushing countries into unsustainable debt.

Now more than ever, it is critical for the IMF and other IFIs to have the resources they need to support low-income, at-risk countries so they don't turn to China for funding. That is why I can't fathom efforts by my colleagues across the aisle to hamstring and weaken the IMF, when this institution is essential to countering China's influence around the world.

To make matters worse, the United States may default on its debt for the first time in history, in as soon as a few days. There is no doubt that such an unpredicted blow to the United States economy would deliver a decisive victory to China, collapsing the U.S. Treasuries market and catastrophically damaging our creditworthiness and credibility as a global leader.

My colleagues on the other side claim to prioritize the economic threat posed by China, which I agree should be a priority, and, yet, their actions on default undermine that very goal. Destroying the American economy and Americans' credit by holding the payment of past bills hostage to railroad future spending cuts unquestion-

ably weakens America's ability to compete and continue as a great power.

Meanwhile, Committee Democrats and the Biden Administration have led the charge in funding the IFIs and enacting legislative measures to protect and promote United States' competition on the global stage, for example, from the CHIPS and Science Act to the America COMPETES Act.

So, I remain committed to continuing this vital work, preserving the United States' standing as a great power in the global economy. I want to thank our witnesses for appearing today to discuss this important matter.

And I am hoping that my voice holds up, so please excuse it. And I look forward to your testimony today.

Thank you, and I yield back.

Chairman LUETKEMEYER. We have 1 minute reserved for the chairman and the ranking member of the full Financial Services Committee.

Chairman McHenry doesn't appear to be here at this time, so we will now recognize the ranking member of the Full Committee, the gentlelady from California, Ms. Waters.

Ms. WATERS. Thank you very much, Chairman Luetkemeyer, and Ranking Member Beatty. I thank you for holding this hearing on international financial institutions, the great power competition, and how to best manage international programs to counter China's global ambitions.

It is shockingly hypocritical, then, that we sit here on the last day that the House was supposed to be in session for the month, just days before Republicans run America's economy off the debt cliff, and why? At least one stated reason is so they can cut programs and institutions like the World Bank and other institutions. I don't know if the IMF is included in that.

However, I hope this discussion today will focus on not cutting anything in this government that has to do with us dealing with China and other concerns that we may have about how they are undermining not only our economy, but absolutely causing disaster in the world.

I yield back the balance of my time.

Chairman LUETKEMEYER. The gentlelady yields back what time she didn't have.

With that, we need to get a couple of housekeeping things out of the way.

First, without objection, Representative French Hill, who is a member of the Full Committee but not a member of this Subcommittee, is going to join us shortly and will be able to ask questions at the end of the discussion.

Second, we are going to have votes today right in the middle of our discussion here, sometime between 9:45 and 10 o'clock, so we will adjourn for a short period of time to go do our Constitutional duty and vote on a bunch of bills this morning. We will return and finish after that. So, you gentlemen will be able to go to the restroom, find something to drink, get a little nap, or whatever it takes to keep you going for the rest of the morning.

Also, with regards to your microphones, those things move, so please pull them as close to you as you can. Some of them are very

sensitive, or not sensitive from the standpoint you need to get it close to you to be able to hear.

When you are at my advanced age, it is difficult to hear a lot of things, so I would like to be able to hear everything you've said and you are going to tell us today. So, please get those microphones close to you.

Okay. With that, we will welcome our witnesses this morning.

First, Dr. Jesse Schreger is an associate professor of macroeconomics in the Economics Division at Columbia Business School.

Second, Mr. Mark Rosen is a partner at Advection Growth Capital, and the former acting executive director of the IMF.

Third, Mr. Daniel Runde is the senior vice president of the Center for Strategic & International Studies.

Fourth, Mr. Rich Powell is the chief executive officer of ClearPath and ClearPath Action.

And, finally, Dr. Sembene—I am sure we will all get his name wrong, so I will apologize beforehand, but hopefully that is pretty close, and with a name like, "Luetkemeyer," I am used to being called all sorts of things, so it doesn't bother me, and I hope it doesn't bother you—is a distinguished nonresident fellow and chief executive officer at AfriCatalyst.

We thank each of you taking the time to be here today. Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. And without objection, each of your written statements will be made a part of the record.

I control the time with my gavel, so, if you start to hear it, that means it is close to the time that you are to stop.

On your desk in front of you, you should have a timer. When you see the yellow button, kind of wrap it up. When you see the red button, it means you are going to get gaveled out.

With that, Dr. Schreger, you are now recognized for 5 minutes.

**STATEMENT OF JESSE M. SCHREGER, CLASS OF 1967 ASSOCIATE PROFESSOR, COLUMBIA BUSINESS SCHOOL, AND FOUNDING CO-DIRECTOR, GLOBAL CAPITAL ALLOCATION PROJECT**

Mr. SCHREGER. Chairman Luetkemeyer, Ranking Member Beatty, and members of the subcommittee, thank you very much for the opportunity to testify today.

I am Jesse Schreger, the class of 1967 associate professor at Columbia Business School, and a founding co-director of the Global Capital Allocation Project.

The international financial institutions currently face a significant challenge in the form of ongoing sovereign debt restructurings in countries on the verge of debt crises. Addressing sovereign debt crises and many other issues in the international financial system starts with an understanding of who owns what and owes what to whom.

At its core, a sovereign debt crisis arises when a debtor country is unable or possibly unwilling to meet the contractual value of its obligations. In such a crisis, the task at hand is to figure out how much a debtor is willing and able to repay its creditors and then coordinate an agreement among the creditors to split the losses.

This has always been a challenging problem, since sovereign debt lacks the type of seniority structures or bankruptcy procedures that facilitate the resolution of corporate defaults. The difficulty of resolving a sovereign debt crisis is further compounded when creditors have differing objectives, especially when we lack a clear understanding of who the creditors even are.

Today's debt challenges have many parallels with those of recent decades. In particular, the countries currently facing debt distress have largely borrowed from foreign creditors in U.S. dollars and other foreign currencies that they do not control. This has left them vulnerable to external shocks, such as the rise in commodity and energy prices following Russia's invasion of Ukraine, and the recent sharp increase in U.S. interest rates. As their currencies lost value, these countries found it increasingly more difficult to repay their debt.

As in previous sovereign debt crises, a successful resolution today will involve significant write-downs and losses by creditors, as well as additional lending from the International Monetary Fund. So, in this sense, what is happening today looks like the past. But let me now turn to what is different about the world's debt situation.

One key difference is that the largest emerging markets are generally not included among the list of countries in debt distress. Instead, debt problems are primarily concentrated in lower-income countries. One important reason why is that major emerging markets now largely borrow from foreign private investors in their own local currency. This means that, even if their currencies lose value against the dollar, they don't see their required repayments increase nearly as much. This is a major improvement in the resilience of the international financial system.

So, as the U.S. and the other G7 countries consider scaling up lending from the Multilateral Development Banks for infrastructure and other projects, it is important to do so in a way that helps low-income borrowers avoid dangerous currency mismatch as much as possible.

The second difference today is the role of China as a global creditor to low-income countries. China is now the largest bilateral creditor in the world. And, for some countries, debt from China alone can exceed a quarter or even half of their GDP. I want to highlight some challenges this raises.

First, and related to my previous point, almost all of this lending from China is in foreign currency, and it is actually overwhelmingly in U.S. dollars.

Second, China's style of lending via its state-controlled policy banks positions it between conventional international private creditors, like bond investors, and other official bilateral government lenders. This has led to significant disagreement about how China should be treated in sovereign debt restructurings and is leading to costly delays.

Third, there is uncertainty about just how much money is owed to China. China does not participate in traditional creditor reporting systems, and it tends to include nondisclosure clauses in its loans that prevent borrowers from revealing the terms.

Fourth, some of the Chinese loans require borrowers to keep cash in offshore escrow accounts as collateral. This makes other credi-

tors worry that China will be treated as the senior creditor in default if they can seize assets before formal debt restructuring negotiations even begin. Adapting the world of sovereign debt to reflect China's new role begins with a systematic understanding of the true nature of these exposures.

The final challenge to the international financial institutions that I want to highlight is how tax havens and other offshore financial centers make it harder to know who owns what around the world. Because global financial statistics are according to the immediate location of an investor or borrower, countries around the world don't even know where their money goes to or comes from.

Let me give you an example. In 2019 and 2020, nearly $3 trillion of investment in stocks and bonds which was recorded as officially going to tax havens like the Cayman Islands and the British Virgin Islands was actually going to Chinese firms.

Closer to home, our official statistics report that our third- and fourth-largest portfolio investors are the Cayman Islands and Luxembourg. This means that we really don't even know who our ultimate creditors are.

The problem is even worse around the world, where investment statistics lag behind what we have in the United States. The international financial institutions can play an unique role in coordinating global efforts to look through tax havens and uncover the true pattern of global capital allocation. Knowing who owns what will allow the world to resolve future debt crises more effectively and efficiently.

Thank you very much for the opportunity, and I look forward to your questions.

[The prepared statement of Dr. Schreger can be found on page 61 of the appendix.]

Chairman LUETKEMEYER. Thank you, Dr. Schreger.

Mr. Rosen, you are now recognized for 5 minutes.

**STATEMENT OF MARK ROSEN, PARTNER, ADVECTION GROWTH CAPITAL, AND FORMER ACTING UNITED STATES EXECUTIVE DIRECTOR, INTERNATIONAL MONETARY FUND (IMF)**

Mr. ROSEN. Good morning, Chairman Luetkemeyer, Ranking Member Beatty, and members of the 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 4 decades, most recently as head of Latin American investment banking, and later chairman, of that division at Bank of America.

First, a quick summary of the IMF's core mission. 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, a running out of foreign exchange reserves, and so 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-upon policies, provides a loan in

tranches, normally over a 3-year period. Along with providing capacity development to countries and monitoring their economic performance, these are the key 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 lending or policies which have long-time horizons far beyond the crisis focus of the IMF. It is up to the development banks and, most importantly, the private sector to invest in these longer-term issues and challenges, not the IMF.

Second, the biggest challenge that the IMF faces today is China, which, as we have heard, has loaned 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 countries, of which the U.S. is a member, acts responsibly in providing debt relief to these countries. But China has refused to join the Paris Club and, as we have heard earlier, has on numerous occasions also blocked or delayed debt restructurings among its debtors.

The U.S. and its allies need to continue to call out China and insist that it provide debt relief to these poorest countries in the same way the U.S. and other members of the Paris Club agree to do so. And a stronger application of the IMF's lending into arrears policies in cases where China refuses to operate 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, and it is critical that the U.S. continue to maintain its ownership of more than 15 percent, 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 developing countries, this is not the time to reward China with increased ownership of the IMF.

Two other issues that I would like to focus on are anticorruption 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 anticorruption, but I believe it is critical that it continues to make anticorruption 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, and 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, emerging-market countries can attract private capital and grow

rapidly, as many countries that have followed that path have already done successfully.

In conclusion, Mr. Chairman, my recommendations to this committee are for the IMF to stick to its core mandate and not stray into areas which require long-term solutions where other institutions are better suited to tackling these challenges; for the U.S. to retain its veto at the Fund; for the IMF and its member countries, led by the U.S., 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. I look forward to any questions the committee may have.

[The prepared statement of Mr. Rosen can be found on page 48 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Rosen.

Mr. Runde, you are now recognized for 5 minutes.

**STATEMENT OF DANIEL F. RUNDE, SENIOR VICE PRESIDENT, CENTER FOR STRATEGIC & INTERNATIONAL STUDIES (CSIS)**

Mr. RUNDE. Chairman Luetkemeyer, Ranking Member Beatty, and distinguished members of the subcommittee, thank you.

My main message is this: In this era of great power competition, if we do not meet the hopes and aspirations of developing countries, they are going to take their business to Russia, China, and others.

We can't fight something with nothing. Multilateral Development Banks (MDBs), under U.S. and Western leadership are one way that we can respond with something. The United States built and strengthened the MDB system. MDBs provide money, advice, and data, and convene power to help developing countries solve problems.

If the U.S. exerts its influence over these institutions, they are force multipliers of a U.S.-led global system. If we disregard our leadership role, then other actors, including China, can exert influence over them.

The World Bank Group is a series of institutions. It lends money to national governments. It has a private-sector arm. It has an insurance arm.

There are a series of other regional development banks, including the Inter-American Development Bank; the Asian Development Bank—Taiwan is a member of the Asian Development Bank—; the African Development Bank; and the European Bank for Reconstruction and Development (EBRD), focused mainly on countries that used to be behind the Iron Curtain.

The United States has been instrumental in creating the majority of these institutions and remains the largest or one of the largest shareholders of every aforementioned MDB. Since the founding of these institutions, the U.S. has used its shareholding power to shape the policies and activities of MDBs in indirect support of American foreign policy. The United States Executive and Legislative Branches share control and responsibility for the United States policy towards the MDBs.

There has been some talk about potential capital increases for some regional development banks. A capital increase is when an MDB increases the amount that it can lend through an increase in the bank's capital through one-time additional contributions from the U.S. and other shareholders. Congress has a voice and a vote in capital increases.

The IDB and the EBRD may need capital increases. I am in favor of that under certain circumstances. In the case of the EBRD, the Congress should only consider a capital increase if the EBRD agrees to use all additional moneys generated to help finance the reconstruction of Ukraine.

How should we think about these institutions in the context of emerging market debt crises? The MDBs play a number of roles: they are a convener; they are a data collector; and they have a role to play in terms of any future debt deals.

China is now a big part of the emerging markets debt problem. What role does China play in the MDBs? They are a shareholder. China continues to borrow from the World Bank and the Asian Development Bank. That is crazy. It needs to stop.

China, as a shareholder, also has—Chinese firms can bid on MDB projects. China wins a lot of—in terms of dollar value, a lot of the dollar value of World Bank contracts, something to take a look at.

How does the Belt and Road Initiative (BRI) figure into the MDBs? Infrastructure is now a strategic issue. China's Belt and Road Initiative is a combination of construction and financing projects for roads, airports, and energy around the world.

Unfortunately for us, BRI is an ambitious project that speaks to the hopes of China's friends and potential friends. To counter the BRI, the U.S. needs a positive alternative that says more than, "Don't work with China," right? That is not a strategy. We have to have an alternative.

What is the role of MDBs as stewards of environmental protection? Under the Paris Agreement of 2015, each signatory had to file a national climate action plan. If these plans include oil and gas infrastructure, then the MDBs should support oil and gas infrastructure. MDBs also need to do more in mining and minerals. To achieve a carbon transition, we are going to have to produce 40 times the amount of cobalt and lithium.

MDBs would rather have a root canal than work on mining and minerals. They would rather not deal with it.

If the Administration comes to Congress for a capital increase for the MDBs, Congress should condition new capital increases on the revision to U.S. policy opposing support for oil and gas projects.

I have several recommendations.

First, the U.S. needs to ensure these institutions remain a force multiplier of a Western form of development.

Second, mobilizing private investment should be a central focus of the MDBs.

Third, MDBs should largely respond to client-driven demands.

Fourth, the World Bank needs a much closer alignment with regional development banks.

Fifth, these institutions need a more-credible graduation policy for middle-income countries.

And, finally, any future capital increase for regional development banks should consider Taiwan joining as an economy.

[The prepared statement of Mr. Runde can be found on page 51 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Runde.

Mr. Powell, you are now recognized for 5 minutes.

**STATEMENT OF RICHARD J. POWELL, CHIEF EXECUTIVE OFFICER, CLEARPATH, INC.**

Mr. POWELL. Good morning, Chairman Luetkemeyer, Ranking Members Beatty and Waters, and members of the committee.

I lead ClearPath. We advance policies that reduce and remove global energy emissions.

When I last spoke with this committee in 2019, the world's energy and climate landscape looked very different. Since then, COVID disruptions, Russia's savage invasion of Ukraine, growing tensions with China, unprecedented energy investments, and waves of extreme weather have shown that the dual challenge we face is ever more urgent. The world needs more energy, and emissions know no borders.

This committee can ensure financing to the developing world for clean technologies, like advanced nuclear, particularly through the IFIs.

I will cover four topics today. First, the importance of nuclear energy and the latest American innovations. Second, our global competitors, particularly China and Russia. Third, the potential and challenges for IFIs in nuclear projects. And, fourth, the importance of a parallel U.S. Ex-Im Bank and U.S. International Development Finance Corporation (DFC) strategy for nuclear exports.

An increase in demand for reliable, clean electricity has U.S. utilities calling for doubling our nuclear fleet by 2050. Military, Big Tech, and heavy industrial users are exploring a variety of advanced designs. There are 15 reactor concepts applying to the U.S. Nuclear Regulatory Commission. And, today, at least eight U.S.-based companies have publicly announced international partnerships to explore deployment in more than 10 countries. These partnerships could last a century, from construction through decommissioning.

That said, the U.S. has lost market leadership to intense global competition for nuclear projects. In the last 5 years, Russian and Chinese state-owned firms captured 87 percent of all new construction starts globally.

Today, China is building more than anyone, with 55 operable reactors, 23 under construction, dozens more in the pipeline, and a policy to go global through the Belt and Road Initiative.

And it is not just the reactors. The U.S. is also vulnerable in nuclear fuel. By 2030, China and Russia could control 63 percent of global uranium enrichment capacity.

There is more. From 2016 to 2021, China provided more energy project financing globally than all major Multilateral Development Banks combined.

Rapidly-developing countries are looking for reliable, low-emissions power, but mainly, they are going with what is cheap. IFIs can and should play a bigger role in providing an alternative, yet

institutions like the World Bank have been slow to respond to the needs of these countries, and even have a self-imposed ban on supporting nuclear projects, having not supported a single nuclear project in the past 60 years.

As two of ClearPath's advisers noted in a recent foreign affairs piece, an Egyptian presidential adviser told us and a group of U.S. Republican lawmakers at the 27th Conference of the Parties (COP27) last year that countries like hers want dependable energy and supportive financing. They would welcome U.S. investments, but we haven't been showing up to meet that demand. That is why Egypt instead took a loan from Rosatom in Russia for its new nuclear plant and is now locked into that relationship for the foreseeable future.

Chairman McHenry's International Nuclear Energy Financing Act would direct leadership at the World Bank and U.S. representatives at other IFIs to push for nuclear projects. Even if the Bank and other IFIs remove their ban on nuclear financing tomorrow, it is not guaranteed that we would see more U.S. nuclear projects abroad.

For instance, a recent study by the GAO found that Chinese-based companies received one-third of World Bank-funded international contracts over the past decade. Still, China remains eligible to borrow from the Bank for its own development programs.

Russia also remains the eighth largest shareholder for one of the Bank's key lending facilities. As we consider pressing the Bank and other IFIs to be more proactive on clean energy, particularly nuclear, we need to improve America's own export financing.

One example: Our recent successes in Poland. The Trump Administration began these negotiations, and, in 2022, this Administration proposed a financing package. Poland chose Westinghouse's AP1000 in a deal worth roughly $40 billion.

This year, Ex-Im and the DFC also signed an agreement to finance up to $4 billion for another Polish project that could support the U.S. export of GE Hitachi's SMR. A similar expression of interest for financing Romania's adoption of NuScale's advanced nuclear reactors was put forward at this past weekend's G7 leaders meeting.

Unfortunately, this type of coordinated effort across U.S. Federal agencies is the exception, not the rule.

Representatives Donalds and Clyburn have introduced their International Nuclear Energy Act to enhance our competitiveness via a comprehensive civil nuclear export strategy.

If we better leverage existing tools, and enact these new policies, our all-of-the-above clean energy strategy will reduce global emissions. If the World Bank and other IFIs reassess their nuclear energy policies rather than simply defaulting to, "no," we will be on a clear path.

Thank you, again, for the opportunity to testify. We are eager to assist the committee in ensuring that the U.S. regains its leadership in international clean energy.

[The prepared statement of Mr. Powell can be found on page 36 of the appendix.]

Chairman LUETKEMEYER. Thank you, Mr. Powell.

And Dr. Sembene, you are recognized for 5 minutes.

**STATEMENT OF DAOUDA SEMBENE, DISTINGUISHED NON-RESIDENT FELLOW, CENTER FOR GLOBAL DEVELOPMENT (CGD), AND CHIEF EXECUTIVE OFFICER, AFRICATALYST GLOBAL DEVELOPMENT**

Mr. SEMBENE. Thank you very much, Mr. Chairman.

Good morning, Chairman Luetkemeyer, Ranking Member Beatty, and distinguished members of the Financial Services Committee's Subcommittee on National Security, Illicit Finance, and International Financial Institutions.

I thank you for inviting me today to testify at this hearing on, "International Financial Institutions in an Era of Great Power Competition."

Before I begin my testimony, Mr. Chairman, allow me to pay tribute to the memory of music legend Tina Turner. We in Africa mourn her loss, together with America.

My name is Daouda Sembene, and I am a distinguished non-resident fellow at the Center for Global Development, and the founder and CEO of AfriCatalyst, a global development advisory based in Dakar, Senegal.

I am also a former executive director of the International Monetary Fund, where I represented 23 African countries on their executive board. And, during my tenure, I chaired the statutory IMF Executive Board Committee, which is responsible for strengthening collaboration between the IMF and other multilateral organizations, most notably the World Bank, the United Nations, and the World Trade Organization.

Today, I would like to focus my testimony on the potential implication of the relationship between the United States and China at the World Bank and the International Monetary Fund.

In addition to my written testimony, here are the key messages I would like to convey.

First, I agree that the United States should constructively engage with major shareholders of the World Bank and the IMF and other IFIs, including China. This is important to enhance the ability of the these multilateral organizations to help formulate and advance an ambitious shared agenda for supporting demands from their members and the global community.

Second, when playing out within IFIs, great power competition runs the risk of undermining the performance and effectiveness of these institutions, including by weakening their governance framework, complicating the consensual identification of their priorities, and reducing their resource mobilization potential.

Therefore, I believe that the U.S. policy on IFIs may have significant negative implications for these institutions, the world community, and the developing world, if shaped by a non-cooperative stance with China.

Third, there is a strong case, in my opinion, for the United States to use its leverage and influence to enlist IFIs in implementing U.S.-led infrastructure development initiatives. This is in the best interests of both the United States and its African partners.

Closing the infrastructure gap is critical to fostering growth, reducing poverty, and enhancing the delivery of social services in Africa, but it may also be quite effective at advancing U.S. foreign policy objectives, creating opportunities for U.S. private businesses,

and strengthening economic and commercial engagement with the continent.

Finally, I will conclude by emphasizing the unique responsibility of the United States for ensuring that Multilateral Development Banks such as the World Bank are adequately endowed with necessary resources to fulfill their mandate. This includes providing timely and adequate funding to IFIs and contributing to capital increases.

In this connection, I certainly agree with Ranking Member Beatty on the need for significant U.S. funding to IFIs. I also believe that capital increases for MDBs should be motivated by efficiency considerations and the need to optimize their ability to meet demands from countries and the international community.

Thank you for your attention, Mr. Chairman.

[The prepared statement of Dr. Sembene can be found on page 69 of the appendix.]

Chairman LUETKEMEYER. Thank you, Dr. Sembene.

This is a fascinating discussion. Thank you all for being here this morning. Excellent testimony.

With that, we will turn to Member questions, and I will recognize myself for 5 minutes.

In my opening statement, I referred to the GAO report which was issued earlier this month, and it reveals staggering inequity in the values of contracts that the World Bank has awarded. All of you, or most of you have referenced that report this morning with what you have been telling us. And despite the U.S. being the largest shareholder and contributing member to the World Bank, U.S. businesses saw a measly 2.4 percent of overall contract awards, while Chinese companies were awarded over 92 percent of all contracts.

It is very disconcerting to see some of this money going to Chinese companies that are on our U.S. entity list or sanctions list, because they pose a significant risk to our national security, but there is also the discussion about whether they give the quality of construction, and where the dollars are actually going, that are of concern as well.

So, any of you who would like to take this question, where do you see this going? How do we keep our funds going from these international financing organizations to the Chinese to then be able to go out and loan the money at a higher rate of interest to other developing countries when they really don't even qualify for some of these dollars themselves? I know several of you started to talk about this.

Dr. Schreger, do you want to start out the discussion on this?

Mr. SCHREGER. Sure. Thank you very much for the question.

In my view, the most important part of allocating contracts is to go to the most-efficient producer because, fundamentally, the challenge with Multilateral Development Bank lending regarding procurement is, if a project is produced over budget or inefficiently, it becomes harder and harder for the recipient country to return the funds.

I can't speak specifically to the procurement process that led to selecting China or the United States, but, fundamentally, allocating projects the most-efficient contractors is an important part

of fostering the repayment ability and the efficiency of many of the MDB projects.

Chairman LUETKEMEYER. Mr. Runde?

Mr. RUNDE. Thank you, sir.

I think one issue is, there has been a change in moving away from the concept of a low bid to concept of quality and lifecycle cost. I think that is something we want to have across the developing world.

Chairman LUETKEMEYER. You say there is a movement to do that?

Mr. RUNDE. There has been a shift. The World Bank Group is sort of the standard-maker in developing countries in terms of how countries buy things. And, historically, the standard playbook was by low bid. In the last several years, there has been a movement to attempt to move to quality and lifecycle costs, and the World Bank changed the rules to allow that as a concept.

We ought to be investing in training procurement officials in developing countries to have the concept of quality and lifecycle cost as an approach to buying things. I know this seems a little bit obscure, but it is a really important issue.

I think the other thing for us is, as the United States, we need to show up in a lot of developing countries, and sometimes—I am not excusing the fact that China is winning all of these contracts, but it may also be a function of, we need to encourage American business to go abroad in different ways, whether through foreign and commercial service, or we can do certain things through the executive director's office at these regional development banks to encourage American businesses to look at opportunities through the MDBs.

Chairman LUETKEMEYER. Mr. Powell, please follow up on that.

It is concerning to me, because a lot of the money going to these Chinese companies—they are nothing but shell companies. I serve on the China Select Committee, and we had a whole bunch of them—over 1,000 of them on the exchange for a while. We put some qualifications in place, and suddenly, a bunch of them dropped off. It is down to around 257 now.

So basically, they were shell companies that allowed the money to flow through them to the Chinese Communist Party (CCP). These companies that are getting access to these dollars at the World Bank, are they the shell companies, or are they for-real companies that are there in China? Or are they just another extension of the Chinese Communist Party?

Mr. POWELL. I will say at the top, we just need to get a lot tighter on the requirements around these bids, both to Dr. Schreger's point that there is much more transparency about who actually is bidding into this, and how the financial flows are going.

We also need to be much clearer about whether, by frequently going with the lowest bid—we are always preferential to heavily-subsidized bids, right? We shouldn't be looking to always go with things that are then heavily-subsidized by Chinese state-owned enterprises.

The one other thing I would note is, in the instances where we do compete in these bids, we have a great track record of winning. American companies have a great track record of winning. But

some of the areas where we are most competitive—I will just go back to our energy exports, our advanced nuclear technologies, or our clean fossil technologies. Those are just off the table at the Bank and many of the other IFIs. And so, we are effectively saying we can't compete for many of the most interesting things.

Chairman LUETKEMEYER. Thank you, Mr. Powell.

With that, I will recognize the ranking member of the subcommittee, Mrs. Beatty from Ohio, for 5 minutes. Thank you.

Mrs. BEATTY. Thank you, Mr. Chairman.

And to the witnesses, thank you for bringing your expert information to us.

All of you have basically mentioned how the United States needs to strengthen our role or how we should try to maintain and not let others like China have a larger percentage of interest with IFIs.

Also, I want to thank you, Dr. Sembene, for recognizing and saying that we need to strengthen social services and how important our infrastructure is—I agree with you—as we look internationally, the same as we are trying to do here in the United States, because infrastructure plays a major role in what we are discussing today.

Let me start with you, Dr. Sembene. And I would like to start with the implications of the United States defaulting on its debt. I have a difficult time trying to separate where we are now and what we should be doing. We know that such a disaster would have catastrophic consequences on the U.S. economy, which would spread throughout our global financial system.

Is there any advice you can give us on how a default would affect other countries around the world and the international financial institutions' abilities to help countries in need?

Mr. SEMBENE. Thank you very much for your question, Ranking Member Beatty.

I do fully agree with you that the potential debt default of the U.S. would have dramatic consequences not only for the U.S., but certainly also for many developing countries.

As far as I know, for African countries that are borrowing from the markets, such an event might actually worsen the difficult tightening of financial conditions that they are facing right now, which would actually contribute to sort of actually undermining their access to markets, but, most importantly, also increasing debt servicing, which is already a problem in many countries that are facing high levels of debt. That is for one.

I think another issue also is that event would, according to the IMF, actually have major consequences on the stability of the international financial system. If that was to ever happen, I think that would be actually quite catastrophic for not only the global economy in general, but economies in emerging markets in developing countries.

And certainly, this is something that might end up actually having a lot of consequences, including not only on the weakening growth prospects but also having an impact on poverty, having an impact on the ability of international financial institutions to support those countries, and I believe that would not necessarily be the ideal situation.

Thank you.

Mrs. BEATTY. Thank you so much.

Mr. Powell, all of you all have talked about the value of our stability in different ways and the impact that the United States should have on staying strong and fighting against China.

Can you comment on the impact of a United States' debt default on great power competition, particularly focused on the United States' ability to compete with China on the global stage and preserve its current standing in the global economy?

Mr. POWELL. Obviously, the United States should not default on its debt obligations. There has to be a short-term strategy and a long-term strategy for that, which also needs to bring our spending into long-term, much more sustainable alignment so that this does not remain a perennial issue.

Mrs. BEATTY. Thank you. And I certainly agree that we should not be held hostage and have a ransom note of being able to turn our backs on those who also need our assistance.

Let me move on and say, first, thank you to Dr. Sembene for also recognizing the great talent of Tina Turner. That is very much appreciated, and I know, in many countries in Africa, what she meant to all of us.

I'm probably not going to have time to have you answer this question, but being very impressed with your work and what you have done with the IFI, I also have an interest in some of our close countries, like the Caribbean, after being at CARICOM with then-Chair Waters. We heard a lot about those lower-income countries, and I will follow up offline with you, because my time is up.

I yield back.

Chairman LUETKEMEYER. The gentlelady yields back.

They have called votes. We do have a stream here of where we are with our votes. We are going to try and get at least two more people in, Mr. Barr and Ms. Waters, before we adjourn. And, if they are a little slow getting to the Floor, we may get in another one, but we appreciate your indulgence.

With that, we recognize the gentleman from Kentucky, Mr. Barr.

Mr. BARR. Thank you. Thank you, Mr. Chairman. Thanks for the hearing.

And thanks for the excellent testimony from our witnesses.

Let me just quote from Mr. Powell and Mr. Runde, our excellent witnesses here. "Since 2000, China has become a dominant power in global energy finance, issuing more than 234 billion in loans for energy projects to some 68 strategically significant nations. For perspective, from 2016 to 2021, China provided more energy project financing around the world than all major Western-backed development banks combined."

That is stunning.

What I would like to know is—so the World Bank has this green agenda, and they are refusing to fund some of the most-productive and lowest-cost zero-carbon energy sources like nuclear energy or by supporting the mining of critical minerals necessary for these so-called green technologies. It seems as though, for every World Bank fossil project turned down, China comes in with a bilateral loan, including for coal.

So, Mr. Powell and Mr. Runde, can you touch on how the World Bank's green energy policies promote China's reach into the energy space?

Mr. POWELL. I will go quickly, just to reiterate a few points on this.

First, by the World Bank and IFIs effectively refusing to finance both nuclear projects and clean fossil projects, like import of Liquefied Natural Gas (LNG) technology or carbon capture technologies in places like South Africa that could desperately use them, we are opening a huge window to Chinese competition and, frankly, to Russian competition, particularly in the nuclear space as well, and we are holding back the export of U.S. clean technologies.

And I will totally reiterate Mr. Runde's point about critical minerals being an urgent priority as well and very much off the table for many of these institutions.

Mr. RUNDE. Thank you, Mr. Barr.

I think the MDBs should have an all-of-the-above energy policy. I disagree with the Biden Administration on holding back on supporting oil and gas projects. I think it is a mistake.

Unfortunately, even when the Trump Administration pushed for supporting oil and gas projects, the Europeans would vote against us at the board at the MDBs. So, we are going to need to create a new coalition to support a diversification of energy.

It is hypocritical of us, when we have oil and gas and coal in this country, and then we turn around and tell developing countries they can't develop their own energy sources.

Mr. BARR. And we are playing right into China's strategy.

Mr. RUNDE. Absolutely.

Mr. BARR. So, we have to use all of our influence to alter these policies at these international financial institutions.

How do we end China's eligibility to borrow from the World Bank?

Mr. RUNDE. The Asian Development Bank has said they are going to end their eligibility by 2025. We should absolutely hold them to that.

There is a temptation for the World Bank and the Asian Development Bank to continue to loan for a couple of reasons. One is they say, well, this is a window into how we can understand China better—there are lots of other ways to understand China better—and/or, this is a way for us to—for a bunch of lending reasons that they do it.

You all have the power of the purse. You have the ability, and I think you should have blunt conversations with the Administration about this. I suspect it is an open door, but it is going to require, I think, some pushing from Congress. I would encourage this committee to push the Administration on ending lending to China.

Mr. BARR. We need to do that.

I don't know which witness is the right person to answer this question, but jump in, whomever.

The U.S. dollar remains the dominant reserve currency, with about half of all international trade invoiced in U.S. dollars, half of all international loans, and global debt securities denominated in dollars. At the end of 2022, the dollar accounted for 58 percent of all allocated reserves globally.

But we hear a whole lot about China's pursuit of a digital yuan. We hear a lot about the rise of crypto. We hear a lot about BRICS, a new potential multilateral currency developing. We hear about

the Saudi deal with China denominated in the sale of oil in the yuan.

Can someone talk about the threat to the dollar's reserve currency status?

Mr. SCHREGER. Sure. I am happy to start on this.

Fundamentally, right now, the renminbi is not yet positioned to compete with the U.S. dollar for a number of reasons. First and foremost, the reason that the dollar plays the role it does in the international financial system is it provides the global safe asset. You are confident, except for the upcoming debt ceiling, that you will always be paid back if you own U.S. dollars. That is fundamentally what you know.

When you contemplate investing in China and holding Chinese renminbi as reserves, you are not necessarily sure that you are going to be able to turn that piece of paper into the goods and services that you need or intervening in FX markets.

Chairman LUETKEMEYER. This is a fascinating discussion. I hope that another Member will ask a follow-up question on that. And, Mr. Rosen, you will have a chance at that point to make a comment, okay? We need to continue on.

The gentleman yields back.

I now recognize the ranking member of the full Financial Services Committee, Ms. Waters from California, for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

I will direct this question to Mr. Sembene. You were previously executive director at the IMF, representing 23 countries in Africa, so you are keenly aware of how China has been making significant investments into the infrastructure of several countries in Africa. And of course, they have been doing this in the Caribbean.

But I would like you to continue to elaborate on the growing presence in Africa. It is profound. Could you help us to understand what is going on in these countries?

Mr. SEMBENE. Thank you very much, Congresswoman.

On this issue, I would fully agree with what Mr. Daniel Runde stated that at some point, if the U.S. doesn't meet the hopes and aspirations for developing countries, they will certainly look for alternatives, an alternative not only provided by China, of course—they actually have great ones—but they also are provided by the private sector.

And what is happening is, unfortunately, they have to do that, and then, I guess, face a very expensive cost in the sense that commercial going is very, very high.

So what, in my sense, China has been doing is to respond to a critical need from Africa, which is the need for developing infrastructure. Infrastructure is found to be extremely important for first doing economic growth. It is extremely important for also improving the daily lives of the African people, whether we are talking about energy infrastructure or water or airports. All of that is critical, and Africa needs that.

Unfortunately, they could not get those infrastructure loans from IFIs, or, actually, a retail outfit, so of course they had to go and look for other alternatives. And China has provided that opportunity for many African countries.

Ms. WATERS. Would you agree that our presence in Africa is less now than it was some years ago, when we had Andrew Young as our Ambassador to Africa? Do you agree that we don't have much of a presence there anymore?

Mr. SEMBENE. I would not say that you don't have a presence there, because I am not going to comment on the diplomatic side. But on the economic front, what I can tell you is of course, countries like China have been actually gaining a lot of influence in Africa because, as I said earlier, there was a void, a gap to be closed, and they actually jumped on it.

And now, of course, the U.S., in my opinion, has been leading some very important infrastructure development initiatives. We are just hoping that they are going to deliver on those initiatives. If they do, I believe there is room for the U.S. to gain more from the African side.

Ms. WATERS. Thank you. I would like to say a word about the Caribbean. The Chinese are absolutely taking over the entire Caribbean.

I know a little something about it. Mrs. Beatty just mentioned that we were there not too long ago. And my husband served as Ambassador to the Commonwealth of the Bahamas. Let me tell you, I just put together a few things that we have paid attention to. Over a dozen years, they paid $30 million for a stadium, $3 billion for a port, $40 million for another port, $54 million for a highway, $3 billion for a hotel, and another $250 million for another hotel. The whole footprint has changed in the Bahamas.

Now, I want you to know that they have some needs. They have these hurricanes. And, each year, they are trying to pay to restore their infrastructure, and so they get way behind.

In 2019, in the Grand Bahamas, they lost their only hospital, and they are trying to build a hospital. We are not paying attention. The Chinese said, "We will build it for you."

And, when we were there, they were making a plea to us, "We don't want to be indebted because we are already indebted. Can't you help us?"

I am so pleased for this panel today, because you are absolutely identifying the growing strength of China and its influence. And those people who love us and want to be friends with us, are losing the ability to do it because we are not paying attention.

So, I thank this panel very much for what you are sharing today, because these Multilateral Development Banks must be supported so that we can use our influence and keep our friends by helping them out and dissuade them from taking all of this from China because they will be indebted forever.

I yield back.

Chairman LUETKEMEYER. The gentlelady yields back.

As you see over here on the left, there is a screen that tells you where the votes are; the magic number is 100. So, it looks like we have about 5 minutes to go with one more questioner. That would be Mr. Williams from Texas. After that, we will probably take a short recess.

Mr. Williams from Texas, you are recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Mr. Chairman.

And thank you all for being here today.

I want to follow up a little bit on what my colleague, Congressman Barr, was asking, Mr. Schreger, what is China doing to undermine the dollar's dominance as the world's reserve currency? And what should we in Congress and the Administration do to combat it?

Mr. SCHREGER. Thank you for the question.

First and foremost, what China is trying to do is essentially convince countries around the world that the renminbi is an alternative asset to invoice your trade and to invest in. And so, on the investment side, they have been working very hard to actually allow in foreign capital, so encouraging foreign central banks to hold renminbi-denominated bonds as their reserves. And, on the trade side, they are encouraging firms to invoice, basically price their goods, in renminbi.

There are a few areas in which they have had challenges there. First, we actually don't know who is holding most of these renminbi-denominated assets. What you can see is, after the U.S. sanctioned Russia back in 2014, it was the Russian central bank that effectively announced they were moving out of U.S.-dollar-denominated assets and into renminbi. They did that publicly.

And China has effectively been trying to attract foreign capital of that form, and a lot of the reasons for that is that China finds itself vulnerable in the dollar-based financial system.

What I would say is the fundamental area in which the United States can assure the dominance of the dollar is making everyone understand that U.S. Treasuries are the world's safe asset, that there is no state of the world in which the United States can or will default.

Mr. WILLIAMS OF TEXAS. It all gets down to selling, doesn't it?

Mr. SCHREGER. I'm sorry?

Mr. WILLIAMS OF TEXAS. Well, just promoting yourself. I am talking about, we need to our job to make sure the world understands that we—

Mr. SCHREGER. I would say so.

Mr. WILLIAMS OF TEXAS. Right.

Next, I would like to ask, global interest rates have risen at the fastest pace in decades in response to high inflation. As rates rise and the global economy slows, countries with poor creditworthiness face significant debt distress. And China has been unwilling to work with the IMF to restructure debts owed to them because of their desire to protect their country's credit rating, meaning that these emerging-market economies are in serious jeopardy.

So, because the IMF has not been able to rein in China and their abusive lending practices, the Chinese have increased their own emergency lending and they pose a great threat to the world economy.

Mr. Rosen, how could the IMF address the pressure from rising interest rates? And how can the U.S. and the IMF better hold China accountable?

Mr. ROSEN. Thank you, Congressman. I think that is an important question.

China is basically holding up the business of the IMF right now by not permitting these debt restructurings. They are basically—sometimes, they indicate they will agree to the debt restructuring.

When you get into the details, they refuse to do so, as they have done in the case of Zambia.

And then, they ask the IMF and the World Bank to take write-offs, which the multilateral institutions have never done. And it is completely wrong for China to ask these institutions to do so, because they are already providing concessional lending—lending at much lower interest rates than market rates.

So, it would be completely undermining and threatening the future of these institutions if they were to take debt write-offs. And I think the Chinese understand that, but they continue to push for it.

I think what we need to consider is, first of all, we need to put enormous pressure on China, with our European allies and others, all of our allies, to agree to debt restructuring.

But if they refuse to do so, then we need to look at a policy that the IMF does have in its toolkit which is called the, "lending into arrears," policy, which I referred to earlier, which basically means that we go ahead and the IMF agrees to lend to a country in debt distress on the condition that it does not repay China with any debt or lending they get.

Now, that is not a perfect solution, because, unfortunately, in the case of Suriname last year, my understanding is that we agreed to that—that Suriname agreed not to pay China—but they went ahead and, by mistake, apparently, did pay China, twice.

So, we need to work on mechanisms to prevent these countries, if they agree to it, to not pay China going forward, but I think that is one way that we can put more pressure on China in these situations.

Mr. WILLIAMS OF TEXAS. Okay.

I yield back. Thank you very much.

Chairman LUETKEMEYER. The gentleman yields back.

We are getting close to the number over here. What we are going to do is recess. We have two votes. It should take about a half-hour, roughly, for us to walk over to the Capitol, cast a vote or two, and then come back.

With that, we will have a short recess.

[brief recess]

Chairman LUETKEMEYER. I now call the subcommittee back into session.

And, with that, we will begin our questioning.

I thank all of you, our witnesses, for indulging us in conversations both to, from, and on the Floor. You all have been very impressive. Lots of folks have really, really enjoyed your testimony. So, thank you very much. Keep up the good work.

And, with that, I now recognize the gentleman from North Carolina, Mr. Nickel, for 5 minutes.

Mr. NICKEL. Thank you, Chairman Luetkemeyer.

And thank you to our witnesses for joining us today.

Dr. Sembene, Ukrainians have worked tirelessly to repel the unprovoked Russian invasion that Vladimir Putin started over a year ago. As they continue to fight to keep their country free, we need to support them, which is why Congressional Democrats passed legislation that directed the U.S. Department of the Treasury to use the voice, vote, and influence of the U.S. at the IMF,

the World Bank, and other relevant MDBs to advocate for the immediate suspension of all debt service payments owed to these institutions by Ukraine.

Dr. Sembene, how else can the U.S. best support Ukraine during this time, leveraging its role at the World Bank and the IMF?

Mr. SEMBENE. Thank you very much, Congressman Nickel.

My sense is, the best way for the United States to support Ukraine and other allies is to empower IFIs by giving them the necessary resources they need to extend support to those countries.

And I would certainly think that there are at least a couple of ways to do it. Whether we are talking about the World Bank, it would be for the U.S. to really be ambitious in providing financial contribution to that institution, so, in turn, it can be actually in a position to support Ukraine, African countries, and other developing countries. This is critical. If we don't have that, the World Bank would be in very serious difficulty to deliver that mandate.

The second way to do it is for the U.S. to also support potential capital increases when they are needed. I am not saying it is needed now at the World Bank, but whenever it is needed, it is the responsibility of the U.S. to really make sure that those capital increases happen. And certainly, that would be helpful to Ukraine, and not only to Ukraine, but also to other developing countries that this institution is supporting.

Mr. NICKEL. Thank you.

And, Dr. Sembene, again to you, Russia has historically exported various goods and commodities to developing countries around the world. Ukraine, too, was a contributor to the global food supply. Russia is still exporting grain and fertilizer worldwide, including grain and fertilizer stolen from Ukraine.

How might the international financial institutions help countries to diversify away from Russian commodities such as grain and fertilizer? And what else is needed to support the IFIs in these critical endeavors?

Mr. SEMBENE. Thank you, Congressman Nickel. I am glad that you are asking these questions.

I think one fundamental way that the U.S. and IFIs can really help developing countries in general have the opportunity to access grains and other agricultural commodities is to really help those countries in their efforts to promote agricultural transformations.

That requires making a lot of investment in this area. And the U.S. has announced a partnership on food security with Africa last December, on the margins of the Africa-U.S. summit.

It is very important that the U.S. implement those types of partnerships by making sure that they support those countries in mobilizing the necessary resources they need to invest in agricultural transformation. That would be a very good way to provide alternative sources of grain consumption for those countries.

Mr. NICKEL. Thank you so much for your answers.

Mr. Chairman, I yield back.

Chairman LUETKEMEYER. The gentleman yields back.

We now go to the distinguished gentleman from Georgia, Mr. Loudermilk, for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman.

And thank you all for being here. It is a very interesting conversation we are having here.

Professor Schreger, one of my colleagues earlier asked you about the effects of a U.S. default, what effect it would have on emerging markets. And I think you answered that appropriately. As everybody agrees, it would have a devastating effect on the U.S. economy, and it would have an effect in other markets as well.

I just want to say for the record that we are taking that very seriously. It is interesting that my colleague from the other side of the aisle asked about something that we have already taken action on here in the House weeks ago, and we are still waiting on the White House and the Senate to actually move forward with it, too.

I just want to mention for the record, that it was interesting that that question was asked from the other side, when we are actually taking this very seriously.

But there is another issue that wasn't asked that is sort of relative, and I want to get your opinion on it, regarding the record-high inflation that we have seen, driven by this spending that we have had over the past 3 years.

How has this record-high inflation affected other countries' borrowing costs?

Mr. SCHREGER. Sure. Thank you very much for the question.

The way in which U.S. inflation has primarily affected other countries' borrowing costs is actually in the Federal Reserve's reaction to it.

Fundamentally, every country around the world that borrows in U.S. dollars is always going to have their bonds priced as a spread to the risk-free rate in dollars, which are U.S. Treasuries. And so, as the Federal Reserve moved to raise interest rates to combat inflation, you can think of countries around the world that not only have to pay the U.S. Treasury rate, which is going to go up with interest rates, they are still going to have to continue to pay that spread above U.S. borrowing costs.

So, as the U.S. moved to combat our own inflation problem, it has led countries around the world to also have to pay a higher interest rate on U.S. dollars.

Mr. LOUDERMILK. Does this create a risk for us that may push other markets to, let's say, the Chinese renminbi? Is that something that we could be facing, that pushes these emerging markets to another lender?

Mr. SCHREGER. I think that the challenge there is, most countries still—actually, one of the things you see is, other countries are very reluctant to denominate their debt in Chinese renminbi, primarily because there isn't a large liquid investor base that will purchase the bonds.

So even though, hypothetically, Chinese government bonds are going to pay a lower interest rate than U.S. Treasuries, Chinese government bonds in renminbi than U.S. Treasuries in dollars—there still is not really a large market for governments to issue their bonds in renminbi the way that there is for U.S. dollars.

Mr. LOUDERMILK. Is there a critical point as far as an interest rate that would overcome that—in other words, that would force them to go?

Mr. SCHREGER. In some sense, I think the real way in which people start being able to issue and borrow in renminbi is when people start thinking in terms of the goods that they need to buy and consume are in renminbi.

Fundamentally, if you issue—most countries around the world, if they issue a bond in renminbi, the calculation they have to do is then, okay, I am going to take my renminbi and convert it into U.S. dollars to buy the thing which I need.

Mr. LOUDERMILK. Right. Okay.

Mr. SCHREGER. And while actions in the U.S. financial system are certainly going to affect other countries' decisions to borrow in renminbi, the kind of underlying challenge is in Chinese financial markets. And, fundamentally, the lack of goods priced and sold in renminbi are going to continue to hold back, kind of, a growth of this market for a while.

And, in particular, the fact that many countries are reluctant to try to raise money inside of China's liquid onshore capital markets for, effectively, fear of capital controls.

Mr. LOUDERMILK. Right.

Mr. SCHREGER. If you have raised renminbi in China, you can't get that out into your projects the way you can if you raise money in the U.S. in dollars.

Mr. LOUDERMILK. But it would be safe to say that, if the Treasury Department were to reverse its path and start lowering interest rates, it would reduce any risk of using China over the United States?

Mr. SCHREGER. I wouldn't recommend that the Federal Reserve stop trying to combat inflation in order to think of other countries' borrowing costs. I do think there is going to be interaction, but I don't have a strong view on that now.

Mr. LOUDERMILK. Okay. Thank you.

With my time quickly running out, I will submit the rest of my questions for the record.

Thank you, Mr. Chairman. I yield back.

Chairman LUETKEMEYER. The gentleman yields back.

I now recognize the gentlelady from Texas, Ms. De La Cruz, for 5 minutes.

Ms. DE LA CRUZ. Thank you, Chairman Luetkemeyer, for holding this hearing today.

While I appreciate my colleagues' many concerns over China's role in international debt challenges that are currently faced, and its attempts to reshape the international financial system, I want to start my time a little closer to home.

I represent Congressional District 15 in Texas, and that is along the U.S.-Mexico border. It includes McAllen, Texas, the most-southern tip. It is also over 80-percent Hispanic, one of the most-Hispanic districts in the nation. For our community, the border presents its own challenges in our everyday life and plays a significant role in our life.

That being said, I would like to talk about the most important international financial institution in my district, and that would be the North American Development Bank (NADBank). NADBank has supported nearly 300 infrastructure projects, benefiting nearly 20

million people along the southern border, providing basic yet critical services like clean water and waste disposal.

The last time Congress addressed NADBank was in the North American Development Bank Improvement Act of 2019, which became law as part of the implementation of the United States-Mexico-Canada Agreement (USMCA).

Mr. Runde, you have advocated for updates to NADBank's mandate, including extending the current project radius limit beyond 62 miles. Do you still support extending the range of NADBank's operations? And what other steps should Congress take to consider enhancing NADBank's work along the U.S.-Mexico border?

Mr. RUNDE. Congresswoman, thank you for that very important question. And I wholeheartedly agree; we have a shared future with the Western Hemisphere, and we need to offer a positive agenda for our friends to the south of us. And I think that the NADBank is an important instrument that could allow us to do many of the things that you are talking about.

I would like to see us expand the range of activity of the NADBank to all of Mexico, especially southern Mexico, which is the poorest part. And I would like to see it expanded to the Northern Triangle of Guatemala, Honduras, and El Salvador, where we have a lot of folks who migrate.

I think the NADBank could do a couple of things for us. I also think it ought to expand its activities beyond environmental and basic infrastructure improvement. It could be an infrastructure finance vehicle for Mexico and Central America, including energy.

And, two things. One is, in the case of Mexico, we want our friends and neighbors in Mexico to have expanded options, other than options that aren't necessarily the most-constructive economic options. Let me put it that way.

But, also, we want to find ways for people, especially in the Northern Triangle, to make lives where they were born and where they grew up. And when a country hits $8,000 per capita, Congresswoman, people stop migrating. People would rather stay where they grew up. They only leave because of, oftentimes, either violence or lack of jobs.

So I think strengthening the NADBank, giving it a larger range, and giving it a larger set of activities that it could take on could be a really interesting instrument in responding to the challenges of migration and in responding to some of the challenges related to the violence that we are seeing in Mexico.

Thank you very much.

Ms. DE LA CRUZ. Similarly, it is my understanding that the U.S. Border State Representative on NADBank's board of directors is currently vacant. Is that still correct?

Mr. RUNDE. I do not know the answer to that.

If it is vacant, that would be a problem. I think, across all of our multilateral institutions, including the NADBank, we need to have people minding the store. And it is part of our leadership. Part of our leadership is just minding the store and making sure that things are going the right way.

So, if that has not been filled, it needs to be filled, Congresswoman.

Ms. DE LA CRUZ. Thank you.

And, with that, I yield back.

Chairman LUETKEMEYER. The gentlelady yields back.

I now recognize the distinguished gentleman from Iowa, Mr. Nunn, for 5 minutes.

Mr. NUNN. Thank you, Mr. Chairman. And I appreciate you putting this hearing together.

I think we all are familiar with the situation called the Coca Codo Sinclair Dam in Ecuador. We know that in 2019, Ecuador defaulted on its loan, and it received this loan from the China Development Corporation, forcing the country to renegotiate with the Communist Party in Beijing and making cuts to its budget, damaging Ecuador's credit rating and making it harder for the country to borrow money both in the future as well as putting it in a position where it is now beholden to Beijing.

Mr. Rosen, when we are looking at unfair global financing protocols, can you please speak to ways that China is manipulating the international financial institutions and why they are continuously allowed to cheat the system?

Mr. ROSEN. That is a good question, Congressman.

Partly, it is, I think they have these vast loans that they make to these countries, and I think there is definitely evidence of corruption in the way that they make these loans. Unfortunately, emerging-market countries, as I mentioned in my testimony, suffer a lot of corruption in their governments and elsewhere, and so they are easy prey for Chinese corrupt behavior.

And I think a lot of the problem lies with the fact that these countries are not attractive places for the private sector to invest in, because they don't respect private property and they are corrupt. And that obviously makes them, in many cases, off-limits to U.S. private-sector investors who are—

Mr. NUNN. But not off-limits—you are absolutely right—to the Chinese.

Mr. ROSEN. They are not off-limits to the Chinese.

Mr. NUNN. And unfortunately, the Chinese, as you mentioned in your opening, the, Doing Business Reports (DBRs), in this case, China has largely manipulated their response back to it, providing a false sense. Is that correct?

Mr. ROSEN. That is correct. That is correct, and it is very concerning.

Mr. NUNN. This is my concern as well, that China is exploiting the system, they are exploiting the countries, the IMF largely is backfilling the situation, and, at the end of the day, U.S. taxpayers end up on the hook for paying for a lot of this.

The overall concern here is that Belt and Road, while good for China, really is, "All roads lead to Beijing." And that should be a concerning situation for all of us.

Dr. Schreger, I want to speak to you, then, on why China is allowed to borrow so heavily from the International Bank for Reconstruction and Development, when it clearly does not meet the borrowing criteria?

Mr. RUNDE. Congressman, I am happy to take that.

Mr. NUNN. Mr. Runde? Absolutely.

Mr. RUNDE. As I mentioned in my testimony, I think there is a temptation, in the case of the Asian Development Bank and the

World Bank, the IBRD, which is the technical term that you are using—and you are correctly using it, Congressman—for three reasons.

The first is that they want to have a kindergarten office for their leaders so they kind of grow up in the system. It is like a starter director job. So, they keep the office open, just like in other bureaucracies; it is like, oh, well, we have a China office. It is a plum post. So, part of it is bureaucratic politics.

Second is the issue of, "I want to have a window into China," because they are so interested in China. Well, China can pay for a lot of the advice that they want from the World Bank Group. They don't need to borrow money from the World Bank.

But the third reason is, the business model of the World Bank is, they lend money to richer countries with a pretty good credit rating, and then they cross-subsidize that by lending to poorer countries with a poorer credit rating.

Mr. NUNN. Right.

Mr. RUNDE. My view is, China can finance its own development. We should stop this practice, and I think the Asian Development Bank has sort of gotten the memo, but the World Bank has not fully gotten the memo. And they will give you, kind of, "World Bank-y" answers to this sort of thing. We have to stop it.

Mr. NUNN. Mr. Runde, I could not agree with you more. And you highlighted earlier that by 2025, China should graduate from this program. I would offer that 2025 is 2 years too late. We can start funneling them off of it now.

Mr. RUNDE. I agree, sir.

Mr. NUNN. I think you are in the right spot. Thank you.

With the time I have remaining, I do want to ask you, you brought up an interesting proposition of including Taiwan in this. It is because the United States is the largest contributor to the World Bank; we should have also a voice in where this goes.

And I want to highlight here that the United States has issued sanction export controls against countries to which the World Bank has awarded over 28 contracts. As was highlighted earlier, these things include the Three Gorges Dam, the South China Sea, the Bushehr Nuclear Power Plant, and the Long March rocket family.

Time after time, U.S. taxpayers are financing operations that the Chinese are taking for themselves. How do we get them off this?

Mr. Runde, I will let you have the last word.

Mr. RUNDE. Ultimately, we need to find ways to figure out the sanctions list. They will say, well, we use the U.N. Sanctions List, and we can't put them on the U.N. Sanctions List. And so I think—anyway, I will stop there.

Mr. NUNN. I yield back my time, and I will submit the rest of my questions for the record.

Thank you, Mr. Chairman.

Chairman LUETKEMEYER. The gentleman's time has expired.

With that, we go to Mr. Meuser from Pennsylvania for 5 minutes.

Mr. MEUSER. Thank you, Mr. Chairman.

And, certainly, thank you to all of our witnesses. It is an extremely interesting and important hearing we are having here.

So, the U.S. President just came back from the G7 summit. The G7, of course, wields enormous power on the IMF and the World Bank. And yet, we are seeing in this hearing that China is taking extreme advantage of both institutions. It is unclear if the Administration is asleep at the wheel, frankly, or—and it also seems very unlikely this subject was brought up at the G7 summit by the Biden Administration.

So, Mr. Rosen, as the executive director of the IMF, you represented the United States. You said in your testimony that the IMF is straying from its core mission. The IMF is pursuing initiatives such as swapping debt for climate pledges and adding in climate reforms as part of their terms for financing loans.

This is very troubling. What do you think we should be doing about it?

Mr. ROSEN. Congressman, I think we need to hold the IMF to account. They have a core mission, which is, as the chairman said, as a firefighter in crises situations, and not to be providing development lending, which is what they are doing with this climate trust that they have established, and dealing with long-term problems. Their role is to deal with short-term crises, not to deal with long-term development issues. That is the role of the development banks.

Mr. MEUSER. Right.

Mr. ROSEN. And, importantly, bringing in private-sector capitol. Without private-sector capital, these countries are never going to get out of their challenges and problems.

So, we need to call the IMF to account and point out that it—

Mr. MEUSER. Absolutely. But who is making these decisions? It is certainly not responsible use of IMF member funds to condition loans or forgive loans based upon climate change.

Mr. ROSEN. When I was at the IMF, we opposed that, and we said we wouldn't support it, in the Administration of which I was a part. Now, this Administration, unfortunately, is supporting those policies. That is the problem.

Mr. MEUSER. Thank you.

Mr. Powell, is this money being well spent, in your view? You have a background in clean energy.

Mr. POWELL. First, thank you for the question.

This is very important. A country that is in deep financial distress, or a global financial order in deep distress, is very unlikely to be able to form the capital to build clean energy at scale.

So the first and highest mission, the importance of the IMF is to serve this role as firefighter, preserve that role as firefighter. We have plenty of other institutions, plenty of other IFIs, with a significant role in financing clean energy and energy infrastructure investments of all kinds.

I would say, keep IMF in its role, and that is its highest and best use, and take better advantage of the other IFIs as we develop clean energy around the world.

Mr. MEUSER. That makes a lot of sense. Thank you.

Mr. Schreger, there is a lot of concern about how China is taking advantage of the loan forgiveness programs, from the G7 to the Paris Club. These programs help countries, of course, trapped in debt to climb out of debt. Yet, my understanding is that many of

these countries turn around and are paying that money to China, who is demanding payment.

Your thoughts on that?

Mr. SCHREGER. I think, right now, the situation China finds itself in is that it has loaned a lot of money that it fundamentally expected to be paid back. And right now, it is basically trying to figure out how it can avoid recognizing the losses that the Ex-Import Bank of China and the China Development Bank actually face.

And there is actually very recent work by Carmen Reinhart and Christoph Trebesch showing that what China is doing is actually operating as a global crisis lender to some of its own countries, to effectively roll over those existing loans in order to avoid recognizing the losses.

I think that in terms of moving ahead on sovereign debt restructurings, it is important to make sure that negotiations with China doesn't keep countries in, kind of, long-term limbo as they wait in order to resolve their debt crises.

Mr. MEUSER. Great. Thank you.

Mr. Rosen, we think that China is perhaps profiting from the IMF, and yet, at the same time, they want to increase their quota. We have a lot of evidence that there is manipulation taking place of their exchange rate, special drawing rights, and things of that nature.

I have a bill called the China Exchange Rate Transparency Act, which will bring a lot of demands, common-sense reforms, if you will.

Is our IMF director currently pursuing getting China to operate how other countries operate within the IMF?

Mr. ROSEN. It is difficult—I know the executive director; she worked for me as my deputy. She is a Treasury civil servant. And she is a good person, and she does understand the issues relating to China—

Mr. MEUSER. Okay. Thank you, Mr. Chairman. I yield back.

Chairman LUETKEMEYER. The gentleman's time has expired.

I now recognize the gentlelady from California, Mrs. Kim, for 5 minutes.

Mrs. KIM. Thank you, Chairman Luetkemeyer and Ranking Member Beatty, for holding this very, very important hearing today.

I would like to insert into the record a recent AP piece entitled, "China's loans pushing world's poorest countries to brink of collapse."

Chairman LUETKEMEYER. Without objection, it is so ordered.

Mrs. KIM. The CCP is the world's biggest government lender to emerging economies and, at the same time, the biggest borrower and debtor of the World Bank. How can the CCP borrow at subsidized rates as a developing country and lend hundreds of billions of dollars to poor countries like a fully-developed country?

The CCP taps into the IFI system, yet refuses to cooperate with the Paris Club to restructure the debt of poor countries. As the saying goes, the CCP can't have their cake and eat it too. If the CCP wishes to be a responsible member of the international community, Xi Jinping must abandon his debt diplomacy.

Mr. Runde, in your view, what more can we do, in concert with our partners and allies, to ensure that the CCP graduates from being able to borrow from the World Bank at subsidized rates?

Mr. RUNDE. Thank you. Thank you so much, Congresswoman, for that question.

We have been perpetuating a fiction, and that fiction is that China is a developing country. And they have used that fiction and taken advantage of privileges they should not be taking.

They are the second-largest economy in the world. They are a larger financier than the World Bank and the other MDBs. And they have been taking advantage through things like lower-than-market interest rates, and they get other sorts of privileges that go to developing countries.

We need to work with our partners around the world to get them to stop declaring themselves a developing country.

Mrs. KIM. Right.

Mr. RUNDE. It is going to require diplomacy, but also some honest conversations with our Chinese counterparts. They are perpetuating a lie.

Mrs. KIM. Right. Which is why I am so pleased that we passed the PRC is Not a Developing Country Act, because they are gaming the system using that special status.

As part of its debt diplomacy and as a creditor, the CCP is pressuring borrowers to sever ties with Taiwan. And so, I introduced H.R. 540, the Taiwan Non-Discrimination Act, to support Taiwan's participating in the International Monetary Fund.

Mr. Runde, again, in your testimony, you stated that we should use the need for a capital increase at MDBs as a way to grant Taiwan membership to the IDB. Recognizing that Taiwan is a member of the Asian Development Bank, how would the international community benefit from greater participation of Taiwan in other MDBs?

Mr. RUNDE. Thank you so much. This is an important question. And I want to thank you for your leadership on this issue of Taiwan, Congresswoman.

It is true that Taiwan as an economy under the formula of Taipei, China has been a member of the Asian Development Bank since 1966. This is not a well-known fact. It is also a member as an economy of the WTO.

Most of Taiwan's allies are in the Western Hemisphere. There is some talk about a capital increase for the Inter-American Development Bank or the Inter-American Development Bank's private-sector arm. I am supportive of both, because I think it would be part of a new initiative to work in the Caribbean, and to work in Latin America. We ought to have a capital increase.

But if that is a political deal and Congress has a seat at that table, we should demand that Taiwan get a chance to buy shares in the Inter-American Development Bank just as they do in the Asian Development Bank.

In the case of the EBRD, Congresswoman, what happens in Ukraine is not going to stay in Ukraine. China is watching what is happening in Ukraine.

Mrs. KIM. Right.

Mr. RUNDE. So, we should hope that Ukraine delivers an historic victory against the Russians and against their illegal invasion.

Mrs. KIM. Sure.

Mr. RUNDE. But when the reconstruction begins, we are going to need a lot of people to carry the burden. And Taiwan ought to step up and carry a very significant burden on the reconstruction.

There is also talk about a capital increase for the EBRD. Under certain circumstances, I would agree with that. One of the conditions I would make is to say, well, we would like Taiwan to be a significant burden-sharer in the reconstruction of Ukraine. One way to do that would be for them to buy in to shares of the EBRD.

So thank you, Congresswoman, for that important question.

Mrs. KIM. Sure.

Let me open the next question to anyone on the panel who has an opinion on that. And please, make your comments brief.

With the CCP unwilling to restructure the debt of its borrowers, the IMF has been unable to deploy much-needed capital to those countries. So, in your view, how can we get the IMF to utilize its, "lending into arrears," policy to circumvent debt provided by the CCP?

Mr. ROSEN. Congresswoman, may I answer that question?

The answer is that they have tried it, in the case of Suriname, and it didn't work very well. They need to review the mechanisms and impose true burdens on countries that breach that, "lending into arrears," policy, and pay China even though they are not supposed to. There needs to be proper penalties against countries for doing that.

Mrs. KIM. Thank you.

My time is up. I yield back.

Mr. MEUSER. [presiding]. The gentlelady yields back.

The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. HILL. I thank the chairman. And I appreciate the subcommittee letting me join today's important hearing.

I thank the panel for being with us. This has been such a great discussion, and I concur with the questions of my preceding members.

I looked at this recent GAO report which found that China is getting the lion's share of World Bank procurement, some 30 percent, which is 10 times more than the United States. And some of those contracts went to companies on the U.S. Entity List, which seems just incongruent and insane to me. The Bank says it doesn't follow the U.S. Entity List, just the United Nations Entity List.

And, Mr. Chairman, I would like to ask unanimous consent to enter into the record, "China is using the World Bank as its piggybank."

Mr. MEUSER. Without objection, it is so ordered.

Mr. HILL. Mr. Runde, how can we ensure that blacklisted firms don't make money this way?

Mr. RUNDE. Thank you, Congressman, for that important question. And I want to thank you for your leadership on multilateral institutions and on financial institutions in the Congress, Congressman.

I would say a couple of things. First, we need to encourage getting Chinese firms onto U.N. blacklists.

Second, we also ought to be encouraging the World Bank to revisit its policy about what kind of blacklist that it has used. It just seems to me it is deeply offensive that companies that are on our Entity List are somehow benefiting from World Bank contracts. It is deeply offensive.

The other thing, Congressman, I would suggest is that we need to also encourage American businesses to do more and engage with the World Bank Group. It is not a cop-out in the sense that we should be encouraging American businesses, but we should absolutely be discouraging and preventing companies on the Entity List from getting—

Mr. HILL. I appreciate that. I think you will find that a lot of American companies don't want to even go up and bid when they think the game is rigged. So, thank you for that.

You mentioned the EBRD and the potential capital request. I have concerns about their lending programs. They prohibit loans at the European Bank for nuclear. And when Speaker McCarthy and I were in Poland and Romania, they were demanding help to develop a clean-energy nuclear plan.

Do you think that we should hold up our support for a capital increase unless they change their lending parameters?

Mr. RUNDE. They ought to be able to finance gas, they ought to be able to finance big hydro, and they ought to be able to finance nuclear at the EBRD. And the reconstruction of Ukraine is going to require all of that.

Mr. HILL. Yes.

Mr. Powell, I would like your view on that.

Let me add that the World Bank has been more forthcoming on this topic, but that Brussels has just been absolutely against any all-of-the-above energy strategy, which is frustrating Central Europe but, I think, now, all of Europe, given the Russian invasion.

Mr. Powell, what are your thoughts?

Mr. POWELL. First, I am very thankful for your attention to this, thankful that the U.S. Ex-Im and DFC have at least partially filled in on this and are now supporting exports of U.S. SMR technology to both Poland and Romania. But it's tragic that there is not a U.S.-backed IFI that is willing to participate in this.

Mr. HILL. Right.

Mr. POWELL. I think using the moment of the capital increase is an interesting idea.

Another idea that has been proposed to try to get around this blockade from Brussels is, what if we were to establish a trust fund at the Bank? This has been done in other instances, like for carbon capture and sequestration—a topic not popular with Brussels. But we could establish a trust fund with other like-minded countries that are interested in the Bank pursuing nuclear activities. And then, they could also invest in the trust fund, and we could end-run it that way.

Mr. HILL. Thanks for that suggestion.

Let me turn to the IMF. I completely agree, Mr. Rosen, with your comments that we need it as its strategic exchange stabilization approach for firefighting and not development. That is what the

World Bank is for. I oppose the resiliency trust. I think it is a huge mistake by the current Administration and the current administration of the IMF.

This year, I believe we are supposed to reassess the basket of currencies for special drawing rights.

Mr. Rosen, should China get a higher percentage of the special drawing rights basket?

Mr. ROSEN. No, it should not, Congressman. I think it is not appropriate. The renminbi, as we have heard today, is not an international currency that is widely used, even though it is being more increasingly used, but certainly not widely used, and I don't think that basket should increase.

Mr. HILL. Thank you.

I introduced the Special Drawing Rights Oversight Act last January. I oppose these macro SDR allocations. I think it is a huge mistake. And I support Congress authorizing SDR allocations by the IMF, and I think the IMF ought to change its bylaws on that.

I yield back, Mr. Chairman. Thank you.

Mr. MEUSER. The gentleman yields back.

And that concludes our hearing.

I would like to thank our witnesses for their testimony today, and thank you very much for continuing to be a resource to this committee.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned.

[Whereupon, at 11:11 a.m., the hearing was adjourned.]

# A P P E N D I X

May 25, 2023

**Testimony of Richard J. Powell**
**Chief Executive Officer**
**ClearPath, Inc.**
**U.S. House Committee on Financial Services**
**Subcommittee on National Security, Illicit Finance, and International Financial Institutions**
**"International Financial Institutions in an Era of Great Power Competition"**

**May 25, 2023**

Good morning Chairman Luetkemeyer, Ranking Member Beatty and Members of the Committee. My name is Rich Powell, and I am the CEO of ClearPath, a 501(c)(3) organization devoted to developing and advancing policies that accelerate innovations to reduce and remove global energy emissions. To further that mission, we provide education and analysis to policymakers, collaborate with relevant industry partners to inform our independent research and policy development, and support mission-aligned grantees. An important note: we receive zero funding from industry. We develop and promote solutions that advance a wide array of low-emissions solutions — including advanced nuclear energy – that need to be brought to bear to achieve our climate and development goals.

It is an honor to speak with this Committee again. When I was last here in September 2019, the world's energy and climate landscape looked very different than it does today. But if the experience of the past three years taught us anything – through COVID-related disruptions, the Russian invasion of Ukraine, growing tensions with China, and unprecedented energy investments – it is that much of what I said before is even more urgent today. The world needs more energy, and emissions know no borders. America and like-minded countries around the world must work together to solve the dual challenges of climate and energy security.

That's why I am excited to see this Committee addressing the role that International Financial Institutions (IFIs) can and should play in tackling those dual challenges. This committee is essential to ensuring that financing is available, particularly to the developing world, for the global deployment of clean energy technologies like advanced nuclear. Thoughtful investments enhance energy security, geopolitical stability, and environmental progress. With this in mind, I will discuss four important topics today:

- First, the importance of nuclear energy and the latest American innovations for the next generation of nuclear power technologies. Nuclear power generation is one of the cleanest, most reliable, and scalable sources of low-emissions energy we have today. There is no possibility of achieving a net-zero future without nuclear power playing a major role, and American nuclear entrepreneurs and the U.S. supply chain are ready to bring their game-changing technologies to the marketplace. Because nuclear power is clean, reliable, scalable, affordable and dispatchable, it creates economic, strategic and climate benefits for the United States and our partners.

- Second, the global competitive landscape for nuclear energy projects, particularly with regard to non-market competitors like China and Russia. Although U.S. nuclear energy innovations are rapidly advancing, and we are a leader in operations, America has lost global market leadership for exported nuclear projects. We must work hard – and smart – to earn that leadership back.

- Third, the opportunities and challenges for IFIs to support nuclear energy projects. Institutions like the World Bank are among the very few global organizations able to bring financing to match the scale of development needed for a clean energy future that achieves our climate and human development goals. The World Bank and other IFIs must step up to finance game-changing technologies, especially low-emissions, dispatchable nuclear energy. For perspective, from 2016-2021, China provided more energy project financing around the world than all major multilateral Development Banks combined, including the IFIs we are here to discuss.[1] They must also rightsize their disproportionate funding going to Chinese state-owned companies, which is nearly 30 percent over the last nine years.[2]

- Fourth, the important role of U.S. development and export financing for nuclear projects; parallel to – but separate from – the work of IFIs. While the U.S. can press IFIs to achieve higher clean energy ambitions, we should be able to "walk and chew gum" at the same time with our own institutions like the U.S. Export-Import Bank (EXIM) and the Development Finance Corporation (DFC). Through my own experience on the advisory committee of EXIM during the previous Administration, I've seen firsthand the need to increase the proportion of our own development and export financing devoted to clean energy projects, including nuclear.

**The importance of nuclear energy and the latest American innovations**

The calls for climate action on the global stage have never been louder, and the effects of the war in Ukraine on international energy markets are lasting, which makes the expansion of reliable, secure and affordable nuclear power more important than ever. The International Energy Agency (IEA) modeled that in order to reach net-zero by 2050, the world needs to double the amount of today's nuclear energy capacity, or the equivalent of roughly 25 new 1,000-megawatt reactors per year by 2030 with accelerated growth beyond that.[3] From a climate perspective, some estimates suggest that deployment of the next generation of advanced nuclear reactors could unlock the equivalent of up to 0.5 gigatons per year of global emissions reduction potential by 2050.[4]

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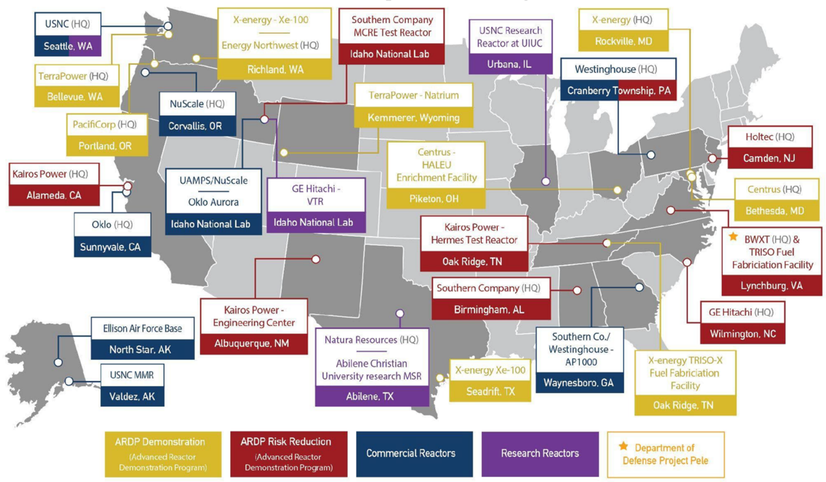
[1] https://www.bu.edu/gdp/2022/12/14/chart-of-the-week-energy-finance-commitments-by-major-development-finance-institutions-2016-2021/
[2] https://www.gao.gov/products/gao-23-105543?utm_source=outreach&utm_medium=email&utm_campaign=WBprocurement
[3] https://www.iea.org/reports/world-energy-outlook-2022
[4] https://thirdway.imgix.net/pdfs/override/Potential-for-US-Competitiveness-in-Emerging-Clean-Technologies.pdf

An increase in demand for carbon-free, dispatchable electricity has coincided with unprecedented momentum within the U.S. nuclear industry. Nuclear utilities are calling for 90 GW of new nuclear power by 2050, nearly doubling our nuclear energy capacity in the next 30 years. Currently, there are 15 designs in the application or pre-application process with the U.S. Nuclear Regulatory Commission (NRC). Some of these projects include the NuScale Carbon Free Power Project in Idaho; the TerraPower Natrium demonstration in Wyoming; the X-energy-Dow Chemical high temperature gas reactor in Texas; the GE Hitachi small modular reactor in Tennessee; and GE Hitachi's unprecedented global deployment consortium with the Tennessee Valley Authority, Canada's Ontario Power Generation, and Poland's Synthos Green Energy. These designs are being planned for deployment across North America and overseas.

**Advanced Nuclear Companies and Projects in the U.S.**




Furthermore, the U.S. military, major data centers, and heavy industrial users are exploring a variety of advanced reactor designs, including microreactors like those being developed by BWX Technologies, Oklo, and Ultra Safe Nuclear Corporation (USNC), to meet their secure power and clean heat needs.

These applications also have significant national security benefits, improving the resilience of critical infrastructure,[5] enhancing servicemember safety,[6] and humanitarian and disaster relief.[7] Institutions of higher learning, like Abilene Christian University (ACU) in Texas[8] and the University of Illinois at Urbana-Champaign,[9] are advancing state of the art research reactors to advance R&D and cultivate our future workforce.

These domestic projects are gaining international attention; at least eight U.S.-based companies have publicly-announced international partnerships to explore deployment in more than 10 countries. For instance, GE Hitachi's BWRX-300 design for small modular reactors (SMRs) has been gaining traction in Poland with a recent agreement on technical collaboration for development and deployment in the country.[10] Similarly, NuScale Power recently inked a contract with Romania for the first phase for deployment of what would be that country's first SMR.[11] Another U.S. SMR startup, Last Energy, recently announced power purchase agreements for nearly 3 dozen units of its power plants with industrial partners in the United Kingdom and Poland, representing $19 billion in electricity sales.[12]

Every international sale of a nuclear reactor – whether from the U.S. or a competitor – comes with both economic and geostrategic considerations for the countries involved. Entering into these partnerships can lock in a relationship between the entities involved for up to 80 to 100 years over the lifecycle of the project; from construction through decommissioning. This involves technology partnerships across engineering, design, construction, fueling, operations and maintenance. A network of U.S. nuclear projects abroad can promote our high-standards industrial and safety practices in other countries, while serving as an important dimension of America's technological and climate leadership around the world.

The economic opportunities that come with nuclear energy projects are also remarkable, with some projections showing the addressable market for U.S. advanced reactors could be roughly $500 billion by 2050.[13] The projects in the pipeline today and the robust U.S. supply chain

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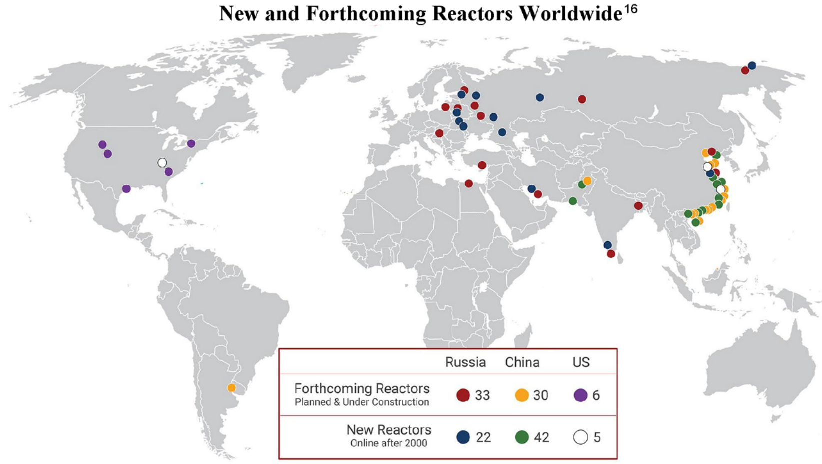
[5] https://www.safie.hq.af.mil/News/Article-Display/Article/3169035/request-for-proposal-released-for-eielson-air-force-base-micro-reactor-pilot-pr/
[6] https://www.cto.mil/pele_eis/
[7] https://c70e8cf9-e47c-4b0a-9da6-222b08a3b87d.usrfiles.com/ugd/c70e8c_d2dc61982a514e439799e8ccbbe577e6.pdf
[8] https://www.neimagazine.com/news/newsus-abilene-christian-university-applies-to-build-molten-salt-research-reactor-9946847
[9] https://www.usnc.com/university-of-illinois-at-urbana-champaign-and-usnc-will-collaborate-to-license-and-construct-next-generation-micro-modular-reactor/
[10] https://www.ge.com/news/reports/smrs-deploy-ge-hitachi-signs-four-party-agreement-to-bring-small-modular-reactors-online
[11] https://www.nuscalepower.com/en/news/press-releases/2023/nuscale-and-ropower-announce-signing-of-the-contract-for-phase-1-engineering-and-design-work
[12] https://www.ans.org/news/article-4868/last-energy-sets-up-microreactor-deals-for-poland-and-the-uk/
[13] https://thirdway.imgix.net/pdfs/override/Potential-for-US-Competitiveness-in-Emerging-Clean-Technologies.pdf

already in place employ nearly half a million Americans.[14] A person working in the nuclear energy industry makes a higher median wage than any other energy industry and twice the national median wage. Tens of thousands of more high-paying, stable jobs will be created as the nuclear industry continues to grow.

**The global competitive landscape for nuclear energy**

That said, we must be clear-eyed about the intense global competition for nuclear power projects. Over the past two decades, the U.S. and like-minded countries have lost market leadership in this space. Between 2017 and 2022, Russian and Chinese reactor designs captured 87% of all new reactor construction starts globally through their non-market, state-owned enterprises.[15]

**New and Forthcoming Reactors Worldwide**[16]




A recent Columbia University study comparing the financing terms of the world's major nuclear reactor reactors found that Russia has had a leading position in recent years, in no small part because of their non-market financing offers. For example, Russia signed deals with Bangladesh and Egypt providing financing for 90% and 85% respectively of total project costs, at interest rates well below fair market. Unlike western civil nuclear exporters, China and Russia are not members of a key nuclear arrangement by the Organization for Economic Co-operation

[14] https://www.energy.gov/sites/default/files/2022-02/Nuclear%20Energy%20Supply%20Chain%20Report%20-%20Final.pdf
[15] https://iea.blob.core.windows.net/assets/0498c8b8-e17f-4346-9bde-dad2ad4458c4/NuclearPowerandSecureEnergyTransitions.pdf
[16] Map built using information from – American Nuclear Society "25th Annual NuclearNews Reference Section" Nuclear News: The International Issue, March 2023. ans.org/nn

and Development (OECD) that places limits on loan terms including minimum interest rates and repayment terms.[17]

Nuclear exports are also a component of China's Belt and Road Initiative. China is currently building more nuclear reactors domestically than any other country with 55 operable reactors, 23 currently under construction, dozens more in the pipeline, and a policy to "go global" with exporting their nuclear technology.[18] This also gives the Chinese significant sway over the future nuclear supply chain for all reactors globally. Chinese officials have said they could construct up to 30 reactors abroad by 2030, with agreements already signed in Argentina and negotiations underway with Saudi Arabia, Kazakhstan and others.[19] Earlier this year, China and Pakistan marked completion of the Karachi Huanglong One 1.1 GW nuclear power plant, at a cost of only $2.7 billion, which was backed by Chinese financing. This price point is a fraction of comparable commercial U.S. reactor deals.[20] Once China nears completion of its ambitious domestic nuclear buildout, we can expect a sharp pivot abroad and see a flood of Chinese nuclear reactor exports, complete with predatory lending practices and coercive, non-market tactics.

Bipartisan legislation has been introduced to help address some of America's competitiveness issues. For instance, the International Nuclear Energy Act (H.R. 2938), sponsored by Representatives Byron Donalds (R-FL) and James Clyburn (D-SC), would develop a civil nuclear export strategy to offset Russia and China's growing influence. In order to do so, it would set a national, strategic plan that promotes partnerships with ally nations and embarking civil nuclear nations to coordinate financing, project management, licensing, and liability. It would also promote safety, security and safeguards which are foundational to a successful, competitive nuclear export program.

And it's not just the reactors themselves where the U.S. and partner nations face serious competitiveness issues. We need to be serious about addressing our vulnerabilities when it comes to fueling these reactors, specifically with regard to the supply chains for low enriched uranium (LEU), and the nascent subset of high-assay LEU (HALEU). Some projections suggest that by 2030 China and Russia will control roughly 63% of global enrichment capacity.[21] This is not a good position for America — nor our allies and partners — to be in, and we need to move faster if we're going to have any chance of achieving resource security.

For our part, the U.S. previously recognized this vulnerability and established the Department of Energy's HALEU Availability Program under the Energy Act of 2020 to create a secure domestic

[17] https://www.energypolicy.columbia.edu/publications/comparing-government-financing-reactor-exports-considerations-us-policy-makers/#
[18] https://world-nuclear.org/information-library/country-profiles/countries-a-f/china-nuclear-power.aspx
[19] https://www.csis.org/analysis/nuclear-belt-and-road-and-us-south-korea-nuclear-cooperation
[20] https://www.powermag.com/pakistan-inaugurates-third-reactor-at-karachi-nuclear-plant/
[21] https://world-nuclear.org/information-library/nuclear-fuel-cycle/conversion-enrichment-and-fabrication/uranium-enrichment.aspx

supply of HALEU fuel for advanced reactors.[22] This program has been slow to start, but is one of the most critical enablers of the advanced nuclear industry. Some advanced reactor designs are similar to the reactors today and run on LEU fuel, but designs with new markets (like industrial heat, integrated energy storage, and microreactors) require HALEU fuel. In addition, a domestic supply of LEU is important as Russia will supply almost 25% of our nation's enriched uranium this year.[23] Uranium is a global commodity; when looking at the global uranium supply chain, 38% of conversion capacity and 46% of enrichment capacity are located in Russia.[24] [25] The 2020 Energy Act also extended the Russian Suspension Agreement to decrease Russia's percentage of uranium enrichment to 15% of the U.S. market in 5 years, and fully suspend imports by 2040, but the timeline may need to be accelerated further.[26] Securing the nuclear fuel supply chain will require domestic and allied capabilities to both source and process uranium.

It was significant to see the urgency of this issue elevated at the recent G7 Ministers' Meeting in Japan where the U.S. reached an agreement with Canada, France, Japan and the UK to leverage our collective civil nuclear power sectors to reduce dependency on Russian supply chains.[27] The effort aims to leverage each country's unique resources and capabilities in uranium extraction, conversion, enrichment, and fuel fabrication. This initiative was reinforced at this past weekend's G7 Leaders' meeting, alongside expressions of interest from the U.S., Japan, South Korea and the United Arab Emirates to support Romania's adoption of advanced nuclear designs.[28] It's a good first step, but swiftly operationalizing these agreements will be critical.

**<u>Opportunities and challenges of IFIs financing nuclear</u>**

Since 2000, China has become a dominant player of global energy finance, issuing more than $234 billion in loans for energy projects to some 68 strategically significant nations, roughly 75% of which was directed towards high-emitting coal, oil, and gas development.[29] For perspective,

[22] https://www.energy.gov/ne/articles/us-department-energy-seeks-input-creation-haleu-availability-program
[23] https://thebulletin.org/2022/08/us-and-eu-imports-of-russian-uranium-and-enrichment-services-could-stop/
[24] https://world-nuclear.org/information-library/nuclear-fuel-cycle/conversion-enrichment-and-fabrication/conversion-and-deconversion.aspx
[25] https://world-nuclear.org/information-library/nuclear-fuel-cycle/conversion-enrichment-and-fabrication/uranium-enrichment.aspx
[26] https://www.federalregister.gov/documents/2020/10/09/2020-22431/2020-amendment-to-the-agreement-suspending-the-antidumping-investigation-on-uranium-from-the-russian
[27] https://www.energy.gov/articles/statement-civil-nuclear-fuel-cooperation-between-united-states-canada-france-japan-and
[28] https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/fact-sheet-partnership-for-global-infrastructure-and-investment-at-the-g7-summit/
[29] https://www.bu.edu/cgef/#/intro

from 2016-2021, China provided more energy project financing around the world than all major Western-backed Development Banks combined, including the IFIs we are here to discuss.[30]

Countries like China and Russia are bringing enormous resources to bear in an effort to dominate energy projects for their own gain. Yet the billions of dollars they are spending on these projects are a small fraction of the trillions of dollars needed to develop and deploy the sheer amount of clean energy technologies necessary to have a meaningful impact on global emissions reductions.[31] Rapidly developing countries that are looking for reliable, low emissions baseload power like nuclear need as many financing and technology options as possible so they don't need to rely on adversarial nations that don't have their best interests, nor the climate's, at heart.[32]

IFI's can and should play a bigger role in providing alternative, responsible financing solutions to meet those needs. Yet institutions like the World Bank have been slow to respond to the modern energy requirements of these countries and continue to abide by an antiquated, self-imposed ban on supporting nuclear power projects.[33] Reliable baseload energy is absolutely fundamental to the institution's stated purpose of poverty alleviation. Yet less than 12% of the World Bank's active portfolio in FY2022 was allocated toward energy and extractive projects, and they haven't engaged in a single nuclear energy project in over 60 years.[34]

America and the west need to offer more thoughtful opportunities to support developing nations, particularly for their energy needs. As two of ClearPath's advisors noted in a recent *Foreign Affairs* piece, at COP27 an Egyptian presidential advisor told us and a group of U.S. lawmakers that countries like hers want dependable energy financing and would welcome our investments, but we haven't been showing up to meet that demand. That's why Egypt instead took a loan from Russia's Rosatom for its new nuclear plant and is now locked into that relationship for the foreseeable future. The World Bank and the west should make more focused and effective use of resources to achieve the outcomes that developing countries need. Perhaps instead of focusing on financing climate change mitigation and adaptation in these countries, those billions of dollars could be better utilized for clean, safe, reliable power projects – like nuclear – that help poorer nations escape energy poverty.[35]

The World Bank and other IFIs should step up their clean energy and climate efforts and do away with their anachronous ban on nuclear power projects. Proposed legislation like Chairman Patrick McHenry's (R-NC) International Nuclear Financing Act (H.R. 806) recognizes this challenge and attempts to address it. The bill would require the United States Executive Director

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[30]https://www.bu.edu/gdp/2022/12/14/chart-of-the-week-energy-finance-commitments-by-major-development-finance-institutions-2016-2021/

[31]https://iea.blob.core.windows.net/assets/830fe099-5530-48f2-a7c1-11f35d510983/WorldEnergyOutlook2022.pdf

[32]https://www.gmfus.org/news/i-think-russians-were-surprised-how-cheap-and-easy-we-were-buy

[33]https://www.foreignaffairs.com/world/the-world-needs-more-nuclear-power

[34]https://crsreports.congress.gov/product/pdf/IF/IF11361

[35]https://www.foreignaffairs.com/world/the-world-needs-more-nuclear-power

at the World Bank to advocate and vote for financial assistance for nuclear energy. The bill would also permit U.S. representatives at other international financial institutions – including regional development banks for Asia, Africa, Europe, and Latin America – to push for nuclear projects.[36]

As stated in a memo from the Energy for Growth Hub, another possibility for the U.S. to encourage IFIs to be more engaged on nuclear energy could be the creation of an Advanced Nuclear Technology trust fund at the World Bank. The trust fund could help develop internal expertise and capacity at the World Bank to understand the nuances and implications of new nuclear energy financing, and eventually support clients with technical assistance to make smart energy technology decisions. Congress could direct the Department of Treasury to work with the Department of Energy, Department of State, and other relevant agencies to establish the trust fund at the World Bank, appropriate funds, and encourage the Administration to build a coalition of like-minded partners to participate and contribute.[37]

With this obstacle removed at the World Bank, most other IFIs would follow their lead, representing a potentially transformational opportunity to pool in billions more dollars for clean, reliable, readily-deployable energy as the bedrock for achieving these institutions' development goals. This would also enhance effective oversight by the U.S. and other western shareholders of these nuclear projects compared with the non-transparent development projects that China and Russia have undertaken.

That said, even if the World Bank and IFIs removed their ban on nuclear financing tomorrow, it's not guaranteed that would automatically lead to more U.S. nuclear projects abroad, and we need to acknowledge some other challenges Congress would need to think through.

For instance, a recent study by the Government Accountability Office (GAO) found that Chinese-based companies received almost one-third of World Bank-funded international contracts over the past decade.[38] In 2016, China also created a new multilateral development bank of its own, the Asian Infrastructure Investment Bank, as an enabler of its Belt and Road Initiative. At the same time that China is winning all of these IFI contracts and providing development financing to other countries, China remains eligible to borrow from the World Bank for their own development programs.

Russia also continues to be a member of the World Bank, and is the 8th largest shareholder for one of its key lending facilities.

As it stands, lifting the ban on nuclear financing at the World Bank and other IFIs could inadvertently enable the rise of Chinese nuclear exporters unless the U.S. strongly leverages its influence and alternatives. As we consider pressing IFIs to be more proactive on clean energy

[36] https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=408560
[37] Memo from Energy for Growth Hub, January 2023
[38] https://www.bloomberg.com/news/articles/2023-05-11/china-got-lion-s-share-of-world-bank-contracts-us-agency-finds?sref=9boFjP17

projects – particularly nuclear – procurement reform at the IFIs needs to be at the top of the agenda, factoring in unsubsidized project costs so that China can't continue to dominate IFI contracts. We need to factor in these other considerations and hedge our bets. That's a key reason why America's own development and export financing capabilities are so important.

**The role of U.S. development and export financing**

The expansion of China's Belt and Road Initiative and Russia's 2022 invasion of Ukraine have underscored the enduring need for United States international leadership – including through export and development financing – not only for our own energy security and climate goals, but also that of our partners. Concerted action with our partners and allies in this area can be an essential counterweight to China and Russia.

A recent example of the strategic role that American financing can play for clean energy is the development of Poland's first nuclear plants. The Trump Administration led a key Intergovernmental Agreement (IGA) between the U.S. and Poland to develop Poland's civil nuclear power program and industrial sector. That agreement clearly articulated America's intention to leverage the U.S. EXIM Bank and other government financing institutions for Polish reactors.

Subsequently, the U.S. Trade and Development Agency (USTDA) funded an initial engineering study for Poland to assess the viability of Pennsylvania-based Westinghouse Electric Company's AP1000 reactor technology. These efforts culminated in November 2022 when the U.S. Government tabled a comprehensive, competitive technical and financing package, and the Polish Government chose Westinghouse's reactor, in a deal worth roughly $40 billion.

Building on that, in April, EXIM and the DFC signed an agreement to finance up to $4 billion for another Polish project that could support the U.S. export of GE Hitachi's BWRX-300 SMR. These deals are equivalent to *all* nuclear investments made in 2021.[39]

These efforts – initiated during the Trump Administration and carried forward in a bipartisan manner – bring geostrategic, economic, and climate benefits to the people of Poland and the U.S., and are made possible – in part – by the backing of American financing.

Unfortunately, this type of coordinated effort across U.S. federal agencies is the exception not the norm. Many of our best levers, such as the DFC, are often disconnected from the rest of the government financing tools and clean energy goals. Although the DFC has expressed interest in the case of Poland, that is a very unique circumstance, and the DFC is yet to robustly engage in supporting civilian nuclear projects abroad despite removing its moratorium on doing so in 2020. This is not an effective way to compete with rival countries where there is far more strategic alignment across agencies and their non-market, state-owned enterprises.

[39] https://iea.blob.core.windows.net/assets/b0beda65-8a1d-46ae-87a2-f95947ec2714/WorldEnergyInvestment2022.pdf

That's why the U.S. needs to better leverage existing policy tools and build new ones in order to reach our future clean energy and climate ambitions.

In the case of DFC, one limiting factor for engaging in large-scale energy and infrastructure projects, including nuclear power, is the way in which the Congressional Budget Office (CBO) and the Office of Management and Budget (OMB) treat DFC's equity authority. DFC's equity authority gives the U.S. government the capability to compete for projects in a more holistic way and facilitate joint investments with partners and allies. However, CBO, OMB and DFC currently "score" the Corporation's equity investments on a cash basis (i.e. only recording revenue on such investments when the stake is sold) rather than by "net present value," which is the way in which loans and loan guarantees are scored and accounts for expected returns in the same fiscal year. This has the effect of scoring DFC's equity investments like grants rather than financing, which requires substantially more budget authorization and discourages the use of the Corporation's equity authority particularly for larger projects, like nuclear energy.[40]

Another good example of a needed fix is EXIM's China Transformational Exports Program (CTEP). This program, established during EXIM's 2019 reauthorization (P.L. 116-94), has a Congressional mandate for EXIM to support U.S. exporters facing competition from China in 10 key Transformational Export Areas. One of those export areas is "renewable energy, energy efficiency, and energy storage." Conceptually, the program could be a valuable lever for all clean energy technology providers (and the financing needs of foreign customers) facing unfair competition. But unfortunately – to the detriment of our geopolitical, clean energy, and climate goals – limiting this program to renewable energy sources alone leaves out important technologies like advanced nuclear, carbon capture and storage (CCS), and hydrogen. In an all-of-the-above energy competition with China, CTEP deserves a common-sense revision to be more technology neutral when it comes to clean energy if we're serious about competing and winning on exports and against climate change.

**Conclusion**

An all-of-the-above clean energy strategy is the only viable path for achieving our global emissions reduction targets, which means the world needs to move much more quickly to deploy clean, baseload energy, like nuclear power. At a time when the United States already finances nuclear energy abroad through the Export-Import Bank – and hopefully increasingly so through the DFC – the World Bank and other international financial institutions should have a comprehensive reassessment of their nuclear energy policies, including opportunities and challenges, rather than simply defaulting to "no."

Thank you again for the opportunity to testify today. ClearPath is eager to assist the Committee in developing innovative policy solutions to ensure U.S. leadership in international clean energy financing. We applaud the Committee for taking on this important task to help ensure the

[40] https://crsreports.congress.gov/product/pdf/R/R47006

appropriate action, including policies that will help advance innovative technologies to provide clean, reliable, and necessary energy to our nation and the world.

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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

May 25, 2023

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 than15% 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 16th 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.

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**Statement before the House Financial Services Subcommittee on National Security, Illicit Finance, and International Financial Institutions**

# *"International Financial Institutions in an Era of Great Power Competition."*

A Testimony by:

**Daniel F. Runde**

Senior Vice President; William A. Schreyer Chair; Director of the Project on Prosperity and Development, and Americas Program

**May 25, 2023**

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Chairman Luetkemeyer, Ranking Member Beatty, and distinguished Members of the Committee, thank you for asking me to testify before you today. It is a privilege and an honor. The views represented in this testimony are my own and should not be taken as representing those of my current or former employers.

Currently, I hold an endowed chair at the Center for Strategic and International Studies (CSIS), researching how we might use American soft power and influence around the world. I served in the Bush Administration at USAID and worked for a time at the World Bank Group. I started my career in investment and commercial banking. I have been working and writing on the issue of Multilateral Development Banks for more than 12 years. I recently published a book, “The American Imperative: Reclaiming Global Leadership Through Soft Power” that discusses the role of MDBs in our competition with the Chinese Communist Party and Vladimir Putin’s Russia. I am submitting a series of my CSIS reports and other articles for the record. Let me make several key points with my time today.

My main message is this: in this era of great power competition, if we do not meet the hopes and aspirations of developing countries then developing countries will turn to China, Russia, and others. We can’t fight something with nothing. Multilateral Development Banks (MDBs) under U.S. and Western leadership are one way that we can respond with “something.” Developing countries have options today that they did not have even 15 years ago. As we work toward tackling the challenges we are facing today, the role of the World Bank and the other MDBs must be rethought to answer the question of how the United States can use these institutions to further American interests and values. This testimony offers some recommendations for how the United States can engage with these institutions to our long-term benefit and that of our like-minded allies and partners.

The United States built and strengthened the Multilateral Development Bank system. MDBs provide money, advice, data, and convening power to developing countries and developing country problems. They are little understood or known in the United States, but they spend tens of billions of dollars and have enormous influence. If the United States exerts its influence over these institutions, they are ‘force multipliers’ of a U.S. led global system. If we disregard our leadership role, then other actors including China can exert influence over them or fill the void that ultimately threaten U.S. national security.

One of the temptations of these institutions is to turn themselves into virtual green finance institutions. This is an error. Environmental projects can be good for development, but those projects should be determined by “country ownership” – the idea endorsed by the United Nations that countries determine their own development priorities. Often, poor countries have other “asks” from the MDBs: infrastructure, social services such as education, and reliable energy including gas, hydro, nuclear, or oil, and even in some rare instances coal as in the case of Kosovo. It is hypocritical that we rely on these forms of energy ourselves but will not help poor countries access these forms of reliable energy through MDB financing. China will finance “all of the above energy” and so should the MDBs.

Before Covid-19, many developing countries were moving up[1] the development ladder and were on their way to being richer, freer, and more self-sufficient. The bottom line is that there is not going to be, nor has there ever been, enough foreign aid money from MDBs or elsewhere to be the main driver of progress. The United Nations and the MDBs recognize that foreign aid is important "catalytic" funding, but private investment and the resources collected through "domestic resource mobilization" – including taxes, government revenue, and local saving – are much bigger, and are what finance the development of societies. Money alone is not a sufficient driver of development; societies crucially need good governance and the domestic rule of law to create the conditions for development. MDBs can provide money for projects, catalyze private capital, and help improve various dimensions of good governance that societies may lack. After 80 years of World Bank-style development aid, the role of the World Bank and the other MDBs must be rethought as we work toward tackling the challenges we are facing today.

**What are Multilateral Development Banks and what do they do?**

The World Bank was set up with significant U.S. leadership in the aftermath of World War II to help rebuild Europe. The World Bank Group (WBG) consists of lenders of money to national governments and private sector investment and insurance arms. The World Bank is responsive to the "asks" of its borrowing countries as well as serving as the producer of influential research and collector of important data. There are a series of other regional development banks including the Inter-American Development Bank (IDB) set up in the Eisenhower Administration in 1959 in response to concerns that Latin America was going to fall to Communism. The Asian Development Bank (ADB) was an organization also created in the Cold War with significant leadership from Japan and support from the United States. Taiwan has been a member of the ADB since 1966 as an economy (under the name of "China, Taipei"), but is not a member of the World Bank, the International Monetary Fund (IMF), nor the United Nations (UN). The African Development Bank (AfDB) was set up in the post-colonial context of Africa in 1964. The United States. became a member in 1982 when non-African countries were invited to join. The European Bank for Reconstruction and Development (EBRD) was set up in 1991 as a response to the fall of the Soviet Union and has largely centered around the "post-Soviet" world with a focus on private enterprise.

**What influence does the United States have over these institutions?**

The United States has been instrumental[2] in creating the majority of these institutions and remains the largest, or one of the largest, financial contributing shareholders of every aforementioned MDB. Since the founding of these institutions, the U.S. has used its shareholding power to shape the policies and activities of MDBs in support of American foreign policy, security, and economic interests. MDBs indirectly further U.S. foreign security interests and encourage inclusive growth and stability.

[1] https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/180307_Runde_CreatingModelIBRD_Web.pdf
[2] https://home.treasury.gov/system/files/206/2022_NAC_Report.pdf

The United States Executive branch and Legislative branch share control[3] and responsibility for the Unites States policy toward Multilateral Development Banks. The central role of Congress can be seen in the periodic capital increases for the banks along with the annual appropriation of funds for soft-money windows at these banks. Currently, the United States has unique 'veto'[4] power over Articles of Agreement. While the United States cannot veto a specific project or the day-to-day[5] activities of the banks, this control works in the interest of U.S. policy. It is in the United States' interest to ensure America's preponderant influence over all these institutions. Our redline should be that we retain enough shares in each of these organizations to ensure a dominant level of influence. This can be done either through maintaining our shareholder position, or by raising the share of voting power required to pass amendments to Articles of Agreement, thus safeguarding our current ability to direct key decisions within these institutions.

**What is a 'Capital Increase' and should the MDBs receive a capital increase?**

A "capital increase"[6] is when a Multilateral Development Bank increases the amount that it can lend through an increase in the bank's "base capital," thus allowing it to raise its borrowing on the international capital markets. Capital increases are political deals among countries. Congress has a voice and a vote in a capital increase.

The World Bank, the Asian Development Bank, and the African Development Bank do not need capital increases any time soon. If the World Bank comes for a capital increase to rebuild Ukraine, that might be worth a discussion.

The IDB and the EBRD may be different. The IDB received its 9th capital increase in 2010. The EBRD also received its last capital increase in 2010. Currently both institutions are requesting capital increases, and last session Senator Menendez introduced Senate Bill 616[7] (Inter-American Development Bank General Capital Increase Act of 2021) to provide a 10th capital increase to the IDB. There is also a discussion of "just" providing a capital increase to the Inter-American Bank's private sector arm, IDBInvest. As we evaluate the need for a capital increase for the IDB and/or IDBInvest, a discussion to grant Taiwan membership should be broached. Taiwan is losing diplomatic space in other areas, allowing Taiwan to buy shares of the IDB would give Taiwan a seat at the table in the Americas. In any notional capital increase, Taiwan should at least be offered the chance to purchase shares in any IDB/IDBInvest.

In the case of the EBRD, the Congress should only consider a capital increase if the EBRD agrees to use all the additional monies to help finance the reconstruction of Ukraine and other countries directly impacted by Russia's unprovoked invasion of Ukraine for the ten years after receiving its capital increase. Congress should seek iron clad guarantees that the EBRD not use these monies for "mission creep" into Sub-Saharan Africa. The EBRD earlier this month approved an expansion into Sub-Saharan Africa. I worry that once the EBRD gets a capital increase there will be a temptation to spend some of that money on projects other than Ukraine,

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[3] https://crsreports.congress.gov/product/pdf/R/R41537
[4] https://crsreports.congress.gov/product/pdf/IF/IF10676
[5] https://crsreports.congress.gov/product/pdf/IF/IF11361
[6] https://sgp.fas.org/crs/misc/R41672.pdf
[7] https://www.congress.gov/bill/117th-congress/senate-bill/616

or the area directly impacted by the war. I have for years argued against expansion into Sub-Saharan Africa because I believe the EBRD should largely focus on the post-Soviet region and especially Ukraine. I think the expansion of the EBRD into Africa is an implicit critique of the unwieldy shareholding structure of the AfDB which too heavily favors the Africa borrowers of the African Development Bank.

If the Administration comes to Congress for a capital increase for the EBRD, an expansion into Sub-Saharan Africa should be slowed (preferably a freeze on new activities in Africa for at least five years) as part of any capital increase. A capital increase with a major focus on Ukraine by the EBRD should also offer Taiwan a chance to buy shares under the "China, Taipei" formula. Taiwan has a stake in Ukraine's victory as a decisive Ukrainian victory will help China think twice about invading Taiwan. Taiwan should be allowed to purchase shares given Taiwan's stake in Ukraine's victory and our need for partners to burden share on Ukraine's reconstruction.

In the recent past, some Secretaries of the Treasury have invested the time to work with Congressional committees on a capital increases, and some previous Secretaries have not. If the Biden Administration supports a capital increase for any of these institutions, I would expect Secretary Yellen to personally invest the time to meet individually with members of Congress to directly ask for support for such an important allocation of additional money.

**How should we think about these institutions in the context of the emerging market debt crisis?**

Emerging markets debt will complicate global development for the foreseeable future. The MDBs play a number of roles in responding to this debt crisis, including as a convener and data collector, and they have a role to play in terms of debt deals that might be worked out on a country-by-country basis. The World Bank and the MDBs may also provide new money on a net basis, whether through grants or highly concessional loans. The MDBs and the IMF remain the lender of last resort as other lenders, potentially including China, reduce their lending.

Debt crises are not new. For the better part of half a century, developing nations borrowed from a handful of bilateral governments and development banks. However, developing countries have increasingly borrowed from China and an atomized universe of private sector investors over the past two decades. Much of this debt is then traded into the hands of hedge funds creating additional coordination complications should these counties default on their loans. The Covid-19 pandemic, cost of living spikes, and increased interest rates in G7 countries have raised the threat[8] that many developing countries will default on their debt, with the potential of causing political instability around the world.

China is now a big part of the emerging markets debt problem. There is limited knowledge of the terms and amount that China has lent to developing nations, and China has thus far resisted disclosing the terms of its bilateral lending as required by the IMF Articles. In fact, in many of its loan agreements China incorporates prohibitions on the borrower disclosing the terms of lending to the Paris Club, a club of developed countries that lend money to developing countries. The

[8] https://thehill.com/opinion/international/3733009-president-biden-should-raise-developing-country-debt-with-xi/

G20 has attempted to institute several mechanisms to offset this issue, including the "Common Framework for Debt Treatments," which has tried (and failed) to get China and all the lenders on the same page to renegotiate debt. For a number of reasons, China is a very difficult partner in this collective action problem.

**What role does China play in the MDBs?**

China borrows from the World Bank and the Asian Development Bank. This needs to stop. China hides behind the fiction that it is a developing country to take advantage of developing country privileges including borrowing at lower than commercial interest rates. It is the world's second largest economy. Every dollar the World Bank lends to China is a dollar that could be used for lower income countries or economic reconstruction in war-torn or fragile countries. China can finance its own development.

China has increased[9] its financial contributions over the last decade to MDBs. China holds between 0.004 and 4.78 percent of all the shares of the MDBs. To compare, the United States holds just over 30 percent of the IDB and 17.25 percent of the World Bank. Between 2013 and 2022, Chinese firms were awarded 2.9 percent[10] of total World Bank contracts (the third highest) but almost one third[11] of World Bank contract dollars, a value ten times larger than that awarded to U.S. firms.

Between 2016 and 2018[12], the World Bank lent[13] approximately $6 billion to China. Unfortunately, MDBs have a strong incentive to lend to China because it helps with the "business model" of lending to middle income countries with good credit ratings[14] to cross subsidize lending to poor countries with a bad credit rating. MDBs will also say that lending to China is a way to have a "window" into China. The shareholders led by the United States need to end lending to China.

**How does the "Belt and Road" figure in all of this?**

China launched the Belt and Road Initiative (BRI) in 2013[15] as a combination of construction and financing projects for roads, airports, ports, and energy across greater Asia. China has now surpassed the World Bank and other MDBs as the world's biggest[16] official creditor. For example, in 2020 China's export credit agency (ECA) financing, approximately $18 billion[17], outpaced that of all G7 ECA financing combined.

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[9] https://www.cgdev.org/blog/mapping-chinas-rise-multilateral-system
[10] https://www.gao.gov/products/gao-23-105543
[11] https://www.bloomberg.com/news/articles/2023-05-11/china-got-lion-s-share-of-world-bank-contracts-us-agency-finds#xj4y7vzkg
[12] https://www.npr.org/sections/goatsandsoda/2019/01/31/689960866/flush-with-cash-china-continues-to-borrow-billions-from-world-bank
[13] https://datatopics.worldbank.org/debt/ids/countryanalytical/CHN
[14] https://www.fitchratings.com/research/sovereigns/china-would-support-mdbs-when-it-is-major-shareholder-25-10-2021
[15] https://www.cfr.org/task-force-report/chinas-belt-and-road-implications-for-the-united-states/introduction
[16] https://hbr.org/2020/02/how-much-money-does-the-world-owe-china
[17] https://crsreports.congress.gov/product/pdf/IF/IF10017

Infrastructure is now a strategic issue[18], and China's BRI pledging trillions of dollars on investment has attracted over 130 countries[19] since its inception. Unfortunately for the West, BRI is an ambitious and hopeful project that speaks to the aspirations of China's friends and potential friends. To counter the BRI, the United States needs an alternative positive narrative that says more than "don't work with China." Hoping that BRI fails is not a strategy. We need a higher quality infrastructure and energy alternative to the BRI over the next 20 years, and the MDBs in partnership with private capital should be a part of such a strategy.

**What is the role of MDBs as stewards of environmental protection?**

Under the Paris Agreement of 2015, each signatory had to file a national Climate Action Plan. If these plans include oil and gas infrastructure, then the MDBs should respect that. The United States should not be telling countries what to put in their Action Plans. Instead, the United States should urge the MDBs to use their analytical rigor on infrastructure to help borrowers to identify climate relevant projects that will pay for themselves, both to repay the Bank loan and to incentivize the private sector to invest as well.

Additionally, MDBs do very little to fund mining and mineral processing and nuclear power. Natural gas accounts for 23 percent[20] of global energy consumption. Developing countries will seek funding elsewhere, including China and Russia, to finance gas and nuclear projects. Since 2015, the World Bank has provided less than $15 billion[21] to directly finance fossil fuels, compared to the $109 billion provided for climate projects.

In 2021, the U.S. Department of Treasury announced their Fossil Fuel Energy Guidance for Multilateral Development Banks[22] in response to President Biden's Executive Order 14008, Tackling the Climate Crisis At Home and Abroad.[23] Outlined in the guidance, MDBs "should only consider investing in fossil fuel production *if* a less carbon-intensive option is not feasible." The Biden Administration has stated that they will strongly oppose[24] projects focused on oil, including processing transport fuels with few exceptions. I disagree with this policy. Congress has a voice on this issue and should use it.

To achieve a carbon transition, we will have to produce 40 times the amount of cobalt and lithium, much of which are found in the developing world. MDBs have little interest in mining and metals production. Minerals are the new oil. China controls as much as 40% of the world's metals processing. I cannot imagine the United States and our allies moving to a dependence on

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[18] https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/190423_Hadley%20et%20al_HigherRoads_report_WEB.pdf
[19] https://www.cfr.org/blog/countries-chinas-belt-and-road-initiative-whos-and-whos-out
[20] https://www.bu.edu/gdp/files/2022/06/GEGI_PB_020_EN.pdf
[21] https://www.theguardian.com/business/2022/oct/06/world-bank-has-given-nearly-15bn-to-fossil-fuel-projects-since-paris-deal
[22] https://home.treasury.gov/system/files/136/Fossil-Fuel-Energy-Guidance-for-the-Multilateral-Development-Banks.pdf
[23] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/27/executive-order-on-tackling-the-climate-crisis-at-home-and-abroad/
[24] https://home.treasury.gov/faq-for-new-fossil-fuel-energy-guidance-for-the-multilateral-development-banks

China for minerals and metals processing. MDBs, at the behest of their shareholders, need to do more in this area.

If the Administration comes to Congress for a capital increase for any of these MDBs, Congress should condition new capital increases on the revision to U.S. policy opposing support for oil and gas projects. Energy will be a critical component[25] to help nations address challenges related to food shortages and agricultural productivity challenges, and investing in energy projects should remain a priority for MDBs. A more balanced approach to energy involving both renewables (including hydroelectricity) and non-renewables (with an emphasis on natural gas) should be adopted.

**How should the World Bank and other MDBs approach "Global Public Goods"?**

Public goods are those that are available to all and that can be used and enjoyed over and over again by anyone without diminishing the benefits they deliver to others. A light house is an example of a "local public good." Global public goods include data collection or the metric system. The World Bank Group and the MDBs provide several global public goods through the data they collect, the research they conduct, and the solutions they provide through vehicles such as "trust funds." The World Bank Group has established a special fund for climate projects called the Global Environmental Facility (GEF). Since its founding in 1991, the GEF has provided over $22 billion[26] for projects dedicated to confronting climate change. In addition, the World Bank Group provided a data driven global public good, the Doing Business Indicators, for 15 years starting in 2002. Some critics (many of whom are in favor of the World Bank doing more in global public goods) did not like the Doing Business Indicators for what they saw as a "pro private sector" bias and member states were embarrassed by how they ranked compared to other states. The Doing Business Indicators were unfortunately ended because of a scandal related to the manipulation of data[27] for 3 out of 130 plus countries including the People's Republic of China in *the Doing Business 2018* and *Doing Business 2020* reports. If there is an interest in global public goods for the World Bank Group, then those in favor of global public goods might start by calling for the re-establishment of the Doing Business Indicators, including the country rankings by the incoming World Bank President, Mr. Ajay Banga.

The most recent debate on global public goods is not really about data or the GEF. Rather the debate seems to be about whether the World Bank Group should focus on the needs of countries who prefer energy and infrastructure or focus on environmental projects (generally renewable energy projects) related to climate change and deliver projects for health and education ("basic human needs"). I believe the World Bank Group should remain focused on the projects selected by the World Bank's clients.

**Recommendations:**

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[25] https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/191011_RundeandBandura_AfDB.pdf
[26] https://www.thegef.org/who-we-are/organization
[27] https://thedocs.worldbank.org/en/doc/84a922cc9273b7b120d49ad3b9e9d3f9-0090012021/original/DB-Investigation-Findings-and-Report-to-the-Board-of-Executive-Directors-September-15-2021.pdf

First, the United States needs to lead these institutions and use them as a force multiplier of a Western form of development. We can't fight something with nothing. The MDBs are part of our "something."

Second, mobilizing private investment should be a central focus of all these institutions. Foreign aid and public sector lending alone is not what makes development "happen," and these flows are much smaller than flows of private capital. Mobilizing private capital should be a focus around developing quality infrastructure, fostering greater intraregional trade, and developing resilient (and cleaner) energy systems.

Third, the World Bank Group should largely respond to client-driven demands such as infrastructure, energy, and power. There is a coordinated push for what amounts to a "donor driven" environmental agenda that goes against the concepts of "country ownership." If we only finance renewables, China, Russia, and others will finance the other forms of energy that countries actually want and need.

Fourth, the World Bank needs much closer alignment[28] with the regional development banks, especially the African Development Bank (AfDB) and the Asian Development Bank (ADB). The strategies of the World Bank and AfDB, the IDB, and the ADB should be far closer aligned, including for the timing of strategic plans by country. For example, if the World Bank and the AfDB have plans to work in Nigeria, both their five-year plans should begin and end within the same window. In addition, there should be every three years a meeting of the Boards of Governors of for example the African Development Bank and the World Bank and the World Bank and other regional development banks to spur conversation, and collaboration.

Fifth, these institutions need a more credible graduation policy for middle-income countries. Every serious review of the World Bank Group since 2001 has called for this. The IDB has never graduated a borrower country and the EBRD has only formally graduated one.

Sixth, any future capital increases for regional development banks such as the IDB or the EBRD should allow for Taiwan to join as an economy under the formula of "China, Taipei" just as Taiwan is a member of the ADB.

[28] https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/210216_Runde_Capital_Increase.pdf?VersionId=MCBtIQjAIXtTJ7xuT4MMePLCXCyrp.RM

***The House Financial Services Committee, Subcommittee on National Security, Illicit Finance, and International Financial Institutions***

Submissions of Documents for the Record

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Written Testimony of Jesse Schreger
Class of 1967 Associate Professor, Columbia Business School
Founding Co-Director, The Global Capital Allocation Project

Before the House Financial Services Committee
Subcommittee on National Security, Illicit Finance, and International Financial Institutions

"International Financial Institutions in an Era of Great Power Competition"

May 25, 2023

Chairman McHenry, Ranking Member Waters, Subcommittee Chairman Luetkemeyer, Subcommittee Ranking Member Beatty, and members of the Subcommittee, thank you very much for the opportunity to testify today. I am Jesse Schreger, the Class of 1967 Associate Professor at Columbia Business School and a founding co-director of the Global Capital Allocation Project, an academic research lab.

Addressing sovereign debt crises, and many other issues in the international financial system, starts by understanding who owns what, and who owes what to whom. At its core, a sovereign debt crisis arises when a debtor country is unable or possibly unwilling to meet the contractual value of its obligations. In such a crisis, the task at hand is to ascertain how much a debtor is willing and able to pay its creditors, and then coordinate an agreement among creditors to allocate the losses. This has always been a challenging problem since sovereign debt lacks the type of seniority structure or bankruptcy procedures that facilitate the resolution of private debt defaults. The difficulty of resolving a debt crisis is further compounded when creditors have differing objectives, especially when we lack a clear understanding of the ultimate creditors' identities.

I will begin by providing an overview of the sources of the current debt distress. Then, I will highlight how today's crises compare to from those of the past and discuss the challenges of quantifying crucial financial exposures.

**Today's Challenges**

The international financial institutions currently face a significant challenge in the form of ongoing sovereign debt restructurings and countries on the verge of debt crises. Much of the responsibility for resolving these issues falls to these institutions, with the International Monetary Fund traditionally acting as the global crisis lender.

There are some aspects of today's crises that mirror the past. As in many previous crises, the countries currently facing debt distress have largely borrowed from foreign creditors in US dollars and other foreign currencies they do not control. The rise in commodity and energy prices following

Russia's invasion of Ukraine have added a significant economic burden to many countries around the world and made it more challenging to service their debt. Particularly for those countries with dollar denominated debt, the sharp recent rise in dollar interest rates adds another source of stress. As US inflation surged and the Federal Reserve responded by increasing interest rates, the dollar borrowing costs of other countries escalated in parallel. With US Treasury rates now significantly higher, countries that borrowed in dollars when rates were low face the challenge of trying to roll over their debt at a time when investors have various other high-yielding dollar assets available to purchase.

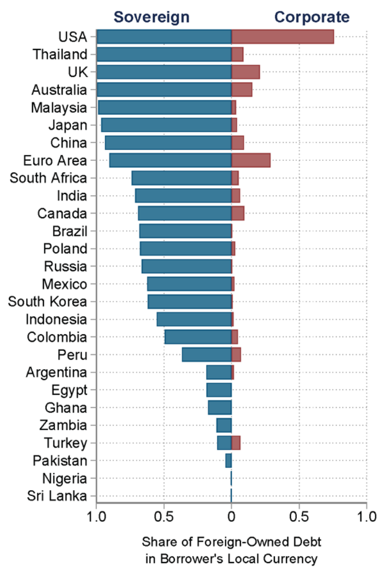
As in previous periods of sovereign debt distress, many countries will need significant reductions in their debt burdens, requiring both private and official creditors to take writedowns on their lending. The sooner creditors move towards agreeing to major debt relief, the sooner debt distressed countries can move forward.

### What is different about today's sovereign debt crises?

In many sovereign debt crises over recent decades, private dollar-denominated debt (primarily sovereign bonds issued on global capital markets) would be the central focus of negotiations. While dollar (and other foreign currency) debt remains at the heart of current debt distress, it is not solely international sovereign bonds that are struggling to be repaid. Many developing countries also owe considerable debt to Chinese bilateral bank creditors. This debt is also predominantly denominated in foreign currencies, especially the US dollar, and is coming under increasing stress.

***Sovereign Debt Denomination*** Importantly, the largest emerging markets are not generally included among the countries in debt distress today. One key reason for this is that over the last 20 years, many emerging markets began borrowing from international investors in their own currency in their domestic bond markets. This shift was influenced by multiple crises over the past few decades revealing foreign currency debt as a major source of vulnerability (Eichengreen and Hausmann (1999)). In bad times, either for the global economy or individual borrowing countries, emerging and developing market currencies tend to lose value against the US dollar. This currency depreciation makes it more challenging for the borrowing government to repay their dollar-denominated debt, as it would require a larger amount of their local currency-denominated tax revenue to make the payments. In the wake of painful debt crises, many emerging market governments chose to avoid foreign currency borrowing in international capital markets, particularly after the Asian Financial Crisis. Instead, they focused on developing their domestic bond markets and borrowing in their own currency. While very few emerging market local currency denominated bonds were or are issued on international capital markets, many major emerging markets welcomed foreign investors to purchase these domestically issued local currency bonds. As of 2020, much of the bond debt owed to foreign creditors by emerging market countries was in their own local currency (Figure 1). An additional benefit to borrowers of this switch to local currency denominated sovereign debt is that these bonds are generally governed under domestic law. This means that the restructuring

Figure 1: Local Currency Share of Foreign Held Bonds by Global Funds, 2020




Notes: Estimates from the Global Allocation Project using data on mutual fund and exchange traded fund holdings from Morningstar. This figure reports the share of each country's foreign-owned sovereign and corporate bonds in the issuing country's local currency. The sovereign local currency share is reported in blue to the left and the corporate local currency share is reported in red to the right. Zambia has no foreign or local currency corporate bonds owned by foreign funds in the dataset.

procedure is generally under the control of local authorities instead of courts in the United States, United Kingdom, or other investor countries.

The transition to local currency external borrowing has increased the resilience of emerging markets. However, it has also introduced a new challenge: it has become more difficult to calculate a country's foreign indebtedness. Typically, foreign currency denominated bonds issued in global capital markets remain with foreign creditors throughout a debt crisis. In contrast, local currency domestic debt may be resold to domestic investors, such as banks and pension funds, during a crisis. This complicates measuring how much a country owes to foreign investors. The international financial institutions have made significant progress in tracking foreign ownership of local currency debt but it remains a challenge to determine who holds the local currency domestic debt during a crisis.

While the countries that are currently experiencing relatively tranquil debt markets tend to borrow primarily in their own currency, the situation is markedly different for those currently in debt

distress. These countries are largely indebted in US dollars or other foreign currencies. Investors continue to mainly avoid lending to low-income developing countries in their domestic currencies, as these countries generally have higher inflation, less-liquid capital markets, and potentially a higher perceived risk of imposing capital controls during a crisis.

Why do some countries continue to borrow in foreign currency given the risks they face? The answer is simple: dollar debt is typically cheaper than borrowing from foreign investors in a country's own currency, especially for low income nations. Governments worldwide are often forced to choose between riskier but cheaper dollar debt, or safer but costlier local currency debt. When the interest rate differential is high, it is understandable that a government might opt for dollar debt. Indeed, in Figure 1 we can see that firms in every country around the world, with American firms borrowing in US dollars a massive exception, tend to borrow from foreign investors in foreign currency rather than in their own currency, underlining the allure of cheaper foreign currency borrowing.[1] By focusing on lending via bond markets, Figure 1 understates the degree of foreign currency borrowing of many lower income borrowers, as the debt they contracted from China also tends to be in foreign currency. According to AidData, nearly all of Chinese bilateral lending is in foreign currency, with more than 80% denominated in US dollars (see Figure 6 in Malik et al. (2021)). Many developing countries heavily indebted in dollars will need to significantly reduce their debt burdens via restructuring to regain debt sustainability.

In my view, one of the most effective ways that international financial institutions can mitigate sovereign debt risk is to help governments refrain from borrowing in dollars and other foreign currencies. As the United States and the rest of the G7 contemplate expanding the lending capacity of the multilateral development banks for infrastructure and other development finance, it is important to help borrowers avoid currency mismatch as much as possible. Even though development finance lending generally occurs at below-market interest rates, as Chinese lenders are experiencing now, repaying even concessional interest rates on dollar-denominated debt can be challenging when countries are faced with a sharp and persistent depreciation of their local currencies.

***The Rise of China as a Lender*** The second major difference with today's sovereign debt crises is that many developing and emerging markets are heavily indebted to China. Indeed, China now ranks as the world's largest bilateral creditor. This shift in the international financial system presents several key challenges to the international financial institutions.

The first challenge is the sheer size of the debt for some countries. By the end of 2017, Horn et al. (2021) estimate Chinese lending to developing and emerging economies at nearly $400 billion. Particularly since launching the Belt and Road Initiative a decade ago, China has dramatically increased its role in global development finance. In many developing countries in Africa and Asia, government debt to China frequently exceeds 10% of GDP. For some countries like Djibouti and the Republic of Congo, this debt can exceed half of their GDP.

[1]Firms may also be more willing to borrow in foreign currency because they are less vulnerable than governments to a currency mismatch, particularly if they earn foreign currency revenue from international sales. However, evidence in Bruno and Shin (2017) shows some global firms' foreign currency borrowing decisions are driven by differences in perceived currency-specific borrowing costs.

The second issue stems from a lack of consensus on how Chinese lenders should be treated in the debt restructuring process. China's style of lending effectively positions it between the conventional international private creditors and the bilateral official creditors. A significant proportion of China's loans are made by its policy banks, the Export-Import Bank of China and the China Development Bank. Given that these banks are government-controlled, it seems logical to treat them as official creditors. However, unlike other official bilateral creditors, loans from these Chinese policy banks often involve commercial terms and market interest rates, causing them to resemble private obligations in these aspects. The global community has grown accustomed to resolving debt crises involving borrowing from private markets (typically through international bonds), as well as from the set of official creditors that form the Paris Club and multilateral development lenders like the World Bank. The protracted negotiations and long resolution periods we are seeing today in part stem from the fact that there is no established procedure for dealing with this new situation.

The third challenge associated with China's rise as a lender to low income countries is the uncertainty about precisely how much these countries owe to China. While the debt statistics of the international financial institutions are designed to capture bilateral loans from foreign governments, the structure of China's lending makes tracking these debts particularly challenging. Most of these loans from China do not go directly to the sovereign government of the borrowing country. Instead, China tends to lend to state-owned enterprises or special purpose vehicles in borrower countries. Questions remain about the extent to which Chinese bilateral loans are creating unrecorded contingent liabilities for borrowing countries (Malik et al. (2021), Dreher et al. (2022)). Further uncertainty about levels of indebtedness arises from China's policy of not disclosing its foreign lending portfolio and including non-disclosure clauses in its loan contracts, preventing borrowers from revealing the terms of the contracts (Gelpern et al. (2022)).

China's lending style also potentially alters the debt restructuring process through its attempts to design contracts that effectively grant it seniority over other creditors. A portion of China's lending appears to be collateralized as China may require borrowers to set up offshore escrow accounts and maintain a cash balance (Gelpern et al. (2022)). While the extent of this practice is unclear due to the non-disclosure clauses in loan contracts, the apparent aim is to ensure (partial) repayment in the event of a default. This contrasts with private bond creditors who generally provide unsecured finance directly to the foreign sovereign. If Chinese creditors can seize the contents of an escrow account before restructuring negotiations begin, foreign private creditors have reason to believe they may bear a larger share of the losses in a debt renegotiation.

**Tax Havens and Offshore Financial Centers Obscure True Creditors and Debtors**

The challenge of measuring cross-border exposures extends beyond secondary markets for domestic debt and China's bilateral lending policies. In particular, tax havens and offshore financial centers obscure the true picture of financial exposures between countries.

For instance, Chinese law prohibits foreigners from owning equity stakes in strategic sectors like internet communications. However, international investors can buy shares of Alibaba, a Chinese

internet giant, on the New York Stock Exchange. The shares they purchase actually represent a claim on a shell company based in the Cayman Islands, known as Alibaba Group Holdings Limited. According to standard global financial statistics, this is recorded as a portfolio equity claim on the Cayman Islands, not China. This is because these statistics are compiled on a residency basis, where the location of an investor or borrower is attributed to the immediate geographic location, i.e., where the financing subsidiary or shell company is based, rather than the location of the controlling entity or the so-called "nationality" basis.

Because of China's restrictions on foreign ownership in certain sectors, many Chinese firms adopt complex financial structures to circumvent the restrictions, and in the process distort the measurement of cross-border financial exposures. As can be seen in Figure 2, most global equity investment recorded as going to the Cayman Islands and other offshore centers is actually directed toward China (roughly \$2.4 trillion in 2020). Additionally, an increasing portion of bond investments recorded as flowing to the Cayman Islands and the British Virgin Islands (about \$600 billion in 2019) are in reality loans to Chinese firms.[2]

However, the problem is not just restricted to investment in China. Companies globally, including state-owned enterprises taking on quasi-sovereign debt, operate financing subsidiaries in offshore centers like the Cayman Islands, British Virgin Islands, and Bermuda. When investors purchase bonds from these companies, their investments are recorded as flowing to these offshore centers rather than the actual borrowing countries. With trillions of dollars invested in tax havens and offshore financial centers, these sums can significantly cloud the actual stocks of debt and mask potential vulnerabilities.

A similar problem exists for the investor side. Using the official statistics of the United States (the Treasury International Capital data), after Japan and the United Kingdom, our next largest foreign portfolio investors are the Cayman Islands at \$2.24 trillion and Luxembourg \$1.97 trillion in June 2022.[3] With a population of under one hundred thousand people, the Cayman Islands are not the actual source of this investment. Instead the size of the positions demonstrate that we often do not know the true identity of our creditors.

This issue is not unique to the United States; countries around the world face a similar situation with a significant portion of investment recorded as flowing in or out of tax havens and offshore financial centers. While there is ongoing work by academics, the Federal Reserve, and others, to address these challenges, achieving a comprehensive understanding of global financial exposures remains a multilateral issue.

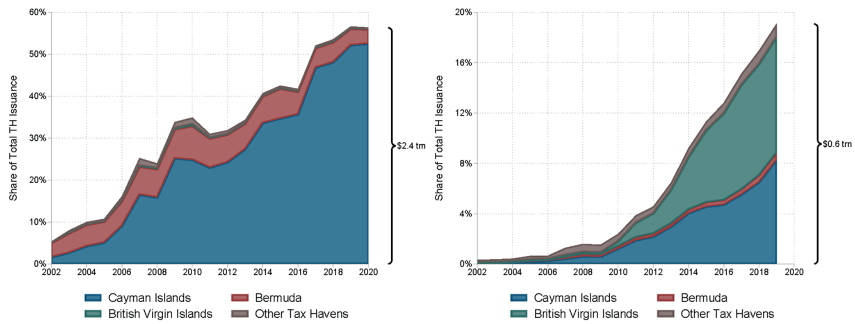
In this context, international financial institutions are uniquely well-situated to lead the way. They can facilitate the coordination required to pierce through the veil of tax havens and offshore financial centers in order to have a clearer understanding of global financial exposures. Recognizing that resolving debt and balance of payments crises requires knowing who owns what, there is

[2]This leads US equity investment in China alone to be understated by more than \$800 billion in 2020. The details of these structures are discussed in Coppola et al. (2021). See Bertaut et al. (2019) for a restatement of the US Treasury International Capital data on a nationality basis.

[3]For studies of who owns the funds recorded as making investments via Luxembourg and Ireland, see Zucman (2013) and Beck et al. (2023).

Figure 2: The Rise of China in Offshore Markets

(a) Securities Outstanding: Equities (b) Securities Outstanding: Corporate Bonds




Notes: Clayton et al. (2023). Panels (a) and (b) plot the share of total outstanding securities issued by entities resident in tax havens and offshore financial centers that are Chinese by nationality.

an increasing need for a coordinated international effort. This effort should aim to reveal the true identities and relationships behind these centers, preparing the world for a more efficient and effective resolution of future debt crises.

Thank you very much to the Subcommittee for the opportunity to share my views. I look forward to answering your questions.

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**House Financial Services Subcommittee**
**on National Security, Illicit Finance, and International Financial Institutions Hearing**

**International Financial Institutions in an Era of Great Power Competition**

**May 25, 2023**

**Written Testimony of Daouda Sembene**
**Distinguished Nonresident Fellow, Center for Global Development**
**Chief Executive Officer, AfriCatalyst Global Development Advisory**

I am thankful to distinguished members of this House Financial Services Subcommittee for inviting me to testify as a witness for this hearing on "International Financial Institutions in an Era of Great Power Competition."

My name is Daouda Sembene and I am a Distinguished Nonresident Fellow at the Center for Global Development and the founder and CEO of AfriCatalyst, a global development advisory based in Dakar, Senegal. I am a former Executive Director of the International Monetary Fund (IMF) where I represented 23 African countries on its executive board. During my tenure, I chaired the statutory IMF executive board committee, which is responsible for strengthening collaboration between the IMF and other multilateral organizations, notably the World Bank Group, the United Nations, and World Trade Organization. I hold a PhD in Development Economics from American University in Washington.

Today my testimony will focus primarily on the potential implications of the relationship between the United States and China at the World Bank and the IMF. But many remarks that I make hereafter are generally applicable to other IFIs and can be structured around the following key messages:

i) I argue that the United States should engage constructively with major shareholders of World Bank, the IMF, and other IFIs, including China, to enhance the ability of these multilateral organizations to help formulate and advance an ambitious agenda for supporting demands from their members and the global community. For instance, constructive great power engagement within the World Bank is critical to optimize its future contribution to the resolution of global challenges such as climate change, pandemics, fragility, and conflict.

ii) When playing out within IFIs, great power competition runs the risk of undermining institutional performance and effectiveness, including by weakening their governance framework. At the same time, it complicates the formulation and achievement of

common priorities and consensual agendas and reduces their resource mobilization potential, thus constraining their ability to respond to developing country demands and address global challenges. Therefore, U.S. policy on IFIs may have significant negative implications for these institutions, the world community, and the developing world, particularly Africa, if shaped by a non-cooperative stance with China.

iii) There is a strong case for the United States to use its leverage and influence to enlist IFIs in implementing U.S.-led infrastructure development initiatives. This is in the best interests of both the United States and its African partners. Closing the infrastructure gap is key to foster growth, reduce poverty, and enhance the delivery of social services in Africa. But it may also be quite effective in advancing the U.S. foreign policy objectives, creating opportunities for U.S. private businesses, and strengthening economic and commercial engagement with the continent.

**Great Power Competition and IFIs' Performance**

IFIs were set up to help find multilateral solutions to global and country-specific challenges, building on international cooperation. They typically perform better when multilateral cooperation prevails, but their impact weakens amid a world economy fragmented into geopolitical blocs. Great power competition has the potential to severely undermine the effectiveness and impact of IFIs by incentivizing the formation of segregated economic blocs.

More specifically, the IMF and the World Bank have long assisted developing countries in advancing toward their development ambitions. In addition to this mandate, the U.S. and other advanced economies have encouraged them in recent years to step up their role in addressing global challenges such as climate change, pandemics, and fragility. As part of the process of formulating the Evolution Roadmap, its new long-term strategy, the World Bank was called upon to tackle these challenges. Similarly, with funding pledges from the United States, the IMF established the Resilience and Sustainability Trust (RST), which is a lending tool that aims to address long-term structural challenges, including climate change and pandemics.

Yet, multilateral organizations naturally rely on the broad support of their membership, notably the United States and China, to produce expected outcomes in terms of the delivery of these global public goods. In a recent paper, my CGD colleague Scott Morris argues that the ability of the World Bank to respond effectively to competing demands for its resources may depend on an agreement between the two countries that defines the strategic direction of the institution.

When playing out within IFIs, competition between the United States and China runs the risk of weakening these institutions' governance frameworks, notably by limiting their ability to comply with their statutory rules-based principles and complicating consensus-building around their agenda.

Influence in IFIs is a useful foreign policy tool for the United States. As noted by Savoy and Staguhn (2022), U.S. foreign assistance has long been geared toward addressing geostrategic

challenges. And this will probably continue to be the case in the foreseeable future, with a growing reliance on development finance tools. But when the use of foreign assistance is exclusively motivated by competition at the expense of efficiency, it risks undermining the perceived legitimacy and effectiveness of multilateral institutions in developing countries. Ultimately, this may paralyze their operations, cast doubt on their relevance, and incentivize a scramble for alternative sources of development finance.

**Great Power Competition in Africa**

When officially elected Chairperson of the African Union on February 5, 2022, President Macky Sall delivered in front of African leaders his acceptance speech in which he stated:

> "*More than 60 years after countries began gaining independence across the continent, Africa is more determined than ever to take its destiny into its own hands. Our continent cannot be used to serve the sole interests of some at the expense of others. […] We are open to all partnerships, without exclusion or exclusivity, if they are mutually beneficial and respectful of our development priorities and our societal choice*."

Today, this view broadly reflects public opinion across the continent, and conveys the reluctance of many African policymakers to be forced to forge exclusive partnerships, as they strive to close their development finance needs. It seems to be corroborated by available evidence suggesting that the continent has broadly benefited from economic globalization and stands to be among the big losers of great power competition. A recent IMF study indicated that sub-Saharan Africa was the region likely to lose the most if the world economy decoupled into separate trading blocs centered around China or the U.S. and the European Union. Under this scenario, losses for the region are estimated to exceed what many countries experienced during the Global Financial Crisis, with real gross domestic product declining permanently by up to 4 percent over 10 years.

In this light, and while responding to geostrategic challenges, the U.S. would be well-advised to continue nurturing its partnerships with African countries and support their efforts to advance their own development priorities.

Key among the priorities of African governments is the critical need to close the infrastructure gap, notably with a view to improving delivery of basic social services and achieving economic transformation. In a brief by the Center for Strategic and International Studies, Savoy and Staguhn (2022) note that:

> "*The People's Republic of China, whatever its internal reasoning, correctly saw this as an opportunity and moved aggressively to provide financing. While much can be made of "white elephant" projects—soccer stadiums, presidential palaces, and economically inefficient ports—the PRC has also constructed a significant number of roads, railroads, seaports, and other hard infrastructure that can support increased economic growth*."

Encouragingly, recent initiatives spearheaded by the U.S. suggest that it is fully cognizant of the geostrategic benefits of effective support for infrastructure development in the developing world. These include the G7's Partnership for Global Infrastructure and Investment (PGII) which was launched last year with the aim at mobilizing $600 billion by 2027 in global infrastructure investments, including $200 billion from the U.S. through grants, Federal financing, and leveraging private sector investments. As part of the PGII, the U.S. has recently announced that it has mobilized $30 billion to date, part of which benefits African countries. Going forward, ample scope exists for these investments to benefit more U.S. partners on the continent.

Another U.S. initiative specifically tailored to the current needs of Africa is the U.S.-Africa Partnership on Food Security, which was jointly announced by President Biden and President Macky Sall of Senegal, then-Chairperson of the African Union during the U.S.-Africa Leaders' Summit held last December in Washington. This partnership aims to build on ongoing efforts by IFIs and other development actors to advance food security in Africa by promoting transformational investments in medium-to long- term sustainable and resilient food systems.

Progress toward food security under this initiative would carry enormous benefits for Africa, where about 278 million people—about a fifth of the total population—are estimated to go to bed hungry every day, according to the World Economic Forum. But it would also serve the U.S.'s own interests, notably by advancing its foreign policy objectives, creating opportunities for its private businesses, and strengthening economic and commercial engagement with the continent.

To advance these various U.S.-led initiatives, IFIs provide a valuable opportunity for leveraging public finance and mobilizing private capital. By using its convening power and influence, the U.S. can incentivize the World Bank and other multilateral development banks (MDBs) to step up their support for infrastructure development in Africa. But to achieve their full potential, these institutions may need to be insulated from the ramifications of great power competition. Based on my own experience as a former IMF board member, I strongly believe that constructive U.S. engagement with other major shareholders including China is critically needed for sound IFI governance and strategic oversight.

**Proposals for U.S. Engagement in IFIs**

Considering the above, I would also argue that a cooperative stance between the United States and other great powers within IFIs is in the best interests of not only these institutions, but also the U.S. and the developing world.

In the current geopolitical context, it seems to me that successful engagement towards the reform of the global financial architecture may produce more significant geostrategic payoffs for the United States than great power competition in the developing world, particularly Africa. By facilitating these overdue reforms, the United States can make a long way toward helping IFIs unlock additional finance for developing countries and deliver on the global public good agenda.

Such reforms could include:

- **Raising the ambition of the World Bank's Roadmap**, notably by fully implementing the proposals set forth in the G20 expert group's review of MDBs' capital adequacy frameworks (CAFs). While welcome progress was made during the World Bank/IMF Spring Meetings, including through the reduction of the equity-to-loans ratio, much remains to be done to put the World Bank in a position to respond effectively to country demands, as discussed by Colenbrander, Humphrey, Lankes, Miller, and Prizzon (2023).

- **Unlocking the U.S. contribution to the IMF RST**. When I first testified for this same subcommittee more than a year ago, I echoed calls for the U.S. Congress to approve the Treasury's budget request to relend 15bn Special Drawing Rights (SDR) in favor of the IMF, while advocating for SDRs to be rechanneled through MDBs such as the African Development Bank. Regrettably, no progress has yet been made on either front.

- **Developing effective debt restructuring mechanisms for developing countries in debt distress**. The United States should exercise a leadership role to advance this agenda, including under the G20 Common Framework. But it shares this responsibility with other official creditors, notably China. Private creditors should also contribute to efforts to provide debt treatments, especially in view of their significant exposure to many debt-distressed developing countries.

It is noteworthy that many abovementioned reforms do not necessarily require using taxpayer money. Instead, they can be implemented by leveraging U.S. influence in IFIs, the G7, and the G20. Still, they have a great potential to help the United States tackle geostrategic challenges and secure commercial gains for its private businesses in the developing world.

That said, I will conclude by emphasizing the unique responsibility of the United States for ensuring that MDBs are adequately endowed with necessary resources to fulfill their mandate. In this regard, the United States should always stand ready to consider requests for capital increases from these institutions and facilitate them in a timely manner, whenever such increases are warranted. As a matter of principle, the Unites States should also make ambitious contributions to World Bank's IDA replenishments as a concrete testimony to its stated commitment to partnering with low-income countries in Africa and beyond, as they strive to respond to external shocks and make progress toward their sustainable development goals.

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United States Government Accountability Office

GAO

Report to Congressional Requesters

May 2023

# WORLD BANK

# Borrower Countries' Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern

GAO-23-105543

May 2023

# WORLD BANK

## Borrower Countries' Contracts to Businesses in the U.S. and to Entities Potentially on U.S. Sanctions or Other Lists of Concern

GAO Highlights

Highlights of GAO-23-105543, a report to congressional requesters

### Why GAO Did This Study

The United States is one of the largest contributors to the World Bank. The World Bank provides financing to low- and middle-income countries for a number of purposes such as for infrastructure and social and economic development projects. World Bank borrowers are responsible for managing projects in line with the World Bank's policies. The World Bank requires borrowers to use competitive procurement processes to award contracts for project implementation. Treasury leads U.S. engagement with and has oversight responsibility for the World Bank, and Treasury officials are stationed in the Office of the U.S. Executive Director, which represents U.S. priorities and concerns on the World Bank's board.

GAO was asked to review World Bank borrowers' contract awards. This report examines (1) the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries; and (2) the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response.

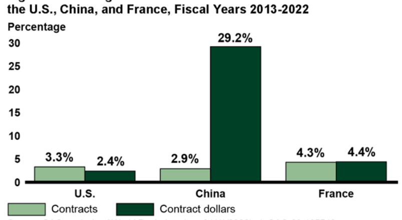
GAO analyzed World Bank data on borrower contract awards from World Bank FYs 2013 through 2022. GAO compared contract awardees from calendar years 2017 through 2021 against individuals and entities on selected U.S. sanctions and other lists of parties of concern. GAO also performed detailed reviews of records identified as part of the analysis. GAO interviewed World Bank and U.S. agency officials to understand the availability and limitations of their data.

View GAO-23-105543. For more information, contact Latesha Love-Grayer at (202) 512-4409 or LoveGrayerL@gao.gov.

### What GAO Found

World Bank data indicate that businesses in the U.S. were awarded a relatively small share of contract dollars, but were often successful when bidding. According to World Bank data, from World Bank fiscal years (FY) 2013 through 2022, borrower countries awarded on average around 21,000 contracts valued at $15 billion per year to domestic and international businesses. Of those contracts awarded to international businesses, businesses in the U.S. were awarded the second-highest number of contracts (about 3 percent), but the ninth-highest contract dollars (about 2 percent). Businesses in China were awarded the third-highest number of international contracts (about 3 percent), but the most contract dollars (about 29 percent), as shown in the figure. Businesses in the U.S. bid on few contracts, but won about 70 percent of contracts when they bid, according to GAO's analysis of World Bank summary data from FY 2017 to October 2022.

**Figure: Percentage of World Bank Borrower International Contract Awards to Businesses in the U.S., China, and France, Fiscal Years 2013-2022**




Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Notes: The World Bank's fiscal year begins July 1st. The number and dollar amount of contracts awarded to businesses in the U.S. and other countries may be over or underestimated due to limitations in the World Bank's data. For example, borrowers identify contract awardees based on the country of business registration, which may not take into account beneficial ownership or other considerations that may affect determinations of nationality and ownership. The data also include contracts awarded to multilateral organizations such as the United Nations.

GAO's analysis found that from calendar years 2017 through 2021, World Bank borrowers awarded 28 contracts to entities that may have been on selected U.S. sanctions and other lists of parties of concern, such as export control lists. These 28 contracts—worth around $76 million—were out of approximately 150,000 contracts worth around $80 billion that GAO reviewed in its analysis covering the period. World Bank officials told us that all entities from all countries are eligible to bid for borrower contracts, except for certain entities debarred by the World Bank or sanctioned by the United Nations. Those officials also told us that the World Bank screens contract awardees against some U.S. sanctions lists and that it could confirm only six of the 28 contracts were awarded to entities on U.S. lists. Department of the Treasury (Treasury) officials told us that Treasury is not responsible for monitoring individual borrower contract awards, which occur after the World Bank board approves a project.

# Contents

Figures

**Abbreviations**

| | |
|---|---|
| AKA | also known as |
| API | Application Programming Interface |
| BIS | Bureau of Industry and Security |
| Commerce | Department of Commerce |
| Covered List | List of Equipment and Services Covered by Section 2 of the Secure Networks Act |
| FY | fiscal year |
| IPF | Investment Project Financing |
| MCA | Major Contract Awards |
| MEU List | Military End-User List |
| Non-SDN List | Consolidated Sanctions List |
| OFAC | Office of Foreign Assets Control |
| SDN List | Specially Designated Nationals and Blocked Persons List |
| STEP | Systematic Tracking of Exchanges in Procurement |
| Treasury | Department of the Treasury |

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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May 10, 2023

The Honorable Bill Hagerty
Ranking Member
Subcommittee on National Security and International Trade and Finance
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Tom Cotton
United States Senate

The Honorable Chuck Grassley
United States Senate

The World Bank lends money and provides financial assistance to low- and middle-income countries for development projects aimed to reduce poverty.[1] In World Bank fiscal year (FY) 2022, the World Bank committed approximately $71 billion to projects in more than 100 countries.[2] The World Bank requires borrower countries to use competitive procurement processes to award contracts to businesses to implement these World Bank-financed projects.[3] The U.S. is the largest shareholder in the World Bank and one of the largest contributing members. Congress has raised questions about the number of World Bank-financed contracts awarded by borrowers to businesses in the U.S.

World Bank borrower contracts may raise national security or foreign policy concerns for the U.S. For example, a World Bank borrower proposed awarding a contract to an entity that the Department of

[1]The World Bank Group includes five institutions that carry out its mission to reduce poverty, increase shared prosperity, and promote sustainable development. These institutions include the International Development Association and the International Bank for Reconstruction and Development, which are known together as the World Bank. The other three institutions are the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. This report focuses on the World Bank, rather than the World Bank Group more broadly.

[2]The World Bank's fiscal year begins July 1st. All references to fiscal years in this report are World Bank fiscal years, unless otherwise noted.

[3]Contracts may be awarded to both companies and individuals. In this report, we refer to companies and individuals collectively as businesses.

Commerce (Commerce) determined posed a significant risk of involvement in activities contrary to the national security or foreign policy interests of the U.S. Specifically, as part of a World Bank-financed project, the Chinese telecommunications company Huawei Marine had the leading bid in a competition to lay an undersea cable that would connect Kiribati and the Federated States of Micronesia to a sensitive undersea cable used by the U.S. government and Guam. Commerce's Bureau of Industry and Security had previously listed Huawei Marine on the Entity List for posing a significant risk of involvement in activities contrary to the national security or foreign policy interests of the U.S.[4] In 2021, according to World Bank documentation, the Federated States of Micronesia canceled the procurement. Later, the State Department, in conjunction with the governments of Australia and Japan, announced its commitment to fund an undersea cable in the same region.

To identify entities that may pose national security or foreign policy risks, a number of U.S. agencies maintain sanctions lists and other lists of parties of concern to the U.S. government. These agencies include Commerce's Bureau of Industry and Security and the Department of the Treasury's (Treasury) Office of Foreign Assets Control. According to World Bank officials, neither the World Bank nor borrowers are prohibited from awarding contracts to entities on U.S. sanctions or other lists of parties of concern. However, the World Bank prohibits borrowers from awarding contracts to certain entities debarred by the World Bank or other multilateral development banks.[5]

[4]According to financial news sources, at the time of the bid, Huawei Marine had recently divested from Huawei Technologies Ltd. and became majority owned by another Chinese firm. Huawei Technologies Ltd. was added to the Entity List in 2019. The Entity List identifies persons reasonably believed to be involved, or to pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the U.S. 15 C.F.R. § 744.16. It includes names of certain foreign entities that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items. The entities on the Entity List are subject to licensing requirements and policies supplemental to those found elsewhere in the Export Administration Regulations. 15 C.F.R. Part 744, Supp. No. 4.

[5]The World Bank Group's Integrity Vice Presidency investigates allegations that an entity may have engaged in fraud, corruption, coercion, collusion or obstruction in connection with World Bank-financed projects. Under the World Bank's Sanctions System, based upon the results of an investigation conducted by the Integrity Vice Presidency, an entity may be temporarily suspended or debarred permanently among other administrative actions. According to the World Bank, only entities suspended or debarred by the World Bank or those subject to United Nations sanctions are ineligible to bid for World Bank-financed contracts. All other entities from all countries are eligible to bid.

You asked us to review World Bank borrower contract awards to businesses in the U.S. and whether World Bank borrowers were awarding contracts to entities that potentially posed national and economic security risks to the U.S. This report examines: (1) the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries and (2) the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response.

To determine the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries, we analyzed World Bank borrower contract award data for FYs 2013 through 2022. We reviewed World Bank documentation and interviewed World Bank officials to understand how the World Bank captures and reports on borrower contract award data, including how it accounts for and addresses limitations in the data.[6] We subsequently analyzed the data using a number of variables, including the borrower country, country of contract awardee, number and amount of the awarded contract, and the procurement category.[7] We performed both manual and programmatic checks of the data to identify obvious errors and inconsistencies and discussed our findings with World Bank officials. We determined that, while there were errors in the borrower contract award data, they were sufficiently reliable for summarizing data on World Bank borrower contract awards and comparing World Bank borrower contract

[6]The World Bank publishes two datasets on borrower contract awards. The Major Contract Awards dataset covers FYs up to 2016 and includes contracts that required additional World Bank review and approval, a process known as prior review. The Contract Awards in Investment Project Financing dataset covers FYs 2017 onward. The World Bank began collecting information on all contract awards beginning in FY 2017. During the course of our review, the World Bank changed the name of the Major Contract Awards dataset to Contract Awards in Investment Project Financing (since FY2001 – FY 2016). We refer to the dataset as Major Contract Awards to differentiate it from the Contract Awards in Investment Project Financing dataset that includes FYs 2017 onward.

[7]The World Bank reports on four procurement categories: civil works, goods, consultant services, and non-consulting services. The civil works category includes the construction and repair of structures, such as projects for road construction and transportation, infrastructure, waste management, and water system repair. The goods category includes the purchase of items, such as raw materials and machinery. The consultant services category includes advisory and professional services, such as financial advisory services and drafting sector policies. The non-consulting services category includes services that are normally bid and contracted on the basis of performance of measurable outputs and for which performance standards can be clearly identified and consistently applied, such as drilling or aerial photography.

awardees against the names of entities on selected U.S. sanctions or other lists of parties of concern.[8]

To determine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response, we took a number of steps. We compared the names and countries of registration of World Bank borrower contract awardees against the names and countries of entities on selected U.S. sanctions and other lists of parties of concern using both programmatic and manual reviews.[9] Where the programmatic review identified a potential name and country match, we manually reviewed the results to determine if the match was potentially valid and whether the potential match was awarded a contract while it was on a selected U.S. sanctions or other list of parties of concern. Our analysis identified some potential matches. We could not confirm that the contract awardees were the same entities identified on selected U.S. lists because additional identifying information needed to make a positive identification—such as beneficial ownership information, addresses, national documentation numbers, or dates of birth—is not included in the World Bank's public data on borrower contract awards. We provided the results of our analysis to Treasury, Commerce, and the World Bank, and incorporated their responses in our report. We also discussed our findings with Treasury, Commerce, and the World Bank to determine whether they were aware of these awards and to identify any additional information or explanations that we should consider. See Appendix I for additional information on our scope and methodology.

[8]In response to our identification of errors in the data, the World Bank also made corrections to its reporting of the data during the course of our review.

[9]For this analysis, we selected the following lists: (1) Commerce Bureau of Industry and Security (a) Entity List, (b) Military End User List, and (c) Unverified List; (2) Treasury Office of Foreign Assets Control (a) Specially Designated Nationals and Blocked Persons (SDN) List and (b) Consolidated Sanctions (non-SDN) List; (3) Federal Communications Commission List of Equipment and Services Covered by Section 2 of the Secure Networks Act (Covered List); and (4) General Services Administration System for Award Management Exclusions List. The Federal Communication Commission's Covered List is a list of equipment and services produced by specific entities, and our analysis of that list focused on those entities' names. We selected these lists based on whether the information they contained was (1) publicly available; (2) related to U.S. national security or foreign policy interests; (3) related to commercial, subnational entities such as individuals and businesses; and (4) whether there were any significant limitations to the data, such as availability. We limited our scope for this analysis to calendar years 2017 to 2021.

We conducted this performance audit from November 2021 to May 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

### World Bank Project Financing

The World Bank's main financing instrument for procurement is Investment Project Financing (IPF), which funds projects in sectors such as transportation, health, and information and communications technologies, among others. Under IPF, the borrower implements the project, executes procurement, and awards contracts in accordance with the World Bank's procurement policy and regulations.[10] In FY 2022, borrowers reported awarding around $17.5 billion in IPF contract dollars.[11]

### World Bank Procurement Framework

The World Bank began implementing its current procurement framework in FY 2017. The framework provides detailed guidance for borrowers to execute procurement for IPF projects.[12] Under the procurement framework, the World Bank provides financing to borrowers, and borrowers carry out procurement for the project based on the criteria defined in bidding documents. The World Bank oversees the procurement to ensure that borrowers are complying with the framework.

[10]According to World Bank officials, funds for IPF projects can also be used for project operating costs. The World Bank's other financial instruments are Development Policy Financing, which supports policy and institutional reforms, and Program-for-Results, which links disbursement of funds to project goals.

[11]The World Bank also directly awards contracts for goods, works, and services to support its own operations. This is known as corporate procurement. This report focuses on procurement implemented by World Bank borrowers as a part of World Bank-financed IPF projects.

[12]The Procurement Framework was preceded by the procurement guidelines, which had similar goals, but provided less flexibility to borrowers. According to World Bank officials, the procurement framework constitutes best practice among International Financial Institutions and comprises principles-based procurement policy and regulations that balance the risks of the borrower and contractors.

The type of procurement approach available to borrowers depends on the contract value, but borrowers have a number of flexibilities in how to implement procurement based on World Bank thresholds.[13] For example, the World Bank's procurement framework generally encourages borrowers to seek international competition for awards, but in some instances, borrowers may apply their own open competitive national procurement procedures subject to standards defined by the World Bank. In addition, where international competitive procurement is used, a borrower may apply a preference for domestic businesses when evaluating bids subject to World Bank regulations and thresholds.[14]

The World Bank requires borrowers to record procurement information, including contract awards, in its information management system, Systematic Tracking of Exchanges in Procurement (STEP). Prior to STEP, the World Bank only collected data about contract awards that required additional World Bank review and approval, a process known as prior review.[15] The World Bank introduced STEP in FY 2016 as part of reforms that culminated in the new procurement framework. Under the new framework, the World Bank began collecting additional data from borrowers in FY 2017. According to World Bank officials, the World Bank transitioned borrowers to STEP between FYs 2017 and 2018, and,

[13]The thresholds vary by country and procurement type. The World Bank sets thresholds for borrowers based on a number of factors, including country-specific market conditions and the complexity and risk of certain industries. See World Bank, *Thresholds for Procurement Approaches and Methods by Country*, OPSPF5.05-GUID.148 (Washington, D.C., Aug. 2016).

[14]World Bank borrowers, in specific instances, may apply a preference for domestic businesses, in line with specific regulations and formulas provided by the World Bank. See World Bank, *Procurement Regulations for IPF Borrowers Fourth Edition* (Washington, D.C.: Nov. 2020). For example, according to the World Bank, for international competitive procurements, a borrower may apply a margin of domestic preference of 15 percent for domestically manufactured goods. In addition, borrowers from countries below a specified threshold of per capita gross national income, that is set annually by the World Bank, may apply a margin of domestic preference of 7.5 percent when evaluating bids. According to the World Bank, where a borrower applies its own national procurement procedures, the borrower must still follow the World Bank principle of allowing all entities from all countries eligible to bid for World Bank-financed contracts except for those suspended or debarred from the World Bank or on United Nations sanctions lists.

[15]Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects.

beginning in FY 2019, borrowers were required to record all contract awards in STEP.

Borrowers are required to enter a range of details about contract awards into STEP, including the name and country of registration of the awardee. According to World Bank documentation, borrowers are not required to report on awards to subcontractors. According to World Bank officials, World Bank staff conduct quality assurance checks on the data entered by borrowers but do not manage the data in STEP.

The World Bank may declare entities as ineligible to participate in World Bank-financed contracts.[16] According to World Bank officials, the World Bank requires borrowers to screen bidders and contract awardees to determine whether they are eligible to participate in and be awarded World Bank-financed contracts. World Bank officials also told us that borrowers must follow the World Bank principle of allowing all entities from all countries eligible to bid for World Bank-financed contracts except for those suspended or debarred from the World Bank or on United Nations sanctions lists. Additionally, according to World Bank officials, the World Bank screens contract award recommendations by borrowers through its Anti-Money Laundering and Countering Financing of Terrorism and Sanction Screening Procedure.[17] Using this procedure, the World

[16]According to World Bank documentation, the World Bank prohibits borrowers from awarding contracts to certain entities debarred by the World Bank or other multilateral development banks. Additionally, according to World Bank officials, the World Bank prohibits borrowers from awarding contracts to entities subject to United Nations sanctions.

[17]According to World Bank officials, the World Bank's Anti-Money Laundering and Countering Financing of Terrorism policies and procedures include screening against Treasury Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons List and Consolidated Sanctions List as well as United Kingdom and European Union sanctions lists. This screening derives from practical concerns because the majority of World Bank payments flow through the U.S., United Kingdom, and European Union banks. However, according to World Bank officials, the World Bank's Articles of Agreement do not allow it to use national screening lists to determine eligibility to participate in World Bank-financed contracts since its Articles of Agreement require that all decisions be based solely on economic considerations. However, if the World Bank identifies an award recommendation to an entity that is on a sanctions list used in the World Bank's screening, the World Bank informs the borrower that 1) the World Bank is not able to issue a direct payment (on behalf of the borrower) to a potential awardee, and 2) the borrower may not be able to process the payment themselves. The borrower may make arrangements to pay the contract awardee. If the borrower cannot make arrangements, the borrower may request to revise its recommendation for the contract award and award the contract to the next-ranked bidder.

Bank also screens all payments it makes including direct payments to a third party at the request of the borrower. However, World Bank officials told us that according to its Articles of Agreement, the World Bank is not subject to sanctions imposed under its member countries' laws and regulations.

### U.S. Government Activities with the World Bank

Treasury's Office of International Affairs leads U.S. engagement with and has oversight responsibility for all multilateral development banks, including the World Bank. Treasury is the lead representative of the U.S. to the World Bank and the U.S. Executive Director represents U.S. priorities and concerns on the World Bank's board. Treasury officials are also stationed at the World Bank in the Office of the U.S. Executive Director. Treasury's Office of International Affairs also leads the Working Group on Multilateral Assistance, which reviews the policy implications of proposed World Bank projects and makes recommendations to the U.S. Executive Director to support or oppose those projects. Commerce's International Trade Administration also has a key role in U.S. and multilateral development bank relations, such as acting as a liaison for businesses in the U.S. that compete for World Bank borrowers' contracts and implementing relevant statutory requirements.[18]

## Businesses in the U.S. Were Awarded a Small Share of Contract Dollars, but Were Often Successful When Bidding

From FYs 2013 through 2022, World Bank borrowers awarded an average of around $15 billion in contract dollars per year. Businesses in the U.S. were awarded around one percent of total contract dollars during this period, and our analysis of World Bank summary data shows that businesses in the U.S. bid on about one percent of all World Bank-financed projects.[19] When businesses in the U.S. submitted bids, they were awarded contracts about 70 percent of the time, according to our analysis of World Bank summary data. Limitations to the World Bank's borrower contract award data, such as lack of beneficial ownership and subcontractor information, present challenges to fully understanding how often businesses in the U.S. compete for and are awarded borrower contracts.

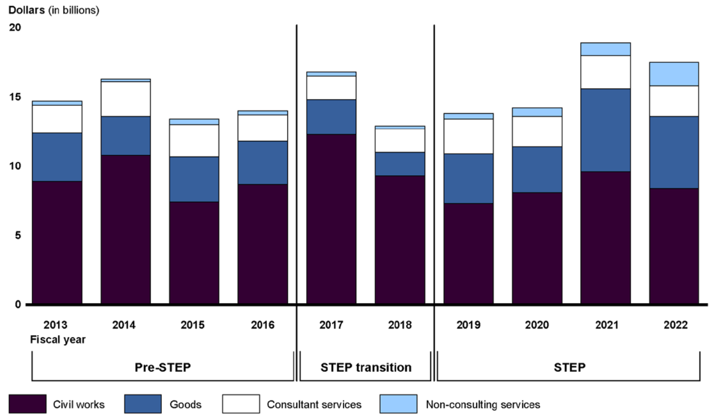
[18] 22 U.S.C. § 262s-2.

[19] Throughout this report, we use the term "businesses in the U.S." to refer to businesses registered within the U.S., and "businesses in other countries" to refer to businesses registered in countries other than the U.S., as reported in World Bank data. According to the World Bank, the country of supplier registration reported in the World Bank data is the country where the supplier is incorporated, which may or may not reflect the actual country or countries of beneficial ownership.

## World Bank Borrowers Awarded an Average of Around $15 Billion in Contract Dollars per Year from 2013 through 2022

From FYs 2013 through 2022, World Bank borrowers awarded an average of around $15 billion per year in contract dollars to implement World Bank-financed projects. In general, in FYs 2013 through 2022, the majority of the total contract dollars each year was for civil works contracts, as shown in figure 1.

**Figure 1: World Bank Borrower-Awarded Contract Dollars by Procurement Category, FYs 2013-2022**




Legend: Systematic Tracking of Exchanges in Procurement = STEP.

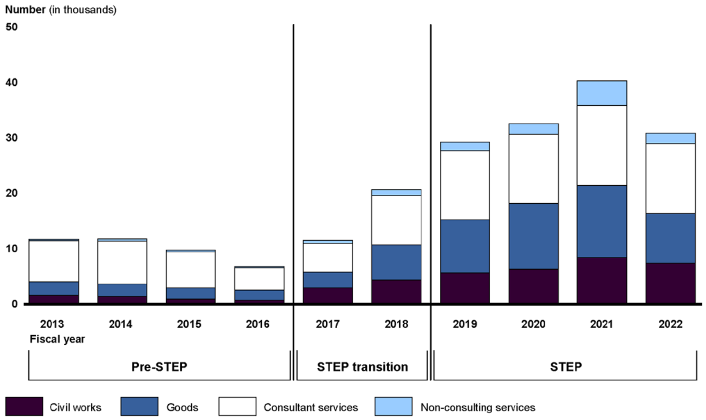
Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: Contracts may be awarded to both companies and individuals. The World Bank's fiscal year (FY) begins July 1st. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

From FYs 2013 through 2022, World Bank borrowers awarded an average of around 21,000 contracts per year. Over the same period, the

number of contracts awarded ranged from around 7,000 in FY 2016 to around 40,000 in FY 2021.[20] The most frequent number of contracts awarded each year were for consultant services, as shown in figure 2.

**Figure 2: Number of World Bank Borrower-Awarded Contracts by Procurement Category, FYs 2013-2022**




Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

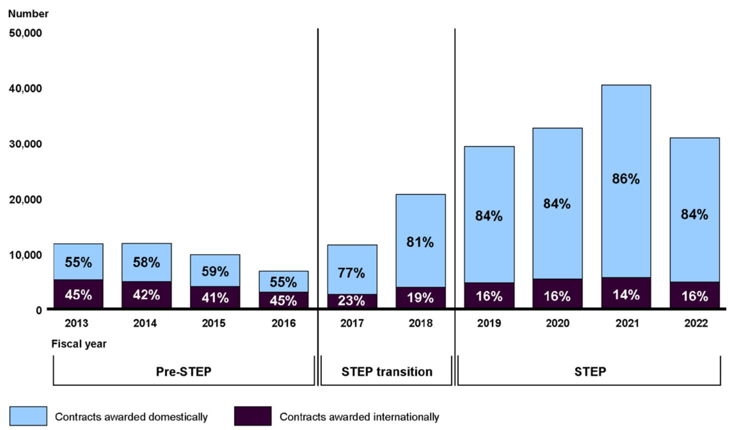
Note: Contracts may be awarded to both companies and individuals. The World Bank's fiscal year (FY) begins July 1st. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

[20] The increase in the total number of contracts may be attributed in part to the implementation of STEP. According to World Bank officials, the World Bank transitioned borrowers to STEP between FYs 2017 and 2018, and, beginning in FY 2019, borrowers were required to record all contract awards in STEP.

## Borrowers Awarded More Contracts to Domestic than International Businesses, but about the Same Share of Contract Dollars

From FYs 2013 through 2022, World Bank borrowers awarded the majority of contracts to domestic businesses.[21] On average, over the period, domestic businesses were awarded approximately 78 percent of contracts, while international businesses were awarded approximately 22 percent. Figure 3 illustrates the percentage and number of contracts that borrowers awarded to domestic and international businesses each year during this period.

**Figure 3: Percentage and Number of Domestic and International Contracts Awarded to Businesses by World Bank Borrowers, FYs 2013-2022**




Legend: Systematic Tracking of Exchanges in Procurement = STEP.

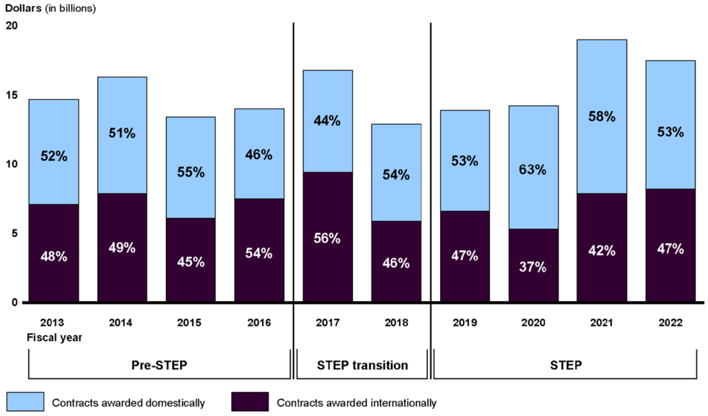
Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

[21]Throughout this report, we use the terms "domestic businesses" to refer to businesses registered within the borrower country and "domestic contracts" to refer to contracts awarded by borrowers to domestic businesses, as reported in World Bank data. We use the terms "international businesses" to refer to businesses registered outside of the borrower country and "international contracts" to refer to contracts awarded by borrowers to international businesses, as reported in World Bank data. According to World Bank officials, since the U.S. is not a World Bank borrower, no domestic World Bank-financed procurement market exists in the U.S., which affects the number of World Bank-financed contracts awarded to businesses in the U.S.

Note: Domestic contracts are contracts awarded by borrowers to businesses registered within the borrower's country, and international contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

From FYs 2013 through 2022, borrowers awarded domestic and international businesses approximately 53 percent and 47 percent of contract dollars, respectively. Figure 4 illustrates the percentage and amount of contract dollars that borrowers awarded to domestic and international businesses during this period.

**Figure 4: Percentage and Dollar Amount of Domestic and International Contracts Awarded to Businesses by World Bank Borrowers, FYs 2013-2022**




Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: Domestic contracts are contracts awarded by borrowers to businesses registered within the borrower's country, and international contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, World Bank officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

## World Bank Data Indicate Businesses in the U.S. Were Awarded a Small Share of Contract Dollars

### Businesses in the U.S. Were Awarded around One Percent of Total Contract Dollars

Businesses in the U.S. were awarded around 1 percent of total contract dollars from FYs 2013 through 2022, which ranked them 15th among businesses in all countries. Businesses in China and India—the top two recipients of awards by contract dollars—were awarded around 20 percent and 14 percent of all contract dollars, respectively. Many countries whose businesses were awarded World Bank borrower contracts are also World Bank borrowers, including China and India. China and India are two of the three largest World Bank borrowers and their domestic awards are reflected in these totals.[22] According to World Bank officials, the U.S. is not a World Bank borrower and therefore has no domestic World Bank-financed procurement market, which may limit the number and dollars of World Bank-financed contracts awarded to businesses in the U.S. Table 1 shows the ranking of the top 15 countries whose businesses were awarded World Bank borrower-awarded contract dollars.

**Table 1: Ranking of Countries Whose Businesses Were Awarded the Largest Share of World Bank Borrower-Awarded Contract Dollars, FYs 2013-2022**

| Ranking | Country | Percentage of total contract dollars awarded to businesses in the country |
|---|---|---|
| 1 | China | 19.5 |
| 2 | India | 13.6 |
| 3 | Brazil | 4.0 |
| 4 | Vietnam | 3.1 |
| 5 | Turkey | 3.1 |
| 6 | Italy | 2.5 |
| 7 | Spain | 2.4 |
| 8 | Argentina | 2.2 |
| 9 | France | 2.1 |
| 10 | Bangladesh | 1.8 |
| 11 | Nigeria | 1.6 |

[22]According to World Bank data, India, Bangladesh, and China are the three largest World Bank borrowers in total project commitments between FYs 2013 through 2022.

| Ranking | Country | Percentage of total contract dollars awarded to businesses in the country |
|---|---|---|
| 12 | Afghanistan | 1.5 |
| 13 | Indonesia | 1.4 |
| 14 | Germany | 1.2 |
| 15 | United States | 1.1 |
| N/A | All Others | 39.1 |

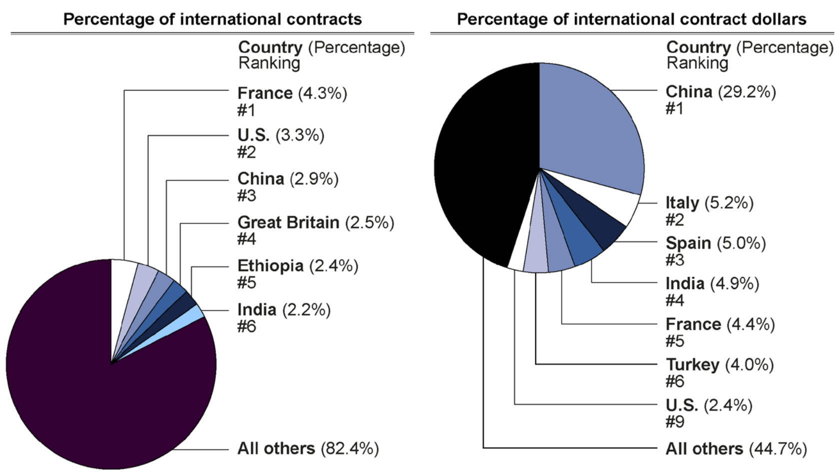
Source: GAO analysis of World Bank data (as of 11/01/2022). | GAO-23-105543

Note: Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. Percentages do not sum to 100 because of rounding. All others include contracts awarded to multilateral organizations such as the United Nations.

## Businesses in the U.S. Were Among the Top Three Awardees of International Contracts by Number, but Not by Contract Dollars

From FYs 2013 through 2022, businesses in the U.S were awarded the second-highest number of international contracts (about 3 percent). However, in terms of value, businesses in the U.S. were awarded the ninth-highest amount of international contract dollars (about 2 percent). In contrast, businesses in France were awarded the highest number of international contracts (about 4 percent), and ranked fifth among awardees for international contract dollars (about 4 percent). Businesses in China were awarded the third-highest number of international contracts (about 3 percent), and were awarded the most contract dollars (about 29 percent). Figure 5 shows the percentage of the number and dollar value of international contracts awarded to businesses in selected countries from FYs 2013 through 2022.

**Figure 5: Percentage and Rank Order of International Contracts and Contract Dollars World Bank Borrowers Awarded to Businesses in Selected Countries, FYs 2013-2022**

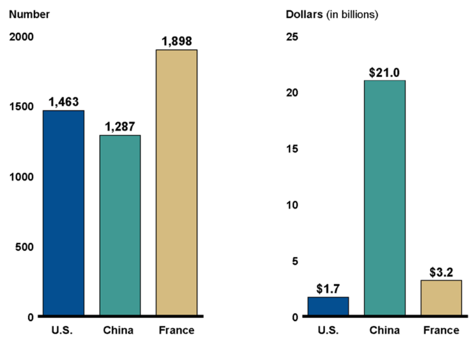



Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. Businesses include both companies and individuals that were awarded contracts. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lacks information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. Percentages do not sum to 100 because of rounding. All others include contracts awarded to multilateral organizations such as the United Nations.

While businesses in the U.S. and France were awarded a higher number of international contracts than businesses in China, the international contract dollars awarded to businesses in China were around 12 times greater than to businesses in the U.S. and seven times greater than to businesses in France. Figure 6 compares the number of international contracts and international contract dollars awarded to businesses in the U.S., China, and France.

**Figure 6: Number of International Contracts and International Contract Dollars World Bank Borrowers Awarded to Businesses in the U.S., China, and France, FYs 2013-2022**



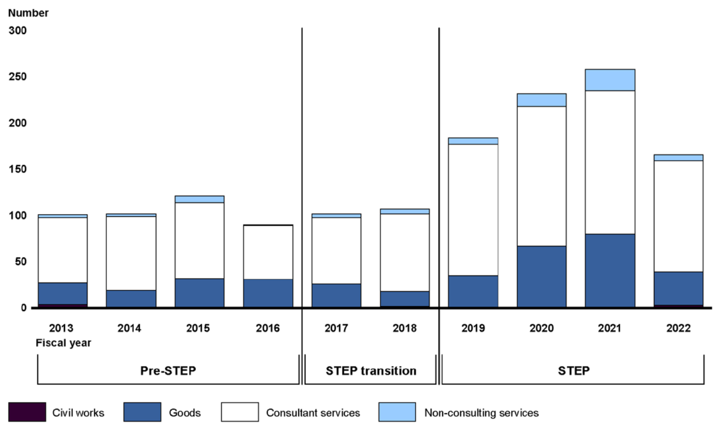

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

## The Majority of International Contracts Awarded to Businesses in the U.S. Were for Consultant Services

The highest percentage of international contracts awarded to businesses in the U.S. from FYs 2013 through 2022 were for consultant services (about 69 percent), while the smallest percentage were for civil works (about 1 percent). Figure 7 shows the number of international contracts awarded to businesses in the U.S. by procurement category, from FYs 2013 through 2022.[23]

**Figure 7: Number of International Contracts World Bank Borrowers Awarded to Businesses in the U.S. by Procurement Category, FYs 2013-2022**




Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

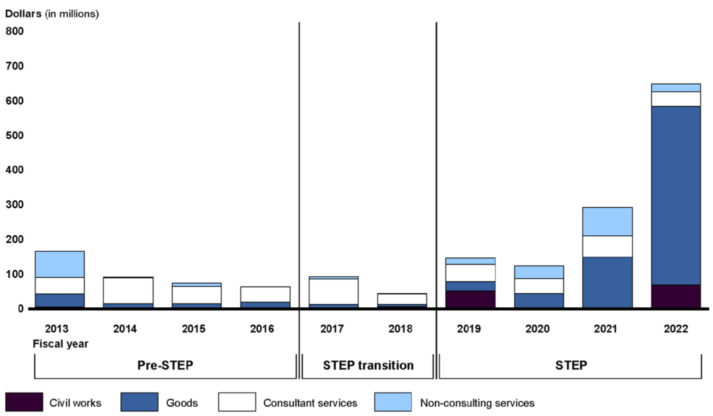
Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning

[23]The increase in the total number of international contracts may be attributed in part to the implementation of STEP. According to World Bank officials, the World Bank transitioned borrowers to STEP between FYs 2017 and 2018, and, beginning in FY 2019, borrowers were required to record all contract awards in STEP.

borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lacks information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services.

In FYs 2013 through 2022, the highest share of international contract dollars awarded to businesses in the U.S. were for goods (about 48 percent). Specifically, according to World Bank data, a business in the U.S. was awarded several high-value international contracts to provide COVID-19 vaccines in FYs 2021 and 2022. Over the same 10-year period, around 30 percent of awards to businesses in the U.S. were for consultant services, while around 15 percent were for non-consulting services. The World Bank's data shows that in FYs 2021 and 2022, businesses in the U.S. were awarded international civil works contracts. Figure 8 shows the international contract dollars awarded to businesses in the U.S. by procurement category, from FYs 2013 through 2022.

Figure 8: International Contract Dollars World Bank Borrowers Awarded to Businesses in the U.S. by Procurement Category, FYs 2013-2022




Legend: Systematic Tracking of Exchanges in Procurement = STEP.

Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in STEP, an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lacks information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services.

As a percentage of all international contract dollars, businesses in the U.S. were among the top five awardees by country in the goods, consultant services, and non-consulting services categories from FYs 2013 through 2022. Businesses in France were awarded the most contract dollars for consultant services, businesses in the U.S. were

awarded the most contract dollars for non-consulting services, and businesses in China were awarded the most contract dollars for civil works and goods contracts during this period. Table 2 shows the percentage of international contract dollars awarded to businesses in the top five countries by procurement category from FYs 2013 through 2022.

**Table 2: Percentage of International Contract Dollars World Bank Borrowers Awarded to Businesses in the Top Five Countries Along with Businesses in the U.S., by Procurement Category, FYs 2013-2022**

| Civil Works | | Goods | | Consultant services | | Non-consulting services | |
|---|---|---|---|---|---|---|---|
| **Country** | **Percentage** | **Country** | **Percentage** | **Country** | **Percentage** | **Country** | **Percentage** |
| China | 41.3 | China | 22.4 | France | 8.7 | U.S. | 12.1 |
| Spain | 7.7 | Italy | 6.6 | Canada | 5.6 | China | 9.5 |
| Turkey | 6.3 | India | 6.3 | Germany | 5.4 | Sudan | 2.6 |
| Italy | 5.5 | Switzerland | 5.5 | Great Britain | 5.3 | France | 2.4 |
| Brazil | 5.2 | U.S. | 4.6 | U.S. | 4.6 | Spain | 2.3 |

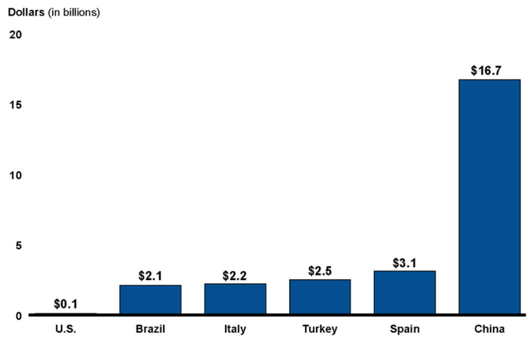
Source: GAO analysis of World Bank data (as of 11/01/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The World Bank reports data on four major procurement categories: civil works, goods, consultant services, and non-consulting services. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022. The data also includes contracts awarded to multilateral organizations such as the United Nations.

Civil works contracts accounted for about 7 percent of international contracts, but around 56 percent of all international contract dollars. From FYs 2013 through 2022, businesses in China were awarded around 41 percent of international civil works contract dollars, while businesses in the U.S. were awarded about 0.3 percent in this category. The World Bank's data shows that several high-value civil works contracts were awarded to businesses in China in FY 2017 for a hydropower project in

Pakistan.[24] Figure 9 shows the international civil works contract dollars awarded to businesses in the top five countries, along with businesses in the U.S., from FYs 2013 through 2022.

**Figure 9: International Civil Works Contract Dollars World Bank Borrowers Awarded to Businesses in the Top Five Countries Along with Businesses in the U.S., FYs 2013-2022**




Source: GAO analysis of World Bank data (as of 11/1/2022). | GAO-23-105543

Note: International contracts are contracts awarded by borrowers to businesses registered outside the borrower's country, as reported in World Bank data. Businesses include both companies and individuals that were awarded contracts. According to the World Bank, businesses are reported based on their country of legal registration, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. The selected countries represent the top five percent of international contract dollars awarded for civil works based on the business's country of registration, as well as businesses in the U.S. from FYs 2013 through 2022. The World Bank's fiscal year (FY) begins July 1st. The World Bank tracks borrowers' contract award data in Systematic Tracking of Exchanges in Procurement (STEP), an information management system. Borrowers enter all data into STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. Prior to STEP, the officials said they only collected data on prior-reviewed awards. As a result, data from FY 2018 and earlier lack information on an unknown number of contracts and contract dollars. Contracts subject to prior review are those that exceeded a certain dollar amount threshold based on the type of procurement, the procurement activity, and the risk assessed by the World Bank. The thresholds may be lower for specific countries, sectors, or projects. World Bank borrowers may update STEP data, and the public dataset changes frequently. Our analysis uses publicly available data as of November 1, 2022.

[24]According to World Bank data, contracts awarded for the Dasu Hydropower Project—totaling approximately $3.1 billion—accounted for 25.6% of the total contract dollars awarded for civil works in FY 2017.

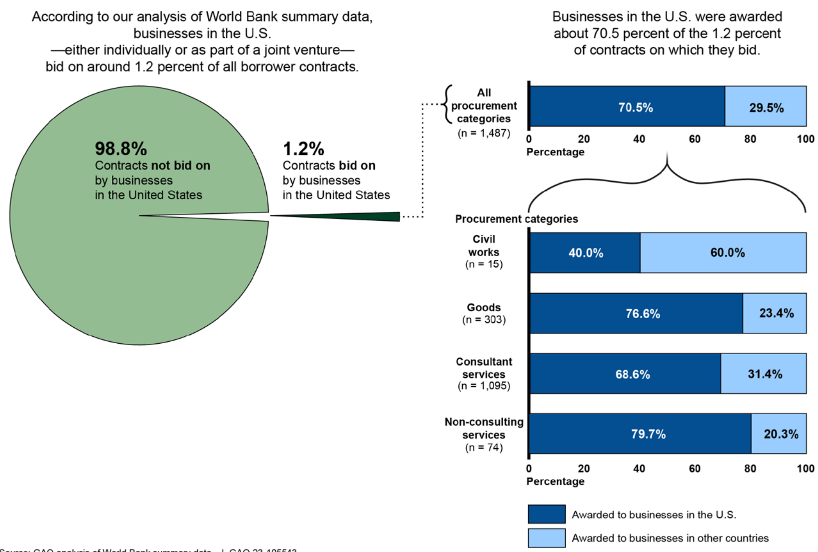
## Businesses in the U.S. Bid on Few Contracts, but Were Often Awarded Contracts When They Bid

According to our analysis of World Bank summary data, businesses in the U.S. bid on few contracts, but were often awarded the contracts when they bid.[25] From FYs 2017 through October 13, 2022, businesses in the U.S.—either individually or as part of a joint venture—bid on around 1.2 percent of all borrower contracts and were awarded about 70.5 percent of those contracts on which they bid, according to our analysis of World Bank summary bid data.[26] Figure 10 shows the percentages of contracts that businesses in the U.S. bid on and were awarded from FYs 2017 through October 13, 2022.

[25]The World Bank does not publish bid data in a specific dataset. We asked World Bank officials to provide us with summary analysis of the number of contracts bid on by and awarded to businesses in the U.S. According to the World Bank, it generated summary numbers from STEP data for all contracts signed from FY 2017 through October 13, 2022 for all four procurement categories.

[26]The percentage of contracts awarded to businesses in the U.S. when they bid varied by procurement category, from about 80 percent for non-consulting services; about 77 percent for goods; about 69 percent for consultant services; and 40 percent for civil works.

**Figure 10: Percentages of World Bank Borrower Contracts Bid on by and Awarded to Businesses in the U.S., FY 2017-October 13, 2022**




Source: GAO analysis of World Bank summary data. | GAO-23-105543

Note: Businesses include both companies and individuals that were awarded contracts. The World Bank's fiscal year (FY) begins July 1st. The World Bank provided GAO summary analysis of the number of contracts bid on by and awarded to businesses in the U.S. The World Bank generated these summary numbers from Systematic Tracking of Exchanges in Procurement system for all contracts signed from FY 2017 through October 13, 2022. According to World Bank officials, businesses included in this analysis may have bid individually or as part of a joint venture, and in some cases more than one business in the U.S. may have bid on the same contract.

## World Bank Data on Contracts that Businesses in the U.S. Were Awarded May be Over or Underestimated Due to Data Limitations

While the World Bank requires borrowers to record contract award information in STEP, including name and country of registration of contract awardees, the World Bank does not collect and report on all beneficial ownership information, or information on subcontractors.[27] As a result, the number of contracts and contract dollars that were awarded to businesses in a particular country, including those in the U.S., may be over or underestimated.[28]

### Beneficial Ownership Information is Not Collected or Reported for All Businesses

The World Bank does not collect and report the beneficial ownership information of all businesses that were awarded contracts, such as details of the business's ownership structure that may indicate if the business is owned, in part, by other foreign entities. Many businesses use foreign subsidiaries, and without the disclosure of beneficial ownership information for all contract awardees, the number of contracts and contract dollars attributed to businesses that have subsidiaries in other countries may be over or underestimated.[29] Our review of the World Bank's data identified instances where foreign subsidiaries of businesses in the U.S. were awarded contracts. In these instances, the World Bank data reported these contracts as being awarded to the non-U.S. country of registration of those subsidiaries, which may result in underestimating the number of contracts and contract dollars attributed to businesses in the U.S. For example:

- We identified several foreign subsidiaries of a publicly owned, U.S.-based pharmaceuticals business that collectively were awarded approximately $830 million in contract dollars between FYs 2017 and 2022. During that same period, the U.S.-based parent business was

[27]According to the World Bank, beneficial ownership refers to the person who ultimately owns or controls a company, or who materially benefits from the assets held by a company.

[28]We have previously reported on the challenges of determining the entity or country that received an economic benefit through international trade due to the complexity of and differences between the country of registration, country of beneficial ownership, country of product or service origin, and the country of contract performance. See GAO, *International Trade: Foreign Sourcing in Government Procurement*, GAO-19-414 (Washington, D.C.: May 30, 2019).

[29]This includes businesses in the U.S. and other countries. For example, if a borrower awarded a contract to the Canadian subsidiary of a business in the U.S., the World Bank data would attribute the contract award to a business in Canada. Therefore, depending on the corporate structure of the subsidiary and the business in the U.S., the data may overstate awards to businesses in Canada and understate awards to businesses in the U.S. Similarly, an award to the U.S. subsidiary of a business in Canada may overstate awards to businesses in the U.S. and understate awards to businesses in Canada.

awarded approximately $583 million in contract dollars. The World Bank's data attributes only the approximately $583 million as being awarded to a business in the U.S.[30]

- We also identified several foreign subsidiaries of a publicly owned, U.S.-based manufacturing and engineering business that collectively were awarded approximately $32 million in contract dollars between FYs 2017 and 2022. During that same period, the U.S.-registered parent business was awarded around $4 million in contract dollars. The World Bank's data attributes only the approximately $4 million in contract dollars as being awarded to a business in the U.S.[31]

In November 2017, the World Bank launched a beneficial ownership reporting pilot program. The program required borrowers to publish beneficial ownership information for contracts that met certain thresholds.[32] As of FY 2021, beneficial ownership information was disclosed for nine eligible awarded contracts with combined contract dollars of about $1.9 billion, according to World Bank documentation. According to the World Bank, in FY 2022 there were 38 ongoing procurements subject to the pilot program, accounting for around $5.8 billion in combined contract dollars. In FY 2023, the World Bank expanded the pilot to include all internationally advertised contracts. Under the initial and expanded pilot programs, beneficial ownership information is collected in STEP and publicly reported in individual project documentation, but is not published in the World Bank's consolidated public borrower contract award data. As a result, the relevant information must be manually compiled to analyze trends related to beneficial ownership.

[30]This example is presented to illustrate how much of the contract dollars could potentially be underestimated. Available public data do not show whether any of the approximately $830 million flowed to the parent company.

[31]This example is presented to illustrate how much of the contract dollars could potentially be underestimated. Available public data do not show whether any of the approximately $32 million flowed to the parent company.

[32]The pilot program applied to contract awardees for procurements valued over the World Bank's Operations Procurement Review Committee thresholds with a 'decision to appraise' on or after November 1, 2017. The thresholds vary based on the type and contract value of the procurement, and the procurement risk of the borrower as determined by the World Bank. For details of the thresholds, see World Bank Operational Manual BP 11.00 Annex D, *Mandatory Prior Review Thresholds for Regional Procurement Managers and the Operations Procurement Review Committee.*

Limitations in reporting beneficial ownership information for contract awardees is not unique to the World Bank, and we have previously reported on this challenge in the U.S. government.[33] Treasury's Financial Crimes Enforcement Network recently issued a final rule[34] establishing a beneficial ownership reporting requirement to increase corporate transparency in the U.S. Treasury also issued a notice of proposed rulemaking that would establish the access to and protection of beneficial ownership information.[35]

## The World Bank Does Not Collect Subcontract Data

The World Bank does not require borrowers to report subcontract awards. As a result, the number of contracts and contract dollars that may be attributed to businesses in specific countries may be under or overestimated, if part of the contract was subcontracted to an entity with a business address in a different country from the contract awardee. However, some information on subcontracts may be identified on an award-by-award basis. For example, we identified an approximately $48 million contract that was captured in the World Bank data as being awarded to a multilateral organization. However, our examination of the data found that the award to the multilateral organization was for the purchase of vaccines from a pharmaceuticals business headquartered in the U.S. Limitations in subcontract reporting are not limited to the World Bank, and we have previously reported on this challenge in the U.S. government.[36]

[33]For example, see GAO, *Defense Procurement: Ongoing DOD Fraud Risk Assessment Efforts Should Include Contractor Ownership*, GAO-20-106 (Washington, D.C.: Nov. 25, 2019) and *Aviation: FAA Needs to Better Prevent, Detect and Respond to Fraud and Abuse Risks in Aircraft Registration,* GAO-20-164 (Washington, D.C.: Mar. 5, 2020).

[34]Beneficial Ownership Information Reporting Requirements, 87 Fed. Reg. 59,498 (Sept. 30, 2022) (to be codified at 31 C.F.R. pt. 1010). The final rule will be effective January 1, 2024.

[35]Beneficial Ownership Information Access and Safeguards, and Use of FinCEN Identifiers for Entities, 87 Fed. Reg. 77,404 (proposed Dec. 16, 2022) (to be codified at 31 C.F.R. pt. 1010).

[36]GAO-20-106.

## Analysis Indicates World Bank Borrowers Awarded Contracts to 28 Entities That May Have Been Present on U.S. Sanctions and Other Lists

Our analysis of World Bank borrower contract award data and selected U.S. sanctions and other lists of parties of concern found that World Bank borrowers awarded contracts to entities that may have been on those U.S. lists. We performed automated and manual review of the name and country of registration of World Bank borrower contract awardees and entities on U.S. government lists from calendar year 2017 to 2021. Based on our analysis, we identified 28 contract awardees that may have been present on selected U.S. lists at the time the contract was awarded. Our analysis provides an indication that a contract may have been awarded to an entity on a U.S. list, but cannot confirm it.

### We Conducted Automated and Manual Reviews to Compare World Bank Borrower Awardees to Selected U.S. Sanctions and Other Lists

To examine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions and other lists of parties of concern, we conducted automated matching analysis followed by a manual review.[37] First, we compiled a list of names and the associated countries of entities on selected U.S. sanctions and other lists of parties of concern.[38] We then compared those entity names and associated countries with the contract awardee names and countries of registration from World Bank borrower contract award data. For those results identified by our analysis, we manually reviewed each match to determine the extent to which the names overlapped. For matches where we determined the names significantly overlapped, we further reviewed whether the World Bank contract awardee was awarded a contract while the entity with the similar name was on a U.S. list.

Our analysis provides an indication that a contract was awarded to an entity that may have been on a U.S. list, but cannot confirm it. Our analysis is based on publicly available information, and the potential

[37]To automatically flag records for review, we created an automated system for identifying and flagging World Bank contract awardees, the names of which (1) either partially or fully matched entities on selected U.S. sanctions or other lists of parties of concern and (2) were associated with the same country or countries as entities on U.S. lists. For example, attempting to match the entity "Alpha Beta Corp." to a World Bank contract award to the "Alpha Beta Gamma Corporation" would have produced a potential positive match. We then manually reviewed the high-confidence matches to determine the amount of overlap between the names.

[38]Specifically, we selected the Treasury Office of Foreign Assets Control Specially Designated Nationals And Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN), the General Services Administration System for Awards Management Exclusions List, the Commerce Bureau of Industry and Security Entity, Unverified, and Military End User lists, and the Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act.

matches we identified are based on names and their associated countries. While we took steps to eliminate false matches, the World Bank's data do not include other identifying information that could provide greater assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Without such identifying information, our analysis cannot positively identify whether a World Bank borrower contract awardee is the same entity as on a selected U.S. sanctions or other list.

We also contacted Treasury, Commerce, and the World Bank to see if they were aware of these awards and could provide any additional information or explanations that we should consider. Treasury officials told us that Treasury is not responsible for monitoring individual borrower contract awards, which occur after the World Bank's board approves a project. Commerce International Trade Administration officials told us they had no comments on the specific awards that we identified. The World Bank provided us details of their review of contract awardees that may have been on Office of Foreign Assets Control (OFAC) sanctions lists.

## World Bank Borrowers Awarded Contracts to 28 Entities That May Have Been Present on U.S. Sanctions and Other Lists

Our analysis of World Bank borrower contract award data and selected U.S. sanctions and other lists of parties of concern found that World Bank borrowers awarded contracts to 28 entities that may have been on selected U.S. lists. Specifically, of the approximately 150,000 contracts awarded from calendar years 2017 through 2021—representing approximately $80 billion in contract dollars—we identified 28 contracts that borrowers awarded to entities that may have been on selected U.S. sanctions and other lists of parties of concern, representing around $76 million in contract dollars.[39]

The World Bank prohibits borrowers from awarding contracts to certain entities debarred by the World Bank or other multilateral development banks. Additionally, according to World Bank officials, the World Bank prohibits borrowers from awarding contracts to entities subject to United Nations sanctions. Those officials also told us that according to its Articles of Agreement, the World Bank is not subject to sanctions imposed under its member countries' laws and regulations. However, according to the officials, the World Bank's Anti-Money Laundering and Countering Financing of Terrorism policies and procedures includes screening

[39]The contract awards that we identified represent around 0.02 percent of the total number of contracts, and 0.1 percent of the total contract value we reviewed.

against OFAC Specially Designated Nationals and Blocked Persons List (SDN List) and Consolidated Sanctions List (Non-SDN List), as well as United Kingdom and European Union sanctions lists. If the World Bank identifies an award recommendation to an entity on these sanctions lists, the World Bank informs the borrower that (1) the World Bank is not able to issue a direct payment (on behalf of the borrower) to a potential contract awardee, and (2) the borrower may not be able to process the payment themselves. If the borrower is not able to process the payment, the borrower may make alternative payment arrangements to pay the contract awardee.[40]

The 28 contracts were awarded to entities that may have appeared on selected U.S. sanctions or other lists of parties of concern for various reasons, and several entities may have appeared on more than one list.[41] Fifteen contracts may have been awarded to entities on Treasury OFAC lists and therefore may have had sanctions applied, such as Global Magnitsky or Non-SDN Chinese Military-Industrial Complex Companies sanctions.[42] Thirteen contracts may have been awarded to entities that were subject to export restrictions because they were listed on the Commerce Bureau of Industry and Security's Entity List or Unverified List. Fourteen contracts may have been awarded to entities that were excluded from receiving U.S. federal contracts in the General Services Administration System for Award Management.

[40]We did not evaluate the World Bank's Anti-Money Laundering and Countering Financing of Terrorism policies and procedures, or how the World Bank screens contract awardees against sanctions lists. In an upcoming review of the World Bank's procurement processes, we plan to examine how the World Bank and borrowers perform due diligence on potential contract awardees.

[41]Specifically, 14 contracts were awarded to entities that may have appeared on two lists.

[42]The Global Magnitsky Human Rights Accountability Act authorizes the U.S. government to sanction foreign persons who (1) are responsible for gross violations of human rights, (2) acted as an agent of a foreign person responsible for a gross violation of human rights in specific matters, (3) are government officials involved in significant acts of corruption, or (4) have materially assisted a government official in a significant act of corruption. 22 U.S.C. § 2656 note. Executive Order 14032 of June 3, 2021 prohibits U.S. persons from buying or selling securities (or their derivatives) of any person who has been specifically listed or has been determined (1) to operate or have operated in the defense and related materiel sector or the surveillance technology sector of the economy of the PRC, or (2) to own or control, or to be owned or controlled by, directly or indirectly, a person who operates or has operated in any of those sectors, or a person who is listed in the Annex to the order or who has otherwise been determined to be subject to the prohibitions on transacting in securities. Addressing the Threat From Securities Investments That Finance Certain Companies of the People's Republic of China, Exec. Order No. 14032 (2021).

Sixteen of the 28 awards we identified were less than $1 million, including all contracts that were awarded to individuals. The remaining 12 contracts were awarded to businesses in China and were between approximately $1 million and $14 million. Overall, 18 of the 28 awards were awarded domestically (e.g., contracts awarded by China to businesses in China) and 10 were awarded internationally (e.g., contracts awarded by Uganda to businesses in China). Appendix II provides additional details of the awards to entities that may have been on selected U.S. sanctions or other lists of parties of concern, including the borrower country, awardee country, relevant reason for inclusion on a U.S. list, size of award, and the contract description.

Limited data on World Bank borrower contract awards and selected U.S. sanctions and other lists of parties of concern make it difficult to identify whether World Bank borrowers awarded contracts to entities that may have been on selected U.S. lists. For example, Treasury does not maintain machine-readable historical records of the names and relevant dates of entities on U.S. lists. Additionally, while the World Bank collects beneficial ownership information on contract awardees for contracts that meet certain thresholds, they do not report that information in a public, consolidated dataset.

We contacted Treasury, Commerce, and the World Bank to see if they were aware of these awards and could provide any additional information or explanations that we should consider. Treasury officials told us that Treasury is not responsible for individual borrower contract awards, nor are they able to monitor those awards, which occur after the World Bank's board approves a project. However, those officials noted that when they become aware of a contract award that may be of concern, they seek an explanation from the World Bank to determine whether any action should be taken.

Commerce International Trade Administration officials told us they had no comments on the specific awards that we identified. An International Trade Administration official noted that monitoring awards would be challenging because the World Bank does not publish bid data in a public, consolidated dataset, and contract award data may not be published until up to a year after the contract is finalized. As a result, officials using World Bank contract award data could only monitor contracts after the contracts are awarded. World Bank borrowers are required to publish a public notice of contract award within ten days of communicating that award determination to the contract awardee. According to the World

Bank, 84 percent of contract awards are published within ten days, and 90 percent are published within 18 days.

Treasury provided additional details on two of the 15 contracts that, per our analysis, were awarded to entities that may have been on OFAC sanctions lists. For one contract awardee whose name matched a sanctioned entity except for a single word, Treasury stated that the related sanctions program does not apply to subsidiaries.[43] For the other contract awardee, Treasury noted that the individual who is the potential match on the sanctions list is currently incarcerated in the U.S.

Additionally, the World Bank provided comments on these 15 contract awards. Specifically, the World Bank noted that:

- For six contracts, the borrower established an alternative payment arrangement in order to pay the contract awardee. According to the World Bank, borrowers may make alternative payment arrangements if the World Bank identifies that the potential contract awardee is on a sanctions list used in the World Bank's screening and the World Bank will not be able to issue a direct payment to the potential awardee.
- For five contracts, according to the World Bank's assessment, the contract awardee was not the same entity that appeared on an OFAC sanctions list.
- For four contracts, the World Bank screened the contract awardee against OFAC sanctions lists and did not identify a match.

Comments on this analysis from Treasury and the World Bank on these 15 contract awards are reflected in Appendix II. Commerce, Treasury, and the World Bank did not provide any additional details regarding the contract awards that we identified in our analysis that may have been awarded to entities on BIS lists or the System for Award Management Exclusions List.

## Agency Comments

We provided a draft of this report for review and comment to Treasury, Commerce, and the World Bank. Treasury and Commerce did not provide comments. The World Bank provided technical comments, which we incorporated as appropriate. In addition, the World Bank provided written comments, which are reprinted in Appendix III. In its written comments, the World Bank acknowledged our work and restated its commitment to

[43] Specifically, China Mobile Communications Group Jiangsu Co., Ltd. was awarded a contract while China Mobile Communications Group CO., LTD. was on the OFAC Chinese Military-Industrial Complex Companies List. Jiangsu is a province in China.

open, competitive procurement. The World Bank also stated that we found its borrower contract award data and information systems reliable. While we reviewed the borrower contract award data and found it reliable for use in our analyses, the World Bank does not guarantee the accuracy of data entered by borrowers. We identified a number of inconsistencies in the data, and the World Bank addressed or identified plans to address many of those inconsistencies during our review. We asked the World Bank to describe its controls over its information systems, but we did not independently test or evaluate those controls or the information systems. Appendix I provides details of the testing that we performed.

We are sending copies of this report to the appropriate congressional requesters, the Secretary of the Treasury, the Secretary of Commerce, the President of the World Bank, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4409 or LoveGrayerL@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in Appendix IV.

Latesha Love-Grayer

Latesha Love-Grayer
Director, International Affairs and Trade

# Appendix I: Objectives, Scope, and Methodology

This report examines (1) the extent to which World Bank borrowers awarded contracts to businesses in the U.S. in comparison to businesses in other countries and (2) the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, the Department of the Treasury (Treasury) took in response.

To obtain information for our objectives, we reviewed World Bank documents related to the Procurement Framework (effective World Bank fiscal year (FY) 2017), including policies and related procedures for procurement by borrowers under Investment Project Financing (IPF), as well as guidance and training for Systematic Tracking of Exchanges in Procurement (STEP).[1] We also reviewed other World Bank documents including the Articles of Agreement and Procedures on Sanctions Proceedings and Settlements in Bank Financed Projects. We obtained publicly available World Bank data on borrower contract awards from two datasets: (1) Major Contract Awards (MCA)[2] and (2) Contract Awards in IPF.[3] We interviewed World Bank officials regarding the World Bank's policies and procedures for borrower-implemented procurement and controls over STEP data.

We assessed the reliability of these data by reviewing for internal consistency; checking for duplicate entries, gaps, and obvious errors; comparing the datasets; and interviewing World Bank officials about their data collection and verification procedures. We identified two issues that affect the level of detail available about the recipients of borrower contract awards. Specifically:

[1]The World Bank's fiscal year begins July 1st. All references to fiscal years in this report are World Bank fiscal years, unless otherwise noted.

[2]The MCA dataset covers World Bank fiscal years 2001 – 2016, and only includes contracts that required additional World Bank review and approval, a process known as prior review. As a result, data from FY 2016 and earlier lack information on an unknown number of contracts. During the course of our review, the World Bank changed the name of the MCA dataset to Contract Awards in IPF (since FY2001 – FY 2016). We refer to the dataset as MCA to differentiate it from the Contract Awards in IPF dataset that includes fiscal years 2017 onward.

[3]The Contract Awards in IPF dataset covers World Bank fiscal years 2017 onward. The dataset's source is the STEP. According to World Bank officials, they began transitioning borrowers to STEP in FY 2017, and all borrowers used STEP beginning in FY 2019. As a result, data from FYs 2017 to 2018 lack information on an unknown number of contracts.

- **Lack of collection and reporting of all beneficial ownership information.** The World Bank does not collect and report the beneficial ownership information of all businesses that were awarded contracts, such as details of the business's ownership structure that may indicate if the business is owned, in part, by other foreign entities. Borrowers record the country of registration of contract awardees in STEP, which may not take into account such issues as beneficial ownership, multi-national corporate structures, joint ventures, or other considerations that may affect determinations of nationality and ownership. While the World Bank requires that borrowers collect and publicly report beneficial ownership information of some contract awardees, that information is collected for a sub-set of all contract awardees, and is not available in a public, consolidated dataset.[4] As a result, the number of contracts and contract dollars attributed to businesses in specific countries may be over or underestimated.
- **Lack of collection of subcontract award data.** The World Bank does not require borrowers to report subcontract awards. As a result, the number of contracts and contract dollars attributed to businesses in specific countries may be over or underestimated if part of the contract was subcontracted to an entity with a business address in a different country from the contract awardee.

Additionally, during our review, we identified a number of inconsistencies with the MCA and Contract Awards in IPF datasets, some of which the World Bank subsequently corrected. Specifically:

- **Datasets are regularly updated.** The World Bank regularly updates the IPF dataset, including backfilling entries, and, as a result, the data changes over time. World Bank officials told us the Contract Awards in IPF dataset is updated daily, and that previously published data may change due to amendments to prior contracts. As a result, we selected the datasets available as of November 1, 2022 to perform

[4]According to the World Bank, beneficial ownership refers to the person who ultimately owns or controls a company, or who materially benefits from the assets held by a company. In 2017, the World Bank launched a beneficial ownership reporting pilot program. The program required borrowers to publish beneficial ownership information for contracts that met certain thresholds. As of FY 2021, beneficial ownership information was disclosed for nine eligible, awarded contracts with combined contract dollars of about $1.9 billion according to World Bank documentation. According to the World Bank, in FY 2022 there were 38 ongoing procurements that are subject to the pilot, accounting for around $5.8 billion in contract dollars. In FY 2023, the World Bank expanded the pilot to include all internationally advertised contracts. Under the initial and expanded pilot, beneficial ownership is reported in individual project documentation and is not reported in the World Bank's public data on borrower contract awards.

our review. Similar analysis using different datasets may yield different results.

- **Some data overlapped between the datasets.** During the course of our work, the World Bank began publishing two datasets on borrower contract awards with overlapping periods, and we identified inconsistencies where the datasets overlapped. When we began our work in November 2021, the World Bank only published the MCA dataset, which covered prior-reviewed contracts from FY 2001 onward. Later, the World Bank separately published the Contract Awards in IPF dataset, which covered all contract awards entered into STEP by borrowers for FY 2017 onward. We identified that the datasets duplicated many contract awards for the overlapping period, but that some contract awards in the MCA dataset did not appear in the Contract Awards in IPF dataset. World Bank officials told us the discrepancy was due to changes in data that were only updated in one of the two datasets. Subsequently, the World Bank revised the datasets to cover distinct periods with no overlap.
- **Some data were missing or unreadable.** Some contract award records had missing or unreadable data. The World Bank requires borrowers to enter data into STEP, but the World Bank does not guarantee the accuracy of data entered by borrowers. World Bank officials told us that borrowers are responsible for the accuracy of data entered into STEP, and that the World Bank verifies borrower data for prior-reviewed contracts.
- **Some data were inconsistent.** Some contract award records had conflicting data. For example, during our review we identified conflicting data for the “country” and “country code” of contract awardees. Specifically, for a single “country” there were multiple corresponding two-digit “country codes.”[5] World Bank officials told us this mismatch was an oversight. Subsequently, the World Bank revised the datasets so that the “country” and “country code” aligned for all contract awards. Additionally, we identified a number of non-United Nations contract awardees associated with a United Nations-specific procurement method. World Bank officials told us that STEP does not have a control to prevent borrowers from assigning the United Nations-specific procurement method to non-United Nations procurements, and they planned to address the issue in the future.
- **Some data were not published.** The datasets did not report contract awards to joint ventures with two or more businesses. World Bank

[5]In the Contract Awards in IPF dataset, the “country” is the full name of the country, while the “country code” is a standard two-digit code assigned by the World Bank.

officials told us this was an oversight. Subsequently, the World Bank revised the IPF dataset so that a single contract award number may have multiple entries with different contract awardees.

Based on our review, and subsequent corrections made by the World Bank, we found these data to be sufficiently reliable for summarizing data on World Bank borrower contract awards and comparing World Bank borrower contract awardees against entities on selected U.S. sanctions or other lists of parties of concern.

Because our scope for both objectives encompassed FYs 2013 through 2022, we combined the MCA and Contract Awards in IPF datasets. To accomplish this, we downloaded both datasets from the World Bank's web site on November 1, 2022 and combined them with the assumption that the IPF "Supplier Contract Amount (USD)" field was equivalent to the MCA "Total Contract Amount (USD)" field.

In some cases, we inferred information on supplier and borrower country codes based on country names in the data. To ensure compatibility with U.S. State Department country codes, in some cases we edited the World Bank's country codes.[6] We used supplier and borrower codes to determine whether each contract was a 'domestic' or 'self-award'—in other words, an award where the borrower country and supplier country were the same.

In order to examine the extent to which World Bank borrowers awarded contracts to businesses in the U.S. compared to businesses in other countries, for FYs 2013 through 2022 we performed various calculations on the combined datasets using a number of variables including borrower country, country of contract awardee (i.e. supplier), number and amount of awarded contracts, and the procurement category.[7] For example, we summed the number and dollar value of contracts awarded to different supplier countries. We also performed additional analysis on the combined data and summary outputs, as needed.

[6]Edited codes included those for the Democratic Republic of the Congo (Congo-Kinshasa, "CD"), the Democratic Republic of Timor-Leste ("TL"), the Republic of Serbia ("RS"), and the Republic of Yemen ("YE").

[7]The World Bank's datasets include both the fiscal year of each contract award, as well as the date the contract was signed. We limited our analysis to contract awards with a reported FY between 2013 and 2022.

Additionally, we requested and the World Bank provided summary data from STEP on how many contracts businesses in the U.S. successfully bid on from FY 2017 to October 13, 2022. Based on our review of the World Bank's Contract Awards in IPF dataset, as well as controls related to STEP, we found these data to be sufficiently reliable for presenting the World Bank's summary of bid data for businesses in the U.S., as well as our analysis of that summary data.

Further, we reviewed World Bank documents, including summaries of data limitations published on the World Bank's website, and reviews of borrower-implemented procurement performed by the World Bank and the World Bank Group. We also interviewed World Bank officials regarding the World Bank's policies and procedures for borrower-implemented procurement.

To examine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions or other lists of parties of concern, and what actions, if any, Treasury took in response, we first identified and reviewed various selected sanctions lists and other lists of parties of concern to the U.S. government that are managed by federal agencies.[8] We considered whether each list was: (1) public; (2) relevant to U.S. national security or foreign policy interests; (3) related to commercial, subnational entities (such as individuals and businesses); and (4) whether there were any significant limitations to the data, such as availability. Based on our review, we selected the Treasury Office of Foreign Assets Control (OFAC) Specially Designated Nationals And Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN), the General Services Administration System for Awards Management (SAM) Exclusions List, the Commerce Bureau of Industry and Security (BIS) Entity, Unverified, and Military End User (MEU) lists, and the

[8]Specifically, we identified and reviewed: (1) the Department of the Treasury (Treasury) Office of Foreign Assets Control (OFAC) (a) Specially Designated Nationals And Blocked Persons List (SDN) and (b) Consolidated Sanctions List (Non-SDN); (2) the Department of State Directorate of Defense Trade Controls (a) Country Policies and (b) Debarred Parties; (3) the General Services Administration (a) System for Awards Management (SAM) Exclusions List and (b) Federal Awardee Performance and Integrity Information System; (4) the Department of Commerce International Trade Administration (a) Consolidated Screening List and the Bureau of Industry and Security (BIS) (b) Entity List, (c) Unverified List, (d) Military End User (MEU) List, and (e) Denied Persons List; and (5) the Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act (Covered List). The Federal Communications Commission Covered List is a list of equipment and services produced by specific entities, and our analysis of that list focused on those entities' names.

Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act (Covered List).[9] In order to capture entities that may have been added to or removed from each list, we included historical versions of or records of changes to the lists in our analysis and data reliability testing. We assessed the reliability of these data by reviewing the data for internal consistency; examining them for duplicate entries, gaps, and obvious errors; and reviewing written comments provided by Treasury and Commerce officials about their data maintenance and publication procedures.[10] Based on our review, we found these data to be sufficiently reliable for identifying search strings and related information to compare against World Bank contract awardees. We limited our scope for this analysis to calendar years 2017 to 2021.[11]

To compile names of currently listed OFAC entities, we downloaded machine-readable versions of the SDN List and Non-SDN List. We identified search strings based on the “firstName” and “lastName” data elements. For records with both a “firstName” and “lastName” data element, we identified search strings based on both combinations of the data elements (firstName + lastName, and lastName + firstName). We also checked for the presence of and identified search strings based on ‘also known as’ (AKA) records.

Historical OFAC listings are not available in standard machine-readable formats, but they are published in the form of semi-structured text files on

[9]We reviewed the SAM Exclusions List as of March 8, 2022. As of that date, the majority of entities and individuals in the SAM Exclusions List are identified as located in the U.S. We limited our use of the SAM Exclusions List to those entities and individuals identified with a non-U.S. location.

[10]We did not interview General Services Administration officials as part of this engagement. However, we performed manual data testing on the exclusions list data, and reviewed data reliability testing performed by other GAO teams on SAM and determined, based on that testing, that the data was sufficiently reliable for our purposes. Additionally, we did not interview Federal Communications Commission officials. However, the Covered List was created in March 2021 and consisted of five entries during CY 2021, which we manually reviewed and determined the data was sufficiently reliable for our purposes.

[11]We limited our analysis to contract awards with a reported FY of 2017 and later, and a contract signing date between calendar year 2017 to 2021.

Treasury's web site.[12] Using regular expressions and a variety of other programmatic methods, we identified and downloaded each text file and attempted to parse the text.[13] Specifically, we:

- attempted to parse sections of the raw text indicating entity removals from the SDN or another list;
- attempted to parse individual line items within each list removal section;
- attempted to parse the names of listed entities within each line item.

Current and historical versions of the SAM Exclusions List are available via the public SAM web site. We downloaded or queried versions of the data that covered the time period in-scope for this engagement, and programmatically read them to compile names for entities with a listed country other than the U.S. As with the OFAC lists, we identified individuals' names with surnames written first as well as names with surnames written last.

The BIS Entity List, Unverified List, and MEU List, including archival versions, are all available in machine-readable formats via the Electronic Code of Federal Regulations web application programming interface (API).[14] We compiled current and historical versions of entity names on all three lists by:

- downloading current Electronic Code of Federal Regulations page data to obtain a list of change dates for each list;
- creating and running an API call for each change date and parsing the raw data for machine-readable strings of text; and
- parsing each string of text to identify likely entity names.

[12]Archival changes to the SDN List and Non-SDN Lists are available in PDF and TXT files at: https://ofac.treasury.gov/specially-designated-nationals-list-sdn-list/archive-of-changes-to-the-sdn-list.

[13]Due to limitations in the structure of the data, we attempted to parse each substring using multiple parsing strategies to maximize the likelihood of identifying the correct entity names and associated countries.

[14]15 C.F.R. Part 744 Supplement No. 4 contains the Entity List, Supplement No. 6 contains the Unverified List, and Supplement No. 7 contains the Military End-User List. Date-specified versions of the list can be accessed through ecfr.gov via API in XML format.

As with OFAC data, we attempted to parse the data in order to compile individuals' names with surnames written first as well as names with surnames written last. We also compiled AKA names.

After we compiled all of these entity names along with those appearing on the Federal Communications Commission's Covered List, we combined them into a single dataset. In order to maximize the traceability of entity names to World Bank supplier labels, we eliminated commonly abbreviated or commonly translated segments of entities' names. For example, if the end of an entity's name contained the substrings 'Inc.' or 'Ltd.' or 'Incorporated', we omitted those substrings for the purposes of our programmatic matching process.

In order to compare country codes across the U.S. government and World Bank data, for each entity identified in the U.S. government combined data, we attempted to identify a country or countries and assign a standard two-digit country code. For each entry in the World Bank data, we similarly assigned a standard two-digit country code based on the World Bank supplier country code. When identifying matches in World Bank supplier data, we used this country data to rank matches according to higher or lower confidence. We searched each World Bank supplier name for each entity name compiled from the U.S. government sources, using the entity names as substrings. For example, attempting to match the entity "Alpha Beta Corp." to a World Bank contract award to the "Alpha Beta Gamma Corporation" would have produced a potential positive match.

Where we found a name and country match across both datasets, we listed the potential match as "higher" confidence. Where we found only a name match, we listed the potential match as "lower" confidence.

To minimize lower confidence matches, we eliminated potential matches from our output based on various criteria:

- We omitted potential matches on company or organization names that were five characters or fewer.
- We omitted potential matches on other names that were two characters or fewer.

- We also omitted potential matches on a small number of names that produced very high numbers of false positive matches on World Bank supplier data.[15]

Because of the imprecise nature of our programmatic analysis, we did not depend on it for the purposes of this report's findings. We manually reviewed all programmatically flagged potential matches to ascertain their accuracy. Our programmatic output included a list of 'higher' and 'lower' confidence matches, as well as selected information from the source datasets.

For those potential matches where our programmatic review identified a potential match based on the name of the entity, but was unable to identify an associated country from the selected U.S. sanctions or other list of parties of concern, we first reviewed the source list to determine if an associated country for that entity existed. If were able to manually identify an associated country, we added that country (or countries) to our analysis and manually determined whether the country of the contract awardee matched the country of the entity on a selected U.S. sanctions or other list, and therefore whether the potential match required additional review. If we were unable to identify an associated country, we reviewed the source material for alternative names for the entity and determined whether those alternatives names were included in our analysis of potential matches. If the alternative names were included in our analysis and had no match identified based on their name, we excluded those results.[16] In addition, we manually tested a sample of other potential results to verify that the programmatic review accurately captured country information from selected U.S. sanctions and other lists.

We manually reviewed each potential match to determine the likelihood of whether the name of the World Bank borrower contract awardee matched the name of the entity on a selected U.S. sanctions or other list of parties of concern. We developed codes on the likelihood of whether the name of the World Bank borrower contract awardee matched the name of the

[15]For example, we omitted 'TAN' from our analysis, an acronym for a company on OFAC's SDN list. While matching this acronym to World Bank supplier records, it returned low-confidence matches to many records where the World Bank had awarded contracts to 'Individual Consultant' suppliers.

[16]Several search strings excluded in this manner were three to five letter acronyms of organizations. In one instance, the source for an individual did not include any country information. In one instance, the organization's name did not otherwise appear in our analysis, and we performed additional research to determine the countries in which it operates.

entity on a selected U.S. sanctions or other list that ranged from a direct name match to no overlap between the names. Two analysts independently coded each potential match. The analysts then compared their coding and reconciled any initial disagreements.

For those potential results identified as direct name matches or substantial name overlap between the World Bank contract awardee and the entity on a selected U.S. sanctions or other list of parties of concern, we performed additional analysis to determine the dates that each entity was added to or removed from each respective list. If a World Bank contract awardee received a contract award at a time when the potential matched entity was not on a selected U.S. sanctions or other list, we excluded it from our review.

We could not confirm that the contract awardees were the same entities identified on selected U.S. lists because additional identifying information needed to make a positive identification—such as beneficial ownership information, addresses, national documentation numbers, or dates of birth—is not included in the World Bank's public data on borrower contract awards. We also provided the results of our analysis to Treasury, Commerce, and the World Bank, and incorporated their responses in our report.[17]

We conducted this performance audit from November 2021 to May 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[17]Treasury's Office of International Affairs and Office of Foreign Assets Control and Commerce's International Trade Administration provided responses.

# Appendix II: World Bank Borrower Contract Awards to Entities that May Have Been on Selected U.S. Sanctions and Other Lists

To examine the extent to which World Bank borrowers awarded contracts to entities that may have been on selected U.S. sanctions and other lists of parties of concern, we conducted automated matching analysis combined with a manual review of the results of the automated matching.[1] First, we compiled a list of names and the associated countries of entities on selected U.S. sanctions and other lists of parties of concern.[2] Subsequently, we compared those entity names and associated countries with the contract awardee names and countries of registration from World Bank borrower contract award data. For those results identified by our analysis, we manually reviewed each match to determine the extent to which the names overlapped. For those matches where we determined the names significantly overlapped, we further reviewed whether the World Bank contract awardee was awarded a contract while the entity with a similar name was on a U.S. list.

Our analysis provides an indication that a contract was awarded to an entity that may have been on a U.S. list, but cannot confirm it. Our analysis is based on publicly available information, and the potential matches we identified are based on names and their associated countries. While we took steps to eliminate false matches, the World Bank's data do not include other identifying information that could provide greater assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Without such identifying information, our analysis cannot positively identify whether a World Bank borrower contract awardee is the same entity as on a U.S. sanctions or other list of parties of concern.

Our analysis reviewed the approximately 150,000 contracts World Bank borrowers awarded from calendar years 2017 through 2021, representing

[1]To automatically flag records for review, we created an automated system for identifying and flagging World Bank contract awardees, the names of which (1) either partially or fully matched entities on selected U.S. sanctions or other lists of parties of concern and (2) were associated with the same country or countries as entities on U.S. lists. We then manually reviewed the high-confidence matches to determine accuracy. For example, attempting to match the entity "Alpha Beta Corp." to a World Bank contract award to the "Alpha Beta Gamma Corporation" would have produced a potential positive match. Subsequently, we manually reviewed each potential match.

[2]Specifically, we selected the Treasury Office of Foreign Assets Control (OFAC) Specially Designated Nationals And Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN), the General Services Administration System for Awards Management (SAM) Exclusions List, the Commerce Bureau of Industry and Security (BIS) Entity, Unverified, and Military End User (MEU)lists, and the Federal Communications Commission List of Equipment And Services Covered By Section 2 of The Secure Networks Act.

approximately $80 billion in contract dollars. We identified 28 contracts that World Bank borrowers awarded to entities that may have been on selected U.S. sanctions and other lists, representing around $76 million in contract dollars.[3] Some entities appeared on multiple lists maintained by different U.S. agencies.

We contacted Treasury, Commerce, and the World Bank to see if they were aware of these awards and could provide any additional information or explanations that we should consider. Treasury officials told us that Treasury is not responsible for individual borrower contract awards, nor are they able to monitor those awards, which occur after the World Bank's board approves a project. However, those officials noted that when they become aware of a contract award that may be of concern, they seek an explanation from the World Bank to determine whether any action should be taken.

Commerce officials told us they had no comments on the specific awards that we identified. An International Trade Administration official noted that monitoring awards would be challenging because the World Bank does not publish bid data in a public, consolidated dataset, and contract award data may not be published until up to a year after the contract is finalized. As a result, officials using World Bank contract award data could only monitor contracts after the contracts are awarded.

Treasury provided additional details on two of the 15 contracts that, per our analysis, were awarded to entities that may have been on OFAC sanctions lists. For one contract awardee whose name matched a sanctioned entity except for a single word, Treasury stated that the related sanctions program does not apply to subsidiaries. For the other contract awardee, Treasury noted that the individual who is the potential match on the sanctions list is currently incarcerated in the U.S. Additionally, the World Bank provided comments on all 15 of these contract awards. Specifically, the World Bank noted that:

- For six contracts, the borrower established an alternative payment arrangement in order to pay the contract awardee. According to the World Bank, borrowers may make alternative payment arrangements if the World Bank identifies that the potential contract awardee is on a

[3]The contract awards that we identified represent around .02 percent of the total number of contracts, and .1 percent of the total contract value we reviewed.

sanctions list used in the World Bank's screening and the World Bank will not be able to issue a direct payment to the potential awardee.

- For five contracts, according to the World Bank's assessment, the contract awardee was not the same entity that appeared on an OFAC sanctions list.
- For four contracts, the World Bank screened the contract awardee against OFAC sanctions lists and did not identify a match.

The results of our analysis may be found in Tables 3 through 5. Treasury and the World Bank's responses are included in the notes to the tables, where appropriate. Due to concerns with disclosing personally identifiable information, and the common nature of many names identified in our analysis, we are not publishing specific information relating to seven contract awards to six individuals.

**Table 3: World Bank Borrower Awards to Entities That May Have Been on OFAC Sanctions Lists**

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | OFAC Entity Name | OFAC Entity Country | OFAC List/Program and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| China National Chemical Economic and Technical Development Centre[a] | China | 04/06/2021 | China National Chemical Corp Ltd. | China | CCMC[f]<br>Listing date: 11/12/2020<br>Effective date: 01/11/2021<br>Date removed: 06/03/2021 | China | Investigation on Feedstock Applications of HCFCs in 2019-2022 | $262,863.01 |
| Individual 1[b,c] | Serbia | 2020[b] | Individual 1[b] | Serbia | SDN/GLOMAG[g]<br>Listing date: 2019[b] | Serbia | Consultant Services[b] | Appx. $100,000[b] |

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | OFAC Entity Name | OFAC Entity Country | OFAC List/Program and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Xinjiang Corps 4th Construction Engineering (Group) Co. Ltd[d] | China | 04/02/2021 | Xinjiang Production and Construction Corps | China | SDN/GLOMAG[g] Listing date: 07/31/2020 | China | Ximen River disaster shelter square: A total of 21,600m2, with the supporting construction of emergency access, disaster prevention equipment and facilities etc.; The reconstruction of Zifu Road. | $7,160,996.16 |
| Individual 2[b,c,e] | Pakistan | 2020[b] | Individual 2[b] | Pakistan | SDN/SDGT[h] Listing date: 2003[b] | Pakistan | Consultant Services[b] | Appx. $5,000[b] |
| CCCC Road and Bridge Construction Co., Ltd[d] | China | 03/15/2021 | China Communications Construction Company Limited; CCCC | China | CCMC[f] Listing date: 11/12/2020 Effective date: 01/11/2021 CMIC[f] Effective Date: 08/02/2021 | China | city around metro stations connection sub-project (B-6) | $6,834,841.65 |
| China Mobile Communications Group Jiangsu Co., Ltd.[a] | China | 11/30/2021 | China Mobile Communications Group CO., LTD. | China | CMIC[f,i] Listing date: 06/03/2021 Effective Date: 08/02/2021 | China | SMART water system (C) | $5,553,136.56 |
| Individual 3[b,d] | Pakistan | 2020[b] | Individual 3[b] | Pakistan | SDN/SDGT[h] Listing date: 2011[b] | Pakistan | Goods[b] | Appx. $2,500[b] |
| Individual 3[b,d] | Pakistan | 2019[b] | Individual 3[b] | Pakistan | SDN/SDGT[h] Listing date: 2011[b] | Pakistan | Civil Works[b] | Appx. $35,000[b] |
| Individual 4[b,c] | Pakistan | 2018[b] | Individual 4[b] | Pakistan | SDN/SDGT[h] Listing date: 2014[b] | Pakistan | Consultant Services[b] | Appx $15,000[b] |

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | OFAC Entity Name | OFAC Entity Country | OFAC List/Program and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| China National Electronics Import & Export Corporation (CEIEC)[a] | China | 08/23/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | SDN/Venezuela[j] Listing date: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for NDRCC / NDMRTI under DDM | $1,025,967.50 |
| China National Electronics Import & Export Corporation (CEIEC)[a] | China | 03/28/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | SDN/Venezuela[j] Listing date: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for Emergency Operation Centre (EOC) at DSCC and SCC | $2,846,840.60 |
| China National Electronics Import & Export Corporation (CEIEC)[a] | China | 03/28/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | SDN/Venezuela[j] Listing date: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet | $2,659,229.65 |
| China National Electronics Import & Export Corporation (CEIEC)[a] | China | 01/03/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | SDN/Venezuela[j] Listing date: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet | $1,243,823.65 |
| Individual 5[b,c] | Pakistan | 2019[b] | Individual 5[b] | Pakistan | SDN/SDGT[h] Listing date: 2010 / 2012[b,k] | Pakistan | Consultant Services[b] | Appx. $5,000[b] |
| Meamar Group[c] | Lebanon | 02/01/2021 | Meamar SARL | Lebanon | SDN/SDGT[h] Listing date: 09/17/2020 | Lebanon | Rehabilitation of COVID-19 ICU Unit | $190,890.62 |

Source: GAO analysis of World Bank and U.S. Department of the Treasury (Treasury) Office of Foreign Assets Control (OFAC) data. | GAO-23-105543

Notes: We programmatically and manually compared the names of World Bank borrower contract awardees from the World Bank's borrower contract award data against entities on selected U.S. sanctions and other lists of parties of concern for the period calendar year 2017 to 2021. We limited the comparison to contract awardees and entities on U.S. lists with the same associated country. The entries in this table represent the names of contract awardees and entities on U.S. lists that we determined had substantial or complete overlap. We further reviewed each contract awardee and entity to determine whether the entity was listed at the time the World Bank borrower awarded the contract.

Our analysis does not positively identify whether a contract was awarded to an entity on a selected U.S. sanctions or other list of parties of concern. Our analysis is based on publicly available

information, and the potential matches we identified are based only on names and associated countries. The World Bank's borrower contract award data do not include other identifying information that could be used to provide assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Entities may appear on multiple U.S. lists at the same time.

According to World Bank officials, the World Bank screens contract award recommendations by borrowers through its Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) and Sanction Screening Procedure. Those officials told us that the AML/CFT policies and procedures include screening against U.S. sanctions lists, among others. If the World Bank identifies an award recommendation to an entity that is on a sanctions list used in the World Bank's screening, the World Bank informs the borrower that 1) the World Bank is not able to issue a direct payment (on behalf of the borrower) to a potential contract awardee, and 2) the borrower may not be able to process the payment themselves. The borrower may make arrangements to pay the potential contract awardee. If the borrower cannot make arrangements, the borrower may request to revise its recommendation for the contract award and award the contract to the next-ranked bidder.

[a]According to the World Bank, the borrower made alternative payment arrangements for the contract awardee.

[b]Due to concerns with disclosing personally identifiable information and the common nature of many names identified in our analysis, we are not publishing specific information relating to individuals that were awarded contracts. In our report, we refer to individuals as Individual 1 through Individual 6, which represent the six unique individuals we identified.

[c]According to the World Bank, the contract awardee was screened against sanctions lists, and appeared to match a name on one of the lists, but additional due diligence determined the contract awardee was not the same entity as the sanctions list. We did not evaluate the World Bank's AML/CFT policies and procedures, or how the World Bank screens contract awardees against sanctions lists.

[d]According to the World Bank, the contract awardee was screened against sanctions lists and did not match any of the names on the lists. We did not evaluate the World Bank's AML/CFT policies and procedures, or how the World Bank screens contract awardees against sanctions lists.

[e]According to Treasury, the potentially matched individual who was designated on the SDN list in 2003 is currently incarcerated in the United States.

[f]Executive Order 13959, as amended, prohibited U.S. investors from purchasing for value, selling, or possessing after a certain date, securities of a "Communist Chinese military company" (CCMC), a term that included those identified by the Secretary of Defense pursuant to Section 1237 of the National Defense Authorization Act for Fiscal Year 1999, as amended, as well as those identified by the Secretary of the Treasury as meeting the criteria under Section 1237(b)(4)(B) of the National Defense Authorization Act for Fiscal Year 1999. Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies, Exec. Order No. 13959 (2020) (as amended by Amending Executive Order 13959, Addressing the Threat From Securities Investments That Finance Communist Chinese Military Companies, Exec. Order No. 13974 (2021)). Executive Order 14032 of June 3, 2021 partially superseded and further amended Executive Order 13959, including by revocation of Executive Order 13974, to prohibit U.S. persons from purchasing or selling securities (or their derivatives, or securities designed to provide investment exposure to such securities) of any person listed in the annex to that order or whom the Secretary of the Treasury has determined (1) to operate or have operated in the defense and related materiel sector or the surveillance technology sector of the economy of the PRC, or (2) to own or control, or to be owned or controlled by, directly or indirectly, a person who operates or has operated in any of those sectors, or a person who is listed in the Annex to the order or who has otherwise been determined to be subject to the prohibitions on transacting in securities. Such persons are identified by Treasury as Chinese Military-Industrial Complex Companies (CMICs). Addressing the Threat From Securities Investments That Finance Certain Companies of the People's Republic of China, Exec. Order No. 14032 (2021). According to Treasury these sanctions are narrower than those that apply to persons identified on OFAC's Specially Designated Nationals and Blocked Persons (SDN) List and do not prohibit U.S. persons, for example, from engaging in commercial purchases or sales in goods or services that are unrelated to securities issued by CMICs.

[g]The Global Magnitsky Human Rights Accountability Act authorizes the U.S. government to sanction foreign persons who (1) are responsible for gross violations of human rights, (2) acted as an agent of a foreign person responsible for a gross violation of human rights in specific matters, (3) are

government officials involved in significant acts of corruption, or (4) have materially assisted a government official in a significant act of corruption. 22 U.S.C. § 2656 note. Executive Order 13818 of December 20, 2017 implements this authority by imposing financial and visa restrictions on individuals and entities designated as complicit in or directly engaged in certain human rights abuses or corrupt acts, known as Global Magnitsky Sanctions (GLOMAG). Blocking the Property of Persons Involved in Serious Human Rights Abuse or Corruption, Exec. Order No. 13818 (2017).

[h]The Global Terrorism Sanctions Regulations (31 C.F.R. Part 594) allows the U.S. government to block property and prohibit dealings with individual and entities designated as a specially designated global terrorist (SDGT).

[i]According to Treasury, CMIC sanctions do not apply to publicly traded securities issued by subsidiaries of entities on the NS-CMIC List unless those subsidiaries are independently listed. While China Mobile Communications Group Co., Ltd. is listed on the NC-CIMC List, China Mobile Communications Group Jiangsu Co., Ltd. is not.

[j]Executive Order 13692 of March 8, 2015, as amended, allows the U.S. government to block property and prohibit dealings with individuals and entities that are specifically listed or are designated as responsible for or complicit in (1) actions or policies that undermine democratic processes or institutions; (2) significant acts of violence or conduct that constitutes a serious abuse or violation of human rights, including against persons involved in antigovernment protests in Venezuela in or since February 2014; (3) actions that prohibit, limit, or penalize the exercise of freedom of expression or peaceful assembly; or (4) public corruption by senior officials within the Government of Venezuela, among other criteria. Blocking Property and Suspending Entry of Certain Persons Contributing to the Situation in Venezuela, Exec. Order No. 13692 (2015) (as amended by Taking Additional Steps To Address the National Emergency With Respect to Venezuela, Exec. Order No. 13857 (2019)).

[k]There are two entries for individuals with the same alias, each with a different listing date.

**Table 4: World Bank Borrower Awards to Entities That May Have Been on BIS Lists**

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | BIS Entity Name | BIS Entity Country | BIS List and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Huawei Consortium | China | 10/30/2020 | Huawei Technologies Co., Ltd. | China | Entity List[b]<br>Date added: 05/21/2019 | Rwanda | One year renewable remote AMI software maintenance services support contract | $61,478.00 |
| Huawei International Co. Limited | China | 05/22/2020 | Huawei Technologies Co., Ltd. | China | Entity List[b]<br>Date added: 05/21/2019 | Regional – Eastern and Southern Africa | Contract for provision of connectivity of government entities and target user groups to the government network (NBI) project | $9,887,017.00 |
| High Tech | Pakistan | 01/03/2018 | High Technologies, Ltd. (HTL); High Technology, Ltd. | Pakistan | Entity List[b]<br>Date added: 11/19/1998 | Pakistan | M/s High Tech for IT Equipment of PIU | $24,278.64 |
| Renmin University | China | 01/08/2020 | Renmin University | China | UVL[c]<br>Date added: 04/11/2019<br>Date removed: 10/09/2020 | China | Joint venture of Renmin University and Peking University ranks first in the shortlist. | $67,911.81 |

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | BIS Entity Name | BIS Entity Country | BIS List and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Renmin University | China | 06/17/2020 | Renmin University | China | UVL[c] Date added: 04/11/2019 Date removed: 10/09/2020 | China | The consulting service is to carry out research on improving enrolling mechanism of basic health insurance | $259,600.00 |
| CCCC Road and Bridge Construction CO., LTD | China | 03/15/2021 | China Communications Construction Company Ltd. (CCCC) | China | Entity List[b] Date added: 12/222020 | China | city around metro stations connection sub-project (B-6) | $6,834,841.65 |
| Beihang Unviersity | China | 04/02/2021 | Beihang University | China | Entity List[b] Date added: 09/16/2005 | China | The contract is awarded to Beihang University. | $49,668.37 |
| IKAN Engineering Services (PVT.) Limited | Pakistan | 10/08/2020 | IKAN Engineering Services (AKA IKAN Sourcing) | Pakistan | Entity List[b] Date added: 09/18/2014 Date removed: 06/01/2021 | Pakistan | Construction of New RCC Bridge at Jalkot Nullah | 442,109.07 |
| AVIC International Holding Corporation | China | 07/23/2020 | Aviation Industry Corporation of China (AVIC) Institute 625 | China | Entity List[b] Date added: 05/01/2014 | Uganda | Plant design, supply and installation of: Lot 2: 132kV Kole switching station and 132/33kV Gulu substation with associated 33kV interconnection lines | $10,856,353.64 |
| AVIC International Holding Corporation | China | 07/23/2020 | Aviation Industry Corporation of China (AVIC) Institute 625 | China | Entity List[b] Date added: 05/01/2014 | Uganda | Plant design, supply and installation of: Lot 3: 132/33kV Nebbi and Arua substations with associated 33kV interconnection lines | $7,780,228.74 |
| Individual 6[a] | Afghanistan | 2017[a] | Individual 6[a] | Afghanistan | Entity List[b] Date added: 2011 | Afghanistan | Consultant Services[a] | Appx. $10,000[a] |
| Tongji University | China | 11/21/2019 | Tongji University | China | UVL[c] Date added: 04/11/2019 Date removed: 10/09/2020 | China | Operation management manual of highway safety management system | $99,459.45 |

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | BIS Entity Name | BIS Entity Country | BIS List and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Poly Technologies Inc. | China | 09/26/2017 | Poly Technologies, Inc. | China | Entity List[b] Date added: 06/26/2014 | Myanmar | Supply, installation, and maintenance of solar PV systems for households and public facilities in L-2-Chin(3),L-5Bago,L-7Mandalay+Naypyitaw,L-9Shan(East-2+North-3),L-10Ayeyarwaddy-3, L-12Ayeyarwaddy(5) | $4,925,664.61 |

Source: GAO analysis of World Bank and U.S. Department of Commerce Bureau of Industry and Security (BIS) data. | GAO-23-105543

Notes: According to the World Bank, they do not screen contract awardees against BIS lists. We programmatically and manually compared the names of World Bank borrower contract awardees from the World Bank's borrower contract award data against entities on selected U.S. sanctions and other lists of parties of concern for the period calendar year 2017 to 2021. We limited the comparison to contract awardees and entities on selected U.S. lists with the same associated country. The entries in this table represent the names of contract awardees and entities on selected U.S. lists that we determined had substantial or complete overlap. We further reviewed each contract awardee and entity to determine whether the entity was listed at the time the World Bank borrower awarded the contract.

Our analysis does not positively identify whether a contract was awarded to an entity on a U.S. sanctions or other list of parties of concern. Our analysis is based on publicly available information, and the potential matches we identified are based only on names and associated countries. The World Bank's borrower contract award data do not include other identifying information that could be used to provide assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Entities may appear on multiple U.S. lists at the same time.

[a]Due to concerns with disclosing personally identifiable information and the common nature of many names identified in our analysis, we are not publishing specific information relating to individuals that received contracts. In our report, we refer to individuals as Individual 1 through Individual 6, which represent the six unique individuals we identified.

[b]The Entity List identifies persons reasonably believed to be involved, or to pose a significant risk of being or becoming involved, in activities contrary to the national security or foreign policy interests of the United States. 15 C.F.R. § 744.16. It includes names of certain foreign entities that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items. The entities on the Entity List are subject to licensing requirements and policies supplemental to those found elsewhere in the Export Administration Regulations. 15 C.F.R. Part 744, Supp. No. 4.

[c]Foreign persons who are parties to an export, reexport, and transfer (in-country) subject to the EAR may be added to the Unverified List if BIS or federal officials acting on BIS's behalf cannot verify the bona fides (i.e., legitimacy and reliability relating to the end use and end user of items subject to the EAR) of such persons because an end-use check, such as a pre-license check (PLC) or a post-shipment verification (PSV), cannot be completed satisfactorily for reasons outside of the U.S. Government's control. 15 C.F.R. § 744.15. Parties on the Unverified List (UVL) are subject to additional export restrictions and requirements. 15 C.F.R. Part 744, Supp. No. 6.

**Table 5: World Bank Borrower Awards to Entities That May Have Been on the SAM Exclusions List**

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | SAM Entity Name | Country of Primary Address | SAM Excluding Agency and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Huawei Consortium | China | 10/30/2020 | Huawei Technologies Co., Ltd. | China | Dept. of the Air Force[b] Date added: 02/21/2019 | Rwanda | One year renewable remote AMI software maintenance services support contract | $61,478.00 |
| Huawei International Co. Limited | China | 05/22/2020 | Huawei Technologies Co., Ltd. | China | Dept. of the Air Force[b] Date added: 02/21/2019 | Regional – Eastern and Southern Africa | Contract for provision of connectivity of government entities and target user groups to the government network (NBI) project | $9,887,017.00 |
| Individual 1[a] | Serbia | 2020[a] | Individual 1[a] | Serbia | OFAC[b] Date added: 12/09/2019 | Serbia | Consultant Services[a] | Appx. $100,000[a] |
| Xinjiang Corps 4th Construction Engineering (Group) CO. LTD | China | 04/02/2021 | Xinjiang Production and Construction Corps | China | OFAC[b] Date added: 07/31/2020 | China | Ximen River disaster shelter square: A total of 21,600m2, with the supporting construction of emergency access, disaster prevention equipment and facilities etc.; The reconstruction of Zifu Road. | $7,160,996.16 |
| Individual 2[a] | Pakistan | 2020[a] | Individual 2[a] | Pakistan | OFAC[b] Date added: 2012 | Pakistan | Consultant Services[a] | Appx. $5,000[a] |

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | SAM Entity Name | Country of Primary Address | SAM Excluding Agency and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Individual 3[a] | Pakistan | 2020[a] | Individual 3[a] | Pakistan | OFAC[b] Date added: 2012 | Pakistan | Goods[a] | Appx. $2,500[a] |
| Individual 3[a] | Pakistan | 2019[a] | Individual 3[a] | Pakistan | OFAC[b] Date added: 2012 | Pakistan | Civil Works[a] | Appx. $35,000[a] |
| China National Electronics Import & Export Corporation (CEIEC) | China | 08/23/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | OFAC[b] Date Added: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for NDRCC / NDMRTI under DDM | $1,025,967.50 |
| China National Electronics Import & Export Corporation (CEIEC) | China | 03/28/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | OFAC[b] Date Added: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for Emergency Operation Centre (EOC) at DSCC and SCC | $2,846,840.60 |
| China National Electronics Import & Export Corporation (CEIEC) | China | 03/28/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | OFAC[b] Date added: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet | $2,659,229.65 |
| China National Electronics Import & Export Corporation (CEIEC) | China | 03/28/2021 | China National Electronics Import and Export Corporation (CEIEC) | China | OFAC[b] Date Added: 11/30/2020 | Bangladesh | Procurement of ICT Equipment for Command Control Room (CCR) at FSCD, Dhaka and FSCD, Sylhet | $1,243,823.65 |
| Individual 5[a] | Pakistan | 2019[a] | Individual 5[a] | Pakistan | OFAC[b] Date added: 2012 | Pakistan | Consultant Services[a] | Appx. $5,000[a] |

| World Bank Contract Awardee Name | World Bank Contract Awardee Country | Date of Award | SAM Entity Name | Country of Primary Address | SAM Excluding Agency and Related Dates | World Bank Borrower Country | Contract Description | Contract Award Amount |
|---|---|---|---|---|---|---|---|---|
| Meamar Group | Lebanon | 02/01/2021 | Meamar SARL | Lebanon | OFAC[b] Date added: 09/17/2020 | Lebanon | Rehabilitation of COVID-19 ICU Unit | $190,890.62 |
| Hytera Communications Corporation Limited | China | 05/14/2020 | Hytera Communications Corporation Limited | China | GSA[b] Date added: 12/13/2019 | Bangladesh | Procurement of Specialized ICT Equipment (VHF DMR [Digital Mobile Radio] Network and Related Installations) for FSCD | $13,900,050.00 |

Source: GAO analysis of World Bank and Systems for Awards Management (SAM) data. | GAO-23-105543

Notes: According to the World Bank, they do not screen contract awardees against the SAM exclusions list. We programmatically and manually compared the names of World Bank borrower contract awardees from the World Bank's borrower contract award data against entities on selected U.S. sanctions and other lists of parties of concern for the period calendar year 2017 to 2021. We limited the comparison to contract awardees and entities on selected U.S. lists with the same associated country. The entries in this table represent the names of contract awardees and entities on selected U.S. lists that we determined had substantial or complete overlap. We further reviewed each contract awardee and entity to determine whether the entity was listed at the time the World Bank borrower awarded the contract.

Our analysis does not positively identify whether a contract was awarded to an entity on a U.S. sanctions or other list of parties of concern. Our analysis is based on publicly available information, and the potential matches we identified are based only on names and associated countries. The World Bank's borrower contract award data do not include other identifying information that could be used to provide assurance of a match, such as beneficial ownership information, addresses, national documentation numbers, or dates of birth. Entities may appear on multiple U.S. lists at the same time.

[a]Due to concerns with disclosing personally identifiable information and the common nature of many names identified in our analysis, we are not publishing specific information relating to individuals that were awarded contracts. In our report, we refer to individuals as Individual 1 through Individual 6, which represent the six unique individuals we identified.

[b]SAM reports data from several U.S. agencies, and additional information on the reason for an entity's inclusion on the exclusion is not necessarily available on SAM.

# Appendix III: Comments from the World Bank

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EDWARD MOUNTFIELD
Vice President
Operations Policy and Country Services

April 17, 2023

Ms. Latesha Love
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Love,

*Re: Management Response to Draft Report GAO-23-105543 – World Bank Contracting Practices and Processes*

Thank you for the opportunity to comment on this draft report. The World Bank appreciates the work of the U.S. Government Accountability Office (GAO) in planning and conducting its review of World Bank (the Bank) contracting practices and processes.

The United States was a leading force in establishing the International Bank for Reconstruction and Development (IBRD) in 1944 and remains the largest shareholder of the World Bank Group today. As an international organization it is governed by its Articles of Agreement. The Bank upholds a principle of universal/open eligibility, which provides that bidders from all countries are eligible to bid for Bank-financed contracts. Narrowly defined exceptions to this principle apply in the case of entities that are subject to sanctions imposed by the United Nations Security Council under Chapter VII of the Charter of the United Nations as well as those that are specifically suspended or debarred by the Bank pursuant to its prevailing sanctions policies and procedures, including through the cross debarment agreement with other Multilateral Development Banks (MDB).

We are pleased to note GAO's acknowledgment of the reliability of the Bank's contract award data and information systems in capturing and publishing information on contracts awarded by the Bank's Borrowers under the Bank's Investment Project Financing instrument. The Bank's Procurement Framework establishes a strong competitive environment for the procurement market generated by the Bank's investment projects with a level playing field, certainty of process, and the highest integrity and sustainability standards.

The Bank's *Anti-Money Laundering and Countering Financing of Terrorism* policies and procedures include screening against sanctions lists of the U.S. (Office of

WORLD BANK GROUP

Ms. Latesha Love -2- April 14, 2023

Foreign Assets Control Specially Designated Nationals and Blocked Persons List (SDN) and Consolidated Sanctions List (Non-SDN)), United Kingdom and European Union. This screening derives from practical concerns, because the majority of Bank payments flow through U.S., UK, and EU banks and these sanctions may affect the ability of Borrowers to pay suppliers. However, the Bank's Articles of Agreement do not permit use of these or other national lists to determine eligibility in the awarding of Bank-financed contracts.

Finally, we note GAO's finding that businesses in the U.S. enjoy a high rate of success when they bid for Bank-financed contracts, winning over 70% of those contracts for which they bid. We assure you of our readiness to work with the U.S. Executive Director, Department of Commerce, and other U.S. agencies to boost participation by U.S. businesses in Bank-financed procurement through our procurement outreach program.

Sincerely,

**Edward Mountfield**
Vice President, Operations Policy and Country Services

# Appendix IV: GAO Contact and Staff Acknowledgments

## GAO Contact

Latesha Love-Grayer, (202) 512-4409, LoveGrayerL@gao.gov

## Staff Acknowledgments

In addition to the above contact, Ryan Vaughan (Assistant Director), Benjamin L. Sponholtz (Analyst in Charge), Joshua Lanier, Joshua Timko, Delanie Smither, Maureen Luna-Long, Nisha Rai, Larissa Barrett, Neil Doherty, Ashley Alley, Christopher Gresh, Gabriel Nelson, and Terry Richardson made key contributions to this report.

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5/25/23 – FA Rankers

# China is using the World Bank as its piggybank

BY DJ NORDQUIST, OPINION CONTRIBUTOR - 05/17/23 3:00 PM ET

A new report from the U.S. Government Accountability Office (GAO) lays bare what was painfully obvious to me when I represented the U.S. on the board of directors at the World Bank: the People's Republic of China (PRC) and its state-owned enterprises win the biggest slice of procurement for economic development projects, securing almost 30 percent of all funds.

The U.S., the bank's largest shareholder thanks to generous taxpayer funding since the bank's founding in 1945, is on the losing end of the ledger. Our firms garner less than 1 percent of all funds (and that includes large purchases of U.S. COVID-19 vaccines). In other words, China is using the World Bank system to further its goals, with U.S. taxpayers and other democracies footing the bill.

Are Chinese firms really that much better than American ones, or is there an unfair playing field? China has the largest number of state-owned enterprises in the world at over 150,000 firms, accounting for 60 percent of China's market capitalization. Although the World Bank rightly does not allow state-owned enterprises to win contracts in their home countries (this would be anti-competitive), it does allow them to win contracts in other countries. Given China's army of state-owned enterprises, it is no wonder Chinese firms have been so successful, winning 41 percent of all civil works projects even as U.S. firms win only 0.3 percent, according to the GAO analysis.

Why would China be willing to underbid and lose money on projects? It is playing a long game, building capacity and relationships through these contracts to further enmesh itself in the economies of developing countries. It is using the World Bank to create new client states, complementing the work of its Belt and Road Initiative to sink tentacles into countries with no-questions-asked loans.

Worse, Chinese firms often import workers from China, limiting the local development impact while often generating other negative cultural

consequences. Chinese contractors on World Bank projects have even raped local girls. These firms can also embed sanctions-listed Huawei ($10 million in World Bank procurement over the GAO study period) and other equipment in systems that have allowed repressive regimes to spy on their opposition or on minorities. This is all being subsidized by American taxpayers.

Given all the negative effects, how can this be happening? Once the World Bank board approves funds, managers work with sovereigns to implement the projects, among other things selecting the contractors for procurement. Aware that Chinese firms routinely underbid thanks to generous government subsidies, the bank amended its procurement policies to help level its focus on finding value for money. However, the revised guidelines apparently have done little to dent China's bidding success in the years since they were implemented.

On the other side of the ledger, U.S. firms I spoke with, which once dominated these large construction projects around the world, have little interest in bidding, because they cannot compete against Chinese state-owned companies. The GAO report bears that out: When U.S. businesses bid, they won about 70 percent of the time. But few bother to bid, believing the fix is in.

A good example was an undersea cable project for the Federated States of Micronesia, to help better connect its developing economy to the rest of the world. Unfortunately, what was meant to be a strong, positive development project was procured using Huawei Marine, a Chinese state-owned enterprise that is on the Commerce Department's Entity List for activities contrary to U.S. national security or foreign policy interests. And this project was especially grave in its security implications, as the cable was to be plugged into a U.S. defense contractor's cable extending to the Marshall Islands' Ronald Reagan Ballistic Missile Defense Test Site. Had we not been able to block the project, China would have been handed the keys to sensitive Defense Department information — with U.S. taxpayers' help.

The bank does not restrict contracts based on the Entity List. And although GAO notes that only a "small fraction" of procurement has been given to firms on those lists, it would have only taken one breach, as in that case, to do plenty of damage to U.S. security. Furthermore, the bank does not track subcontractors, so the number of Huawei and other sanctioned entities eating from the World Bank trough is surely substantially higher.

One of the contracts GAO flagged went to a Xinjiang firm that had been sanctioned for human rights abuses against the Uyghur ethnic minority, which China's regime has forced into labor camps and "re-education" programs. The World Bank claims to screen for money laundering, terrorism and some sanctions lists, and will tell borrowers to make "alternative arrangements to pay the contract awardee" if they find that problematic companies have won a procurement. But money is fungible, such that a sovereign can simply move funds around to continue to contract with the listed entity from a separate pot of money.

The World Bank's new president, Ajay Banga, comes into the role with a strong managerial background in the private sector. When he starts work on June 2, one of his top priorities should be to reform procurement practices, devising an objective standard that relies on unsubsidized costs, as the current standard clearly is not cutting it.

He should also take a hard look at China's broader role at the World Bank. Not only does it win far more procurement than any other country, it also continues to take about $2 billion per year in World Bank loans to its government and private firms. It does so even as it lends to developing countries at non-concessional interest rates, on a bilateral basis through its own development banks. By some measures, China is the world's largest source of development funding, despite remaining a significant recipient of World Bank funds and one of the top 10 debtors to the bank.

China has, in short, clearly met the conditions for graduation from its status as a developing country. This is even more evident given China's claim to have eradicated domestic poverty.

In the interest of freeing up resources for countries actually in need, China should no longer be allowed to avail itself of World Bank loans. Given China's economic success, do continued loans to the PRC fit the bank's mission?

*DJ Nordquist served as the U.S. executive director of the World Bank (2019-2021). She is a senior adviser at the Center for Strategic and International Studies.*

**Questions for the Record**
**Rep. Barry Loudermilk**

Question for Mr. Rich Powell, CEO of ClearPath

**Question 7:** Mr. Powell, nuclear power is very important for my home state. When they are brought online, Plant Vogtle's reactors three and four will be the first new commercial nuclear reactors brought online in over thirty years. These reactors are American Westinghouse AP1000 pressurized water reactors (PWRs), capable of generating affordable power for millions of homes. Recently, I've seen that China has made deals to build new Hualong-1 PWRs in several Latin American countries. Do you think it is important for MDBs like the World Bank to allow investments in nuclear power to counter unilateral Chinese investments in emerging market nuclear projects?

**Answer:** *It's important to make sure that we can demonstrate nuclear technologies domestically. Bringing the AP1000 online in Georgia sent a clear signal that it is an option. Countries need energy and will look at what options are available when seeking new generation sources. Furthermore, countries need to make sure that their energy sources are affordable. The World Bank is one of the few entities that can provide significant resources to other countries for large-scale infrastructure projects. By not supporting nuclear energy, the World Bank is limiting these countries' opportunities to develop a clean, reliable, and affordable grid and pushing them toward China and Russia who will provide financing for those energy projects.*

*The World Bank and other IFIs should step up their clean energy and climate efforts and do away with their anachronous ban on nuclear power projects. However, procurement reform at the IFIs also needs to be at the top of the agenda, factoring in unsubsidized project costs so that China can't continue to dominate IFI contracts by unfairly tipping the scale in their favor. The World Bank should seriously consider graduating China from its eligibility for financial assistance. And while we're at it, in light of Russia's brutal actions in Ukraine, the World Bank should consider suspending Russia's membership from participation in the Bank's lending activities.*

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**House Financial Services Subcommittee on National Security, Illicit Finance, and International Financial Institutions**

# *"International Financial Institutions in an Era of Great Power Competition."*

**May 25, 2023**

Response to Questions for the Record:

**Daniel F. Runde**

Senior Vice President; William A. Schreyer Chair; Director of the Project on Prosperity and Development, and Americas Program

**June 16, 2023**

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**The Honorable Barry Loudermilk**

1. The Administration has recently called for $75 million for a capital increase for IDB Invest, the private sector arm of the Inter-American Development Bank. Do you think this is an appropriate capital increase that would advance U.S. interests? How can we ensure a capital increase advances U.S. interests?

**Response:** Under the right circumstances, the U.S. should support a Capital Increase for IDB Invest and the Inter-American Development Bank (IDB).

The United States needs a positive, forward-looking agenda for the Western Hemisphere, and approving a Capital Increase for IDB Invest would provide us with a starting point to fulfill this goal. We cannot fight something with nothing.

A capital increase for the private sector arm of the Inter-American Development Bank, known as IDB Invest, is one of the tools that the USG has to advance U.S. interests in the Western Hemisphere. The IDB, together with IDB Invest, are collective action vehicles and a way to leverage foreign assistance to further development. The U.S. currently holds approximately 30 percent of the IDB and 15 percent of IDB Invest.

Capital increases are political deals. Congress has a voice and a vote in these increases. For any Capital Increase, Congress should consider three stipulations. First, Congress should push for a review and revision of the Biden Administration's policies on oil and gas. Energy will be a critical component to help nations address development challenges and investing in energy projects should remain a priority for MDBs. However, we need to pursue a more balanced approach to energy security involving both renewables and non-renewables. Second, in any discussion of a Capital Increase, Taiwan should be allowed to join as a shareholder under the "China, Taipei" model to give Taiwan a greater seat at the table in the Americas. Third, Congress might require that any "profits" from projects originating from the capital increase would be allocated toward U.S. strategic regions, including the Greater Caribbean or the Northern Triangle. To illustrate, with the last Capital Increase for the IDB in 2010, Congress required the IDB to use some of its "profits" as grants specifically for Haiti. By including this stipulation, these profits would go toward advancing U.S. interests in the region.

Going a step further, Congress should consider the potential for a Capital Increase for the IDB itself, not just IDB Invest. While this would be a bigger expense and a larger 'ask', a Capital Increase for the IDB would work to protect and strengthen U.S. interests in the Western Hemisphere. A Capital Increase for the entirety of the IDB family would demonstrate a stronger U.S. commitment toward the Americas.

2. Why do you think it is important that our partners in Taiwan have a seat at the table through IDB Invest to counter Chinese influence in the Western Hemisphere?

**Response:** Taiwan has thirteen allies, seven of whom are in the Western Hemisphere. However, Taiwan is losing diplomatic space in other areas. Allowing Taiwan to buy shares of the IDB and IDB Invest would give Taiwan a greater seat at the table in the Americas.

Taiwan has been a member of Asian Development Bank under the formula "China, Taipei" since 1966. When China joined the World Trade Organization in 2001, Taiwan also joined under the same "China, Taipei" formula. There is no reason that Taiwan should not become a shareholder of the IDB or IDB Invest. As we evaluate the need for a Capital Increase for IDB Invest, a discussion to grant Taiwan membership should be broached. In any notional Capital Increase, Taiwan should at least be offered the right of first refusal and the chance to purchase shares in IDB Invest.

3. In your testimony you discuss the possibility that Congress will be approached to authorize a capital increase for several multilateral development banks (MDBs) other than the IDB. For example, you suggest tying future capital increases for the European Bank for Reconstruction and Development (EBRD) to a slowing of the bank's "mission creep." Could you explain why you think it is important that the U.S. push the EBRD to stick to reconstruction in former Eastern Bloc countries, especially now?

**Response:** The European Bank for Reconstruction and Development (EBRD) was set up in 1991 after the fall of the Soviet Union and has largely centered around the post-Soviet sphere. There is still a lot of work that needs to be undertaken in this region to advance democracy, human rights, and market economies. However, there is currently a temptation by European shareholders of the EBRD to derail this vision and engage in "mission creep" into Africa, and in May 2023 an expansion into Africa was approved by its board. Clearly, the African continent has enormous development needs. But there is also an enormous need in the post-Soviet region, especially in light of Russia's war of aggression against Ukraine. I believe that the EBRD should remain true to its original mandate.

There is already a development bank focused solely on the African continent – the African Development Bank. The United States became a member in 1982 when non-African countries were invited to join, with a shareholding of less than ten percent. It is curious that neither the United States nor its European allies are suggesting a Capital Increase for the AfDB. There are several potential answers for why this may be, but none of them reflect well on the leadership at, nor the effectiveness of, the AfDB. I see the expansion of the EBRD into Africa as an implicit critique of the unwieldy shareholding structure of the AfDB which too heavily favors its Africa borrowers. As a result of this, donor countries like the European Union and the U.S. are willing to go along with the EBRD's "mission creep" into Africa.

Congress should only consider a capital increase if the EBRD agrees to use all the additional monies to help finance the reconstruction of Ukraine and other countries directly impacted by the war. There is also the risk of being distracted by the complexities of Africa precisely when the immense demands of Ukraine and Eastern Europe will require sustained focus and resources. Additionally, the Capital Increase should also include giving Taiwan a chance to buy shares of the EBRD under the "China, Taipei" formula. Taiwan has a stake in Ukraine's victory as a decisive Ukrainian victory will help China think twice about invading Taiwan. Taiwan should be allowed to purchase shares given its stake in Ukraine's victory and our need for partners to burden share on Ukraine's reconstruction.

In the recent past, some U.S. Secretaries of the Treasury have invested the time to work with Congressional committees on Capital Increases, and some previous Secretaries have not. If the

Biden Administration supports a Capital Increase for any of these institutions, I would expect Secretary Yellen to meet individually with members of Congress to discuss the allocation of additional money.

4. In your testimony you reference a sort of perverse incentive for MDBs to continue lending to China despite its rapid growth and clear development. Could you explain the reasons MDBs are still tempted to lend significantly to China, and how Congress can limit this incentive?

**Response:** Multilateral Development Banks (MDBs) see themselves, first and foremost, as "banks". Using their AAA credit ratings to borrow money from international capital markets, MDBs then lend this money at a slightly higher rate while providing expertise and advice to developing countries. It is within the universe of international capital markets that the MDBs operate, and thus are beholden both to their own credit ratings and to the informal rules that dictate the market. The middle-income and upper-middle-income countries that the MDBs lend to have the potential to borrow from international capital markets but choose to borrow from development banks because of the expertise and advice that accompanies the funds.

Both the World Bank and the Asian Development Bank (ADB) lend money to China. MDBs provide loans to China because it is profitable, and China is a reliable borrower. It is true that there are parts of the country that are very poor, but China does not need to borrow to finance its own development given the size of its economy and level of development. In fact, China has passed the income per capita threshold for MDB lending and should "graduate". Nevertheless, it is still one of the largest borrowers of the World Bank. As a result, every dollar that is lent to China is one dollar less lent to lower-income countries.

It is unlikely that the World Bank or the ADB will seek a Capital Increase in the foreseeable future. If they did, Congress should consider a stipulation that the Capital Increase comes with the secession of lending to China. Existing within the World Bank is the International Development Association (IDA), which provides concessional loans to the poorest countries. The U.S. voting power in the IDA is approximately ten percent. The Biden Administration has requested $1.48 billion in funding in its FY2024 budget for the IDA. This budget request will allow Congress to at least ask questions about where and what the MDB's plans are to end lending to China.