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INTERNATIONAL FINANCIAL INSTITUTIONS IN AN ERA OF GREAT POWER COMPETITION

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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 IF 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, Lakes, 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 15ln Special Drawing Rights (SD) 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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