

**REPLENISHMENT AUTHORIZATIONS FOR THE
WORLD BANK'S INTERNATIONAL DEVELOPMENT
ASSOCIATION, THE ASIAN DEVELOPMENT
FUND, AND THE AFRICAN DEVELOPMENT FUND**

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, EXPORT AND TRADE PROMOTION

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

SEPTEMBER 12, 2002

Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

83-342 PDF

WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON FOREIGN RELATIONS

JOSEPH R. BIDEN, JR., Delaware, *Chairman*

PAUL S. SARBANES, Maryland	JESSE HELMS, North Carolina
CHRISTOPHER J. DODD, Connecticut	RICHARD G. LUGAR, Indiana
JOHN F. KERRY, Massachusetts	CHUCK HAGEL, Nebraska
RUSSELL D. FEINGOLD, Wisconsin	GORDON H. SMITH, Oregon
PAUL D. WELLSTONE, Minnesota	BILL FRIST, Tennessee
BARBARA BOXER, California	LINCOLN D. CHAFEE, Rhode Island
ROBERT G. TORRICELLI, New Jersey	GEORGE ALLEN, Virginia
BILL NELSON, Florida	SAM BROWNBACK, Kansas
JOHN D. ROCKEFELLER IV, West Virginia	MICHAEL B. ENZI, Wyoming

ANTONY J. BLINKEN, *Staff Director*

PATRICIA A. MCNERNEY, *Republican Staff Director*

SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, EXPORT AND TRADE PROMOTION

PAUL SARBANES, Maryland, *Chairman*

BILL NELSON, Florida	GEORGE ALLEN, Virginia
PAUL D. WELLSTONE, Minnesota	CHUCK HAGEL, Nebraska
ROBERT G. TORRICELLI, New Jersey	LINCOLN D. CHAFEE, Rhode Island
RUSSELL D. FEINGOLD, Wisconsin	MICHAEL B. ENZI, Wyoming

CONTENTS

	Page
Atkinson, Caroline, adjunct senior fellow in international economics, Council on Foreign Relations, senior director, Stonebridge International, Washington, DC	23
Prepared statement	25
Ayittey, Dr. George B.N., distinguished economist in residence, American University, Washington, DC	38
Prepared statement	41
Beckmann, Rev. David, president, Bread for the World, Washington, DC	28
Prepared statement	30
Meltzer, Dr. Allan H., professor of political economy, Carnegie Mellon University, Pittsburgh, PA	33
Prepared statement	36
Orr, James C., executive director, The Bretton Woods Committee, Washington, DC	15
Prepared statement	18
Taylor, Hon. John B., Under Secretary of the Treasury for International Affairs, Department of the Treasury, Washington, DC	4
Prepared statement	5

**REPLENISHMENT AUTHORIZATIONS FOR THE
WORLD BANK'S INTERNATIONAL DEVELOP-
MENT ASSOCIATION, THE ASIAN DEVELOP-
MENT FUND, AND THE AFRICAN DEVELOP-
MENT FUND**

THURSDAY, SEPTEMBER 12, 2002

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY, EXPORT, AND TRADE PROMOTION,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:40 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Paul S. Sarbanes (chairman of the subcommittee), presiding.

Present: Senators Sarbanes and Allen.

Senator SARBANES. The subcommittee will come to order. We apologize to all of our witnesses, but there was a vote. We do not control when that happens. When it does happen, we have to respond, so that explains our slight delay in starting the hearing this morning.

The Subcommittee on International Economic Policy, Export, and Trade Promotion of the Foreign Relations Committee meets today to consider replenishment authorizations for three important institutions of the multilateral development banks—the World Bank's International Development Association, commonly referred to as IDA, the African Development Fund, and the Asian Development Fund. IDA is the concessional loan window of the World Bank, and provides economic and technical assistance to poor countries of the developing world.

Traditionally, those loans have been disbursed at no interest with a 10-year grace period, and 30 to 40 years to repay the loan with a marginal service fee to cover administrative expenses. Actually, the repayment rate on IDA loans has been quite good, at about 95 percent.

Last year, President Bush proposed that 50 percent of IDA loans be converted into grants. This led to an extended discussion with other participating countries in IDA and, after extensive negotiations, an agreement was reached in June of this year, just a few months ago, whereby 18 to 21 percent of future IDA loans would be converted into grants.

The Treasury Department in late July, just before the August recess of the Congress, sent up reauthorization language for IDA, providing an 18 percent increase over the previous replenishment

in the amount of \$2.85 billion over 3 years. Obviously, we will be interested in hearing about this request this morning from the Treasury and then from our panel.

The Treasury Department has also requested \$354 million for the 9th replenishment of the African Development Fund, the concessional loan window of the African Development Bank. I understand negotiations over this replenishment have not yet been completed, and again I think there are discussions taking place on the loan and grant issue, and also at the urging of the United States, a push to increase the proportion of resources devoted to health, education, agriculture, and private sector development.

The third item on the agenda will be examination of the replenishment for the Asian Development Fund, which is a concessional loan window of the Asian Development Bank. The Asian Development Fund operates in 29 countries, and is involved in a number of projects aimed at poverty alleviation. The Treasury Department has requested \$412 million for this replenishment, and the House passed legislation authorizing this amount for the Asian Development Fund.

We have a distinguished group of witnesses to hear from this morning to address these issues. The lead-off witness will be the Under Secretary of the Treasury for International Affairs, John Taylor, to present the administration's position. Secretary Taylor has been at the Department since June of 2001 and has been very much involved in the recent replenishment negotiations. He previously served as a member of the Council of Economic Advisors under the previous Bush administration and has been a professor of economics at Stanford.

Our second panel has five distinguished witnesses from the private sector, but I will defer introducing them until we go to that panel, and so we will hear shortly from Secretary Taylor, but first I will yield to Senator Allen, the ranking minority member of the subcommittee.

Senator ALLEN. Thank you, Mr. Chairman. I would first like to begin by thanking you, Mr. Chairman, Senator Sarbanes, for scheduling this hearing and, of course, for all the witnesses who are here to testify and speak about this very important matter.

I do thank you, Mr. Chairman, for having timely hearings on these matters so we have the due deliberations, and to the extent everyone else has slowed down, what you are doing here with this subcommittee for our full committee is very helpful.

The chairman has eloquently described and summarized the history and the issues of IDA and the African and the Asian Development Funds. One thing I would like to share here with the committee and those who are listening is my very strong belief that political and economic performance criteria are necessary and should apply to not just loan forgiveness matters or transferring loans into grants, but also other types of development assistance. I think that economic assistance to states will only foster development if those states are responsible and accountable for their actions.

We need to make sure that every dollar that is getting allocated, whether it is our dollars or those from others who are part of these development banks, needs to be utilized in a way that is obviously

beneficial, but you would also like to see the underlying reforms and improvements made to those countries.

Now, you can say that in a broad sense, but I think it is important to have measurable results from all of these loans and all of these grants. The assumption behind many of these funding mechanisms is that if the international community would help generate more financial capital, fiscal infrastructure, and technical know-how, then the recipient countries would develop. However, I think we ought to be exploring options that would require recipient nations to meet certain attainment criteria and incrementally offer aid based on that progress. In other words, it is their incentive grants. It is not just a grant to have a good time with it and do what you would like, so long as it stays within these parameters of the purpose of the loan, but have it over several years, and I know that Mr. Taylor and I have talked about that, and that is to me a very good idea, and a proper way of putting in criteria and reform measures that will make sure that there are reforms.

As part of those criteria that I think we ought to develop in evaluating nations in need of aid, it would be beneficial to include the ideas of property ownership. Reform should include encouragement for a country receiving funding to institute a fair and equal policy for, say, land ownership, intellectual property ownership for its citizens. I think land ownership or private property ownership is a source, a good basis for people caring about their business, caring about that property, and it also is a key concept for individual freedom.

I also think it thereby makes the country more conducive and desirable for others to come in and invest. Where that gets to my last point is that these policies need to make sure that these countries are putting into place a good, credible system where they're operating under the rule of law, where there is a fair and just justice system, or civil justice system, so if there are disputes, contracts will actually be enforced, and thereby make that country and the people of that country a more desirable place for companies to come in and invest, not just big companies, but even what we consider smaller investments. They are not going to go into these countries unless contracts are going to be upheld in a fair way.

So I know that Under Secretary Taylor shares many of these views. We had the opportunity to discuss them last week, and I do think the challenges that are facing these development funds are important. I feel that you are bringing forth many good ideas that I think should have support from the international community as well, and whether they are grants, whether they are loans, the multilateral development banks really can have a tremendous influence, a greater influence than anyone else in getting these reforms in place for the benefit of not just the freedoms, but the economic opportunities for the people in those countries, and I look forward to hearing from Secretary Taylor this morning.

Again, thank you, Mr. Chairman, for holding this hearing.
Senator SARBANES. Thank you very much, Senator Allen.
Secretary Taylor, we would be happy to hear from you.

**STATEMENT OF HON. JOHN B. TAYLOR, UNDER SECRETARY
OF THE TREASURY FOR INTERNATIONAL AFFAIRS, DEPART-
MENT OF THE TREASURY, WASHINGTON, DC**

Mr. TAYLOR. Thank you very much, Chairman Sarbanes and Senator Allen, for inviting me to testify at this hearing on the authorization of the replenishments for IDA, African Development Fund and Asian Development Fund, and also to comment on some of the Bush administration's reform efforts for these institutions and the other multilateral development banks. I have some testimony which I would like to enter into the record and just summarize some key aspects of that.

Senator SARBANES. The full statement will be included in the record.

Mr. TAYLOR. Thank you very much. The reform of the multilateral development banks [MDBs] has been a high priority for the Bush administration's international economic agenda. Raising the effectiveness of these MDBs is very important, because it is a key way to raise living standards for people around the world by improving their incomes through raising economic growth. We believe that a greater effectiveness of these institutions can do more to raise living standards than in the past.

There have been three specific types of reform efforts that we have focused on. One is an insistence on measurable results. Secretary O'Neill has commented on this on many occasions and given many examples, including examples from his travels to developing countries.

The second is to have a greater degree of emphasis on grants rather than loans as you indicated in your opening statement, Mr. Chairman, and President Bush proposed that last summer. And, through the negotiations, we have accomplished pretty much what he asked for.

Then the third is to focus more on productivity growth. Productivity growth is the way in which living standards are increased. If you look at the countries that are rich and countries that are poor, the difference is how productive the workers are.

So I am very happy to say that these long negotiations that took over a year have resulted in very good progress. The Treasury staff has worked very hard for a very long time, and I think this progress on these negotiations provides the grounds for our request for the authorizations that you mentioned for IDA as well as for the African Development Fund and the Asian Development Fund.

We are requesting authorization of \$2.85 billion, as you indicated, for IDA. That is the 13th replenishment. We are also indicating that that replenishment will involve three components, \$850 million appropriation in the first year, \$950 million in the second year, and \$1.05 billion in the third year. Those are increments of \$100 and then \$200 million.

The idea of these increments is to have a greater focus on measuring results as a part of IDA. This is the first time ever that the increments will be based on very specific measures of performance on the part of IDA. For example, we are creating a whole new measurement system in IDA to measure performance, to measure results, and are looking at particular performance in three areas, immunization rates as a measure of improvements of health, pri-

mary school completion rates as a measurement of improvements in education, and the time and cost it takes to startup a business as a measure of improvement in private sector development. And if we do not see the improvements in three areas, the administration is not planning to seek the additional increments in the appropriations in the second and the third year, that is, the \$100 and \$200 million.

We think this is just the start of a fundamental shift in the focus of the multilateral development banks to measurable results. It means stating in quantitative terms the expected results in individual projects and in overall country assistance before providing funding.

The agreement also includes a substantial increase in the amount of funding in the form of grants, as we indicated, very close to the proposal of President Bush last summer, and I think importantly for the first time ever we can use part of IDA to help private sector development in particular by working through the IFC.

Just very briefly on the African Development Fund, the negotiations for the 9th replenishment are not complete. We have reached agreement on using measurable results. The disagreements are still on the size of the components that will go to grants, and the overall size of the replenishment, but at this point we are very close to an agreement, and I expect it to be close to the kind of agreement that was reached in IDA 13.

So let me just conclude. The multilateral development banks, as I say, have been a very high priority for the administration. I think we are making progress on our key objectives within each of the institutions, and I think, therefore, these reauthorizations are warranted, and I could say personally I plan to work with the staff of International Affairs at Treasury to endeavor to be demanding with the institutions in setting high standards for these results, in order that they are more effective in raising living standards around the world.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Taylor follows:]

PREPARED STATEMENT OF HON. JOHN B. TAYLOR, UNDER SECRETARY OF THE
TREASURY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Chairman Sarbanes, Senator Allen, Members of the Subcommittee, thank you for the opportunity to testify today on the achievements made to date on the Administration's Multilateral Development Bank (MDB) reform agenda and our specific authorization requests.

My statement will cover the authorizations for the replenishment of the World Bank's International Development Association (IDA-13), the African Development Fund (AfDF-9), and the Asian Development Fund (AsDF-8), which are the focus of the Chairman's letter of invitation. Though not mentioned in the letter of invitation, I would like to urge your support for the Administration's pending request for authorization to implement reform of the North American Development Bank (NADBank), along the lines agreed by Presidents Bush and Fox. I also strongly encourage you to support the Administration's appropriations request for the recently concluded replenishment of the Global Environment Facility (GEF-3), for which authorization is provided by prior legislation. I would be happy to answer any questions about these requests today.

Reform of the MDBs has been one of the highest priorities of the Bush Administration's international economic agenda. The MDBs are important instruments in helping to raise economic growth and prosperity around the world. But the effectiveness of the institutions in making a difference in the lives of the poor can be substantially improved. The MDBs can and must do a better job. I believe it is our obli-

gation to be demanding of these institutions, to point out their successes and failures. It is our obligation not only to the people of the developing world who desperately need these institutions to be more effective, but also to American taxpayers. I believe that the American public wants to see results from the funds that we devote to development, and that their support for providing foreign assistance will increase if we are convincing and straightforward in presenting those results.

From the start of the Administration, we have pursued three hallmark reforms—a greater focus by the institutions on increasing productivity growth; an insistence on measurable results; and an increased proportion of assistance to the poorest countries delivered in the form of grants rather than loans. Steady progress has been made on all these fronts, and this progress provides the grounds for the Administration's authorization requests for the MDBs. Congressional approval of these authorizations will allow us to continue our work to improve these institutions.

President Bush's appropriations request for the MDBs in FY03 totals \$1.437 billion. In the case of the increment for IDA, the authorization request is an 18% increase over the prior replenishment request. Importantly, the requested increase entails a new focus on measuring and achieving results from IDA funding. In fact, for the first time ever, part of the replenishment is contingent on achieving real results on the ground. Absent achievement of progress towards stated objectives, the Administration will not seek appropriations for that additional funding.

IDA-13; REFORMS TO RAISE ECONOMIC GROWTH IN POOR COUNTRIES

When the International Development Association (IDA) was first proposed by the Eisenhower administration in 1959, raising productivity was the key goal of the institution. In the words of the very first article of IDA's Articles of Agreement, "The purposes of the Association are to promote economic development, increase productivity and thus raise standards of living in the less-developed areas of the world. . . . The Association shall be guided in all its decisions by the provisions of this Article." More than forty years later, we have a long way to go in achieving these objectives. This Administration believes making IDA more effective demands that, among other things, we refocus IDA on this original mission of raising productivity growth.

The negotiations for the thirteenth replenishment of IDA concluded in early July. This replenishment will enable the organization to provide a total of \$23 billion in loans and grants to the poorest countries over the next three years. The Administration is requesting authorization to contribute up to \$2.850 billion over the next three years. The FY03 appropriations request consists of \$850 million for the first payment under IDA-13 and \$24 million to clear one-third of U.S. arrears.

In the IDA replenishment negotiations, the United States achieved agreement on three sweeping reforms fully reflective of the Bush Administration's MDB reform priorities:

- A significant increase in grant funding for the poorest countries;
- A contribution scheme that allows shareholders to link the contribution of additional resources to the achievement of results; and
- A greater focus of IDA resources on key productivity-driving activities, including private sector development.

First, the IDA replenishment achieves the President's vision of last summer "that up to 50 percent of the funds provided by the development banks to the poorest countries be provided as grants for education, health, nutrition, water supply, sanitation and other human needs." In fact, this landmark replenishment agreement means that IDA will provide nearly 100% of its assistance on grant terms for education, health, nutrition, potable water and sanitation in countries whose people live on less than a dollar a day. All of IDA's assistance for HIV/AIDS will be in grant form for all IDA-only countries, and up to 25% of such assistance to blend countries (those eligible for both IBRD and IDA) will also be in the form of grants. Up to 100% of IDA's assistance for natural disaster reconstruction will be in grant form. And up to 40% of IDA's assistance to post-conflict countries will now be delivered on grant terms.

This is a significant achievement in terms of achieving the Administration's policy objective of helping poor countries make productive investments without saddling them with ever-larger debt burdens. Equally important, this approach will make a real difference in meeting the basic needs of poor people around the globe without significant costs to IDA.

While an increase in the amount of grants will mean a reduction in IDA repayments over the next 40 years, it is important to note that for the recipient countries, these additional saved "costs"—which are better referred to as "foregone debt repayments"—provide real and material benefits. Even in terms of foregone repayments,

the amounts are modest and spread out over an extended period of time. Given the grace period attached to regular IDA funding, there is virtually no reduction in the amount of IDA resources available to support borrowing countries over the first ten years.

It will not take much to offset these foregone repayments even after the first ten years. In its recent study on IDA grants, the U.S. General Accounting Office (GAO) produced an excellent analysis, which was very helpful. I referred to it many times as a way to explain the financial impact of the grants proposal to other donors. It estimated that donors would have to increase their contributions at an annual rate less than the rate of inflation to offset the costs of grants—that is a decline in real terms.

Second, another key achievement in the IDA replenishment is a contribution structure that allows donors to increase their levels of funding if concrete measurable results are achieved. Donors and developing countries will benefit from routinely quantifying development achievements and understanding the reasons for success and failure. This will increase learning and accountability for development results.

Donors agreed to measure progress towards two sets of results. The first set involves getting the new measurable results system started. This system must be established and other analytical underpinnings of IDA's work expanded. Timely and high quality diagnostic analyses—such as public expenditure reviews, financial accountability assessments, and investment climate assessments—are important tools for identifying the strengths and weaknesses in a country's ability to make the most effective use of IDA resources. The U.S. will provide an additional \$100 million if IDA makes concrete progress in this area.

The second set of results is in the areas of education, health, and private sector development. After careful consideration of both measurability (do the data exist in most IDA countries?) and relevance (do they reflect IDA's productivity growth and poverty reduction mandate?), progress will be tracked toward the following results:

- *Education:* Increase in aggregate primary school completion rates across IDA countries as well as an increase in the number of countries that have raised their completion rates.
- *Wealth:* Increase in measles immunization coverage across IDA countries as well as an increase in the number of countries with 80 percent coverage.
- *Private Sector Development:* Reductions in both the number of days and the official costs required to start businesses in IDA countries.

Reflective of the importance of human capital investment and vibrant private sectors to increasing productivity, the U.S. will provide an additional \$200 million if satisfactory results are achieved in the above areas.

It is important to keep in mind that this is just the start of a fundamental shift of focus in the MDBs to measurable results. A new measurement system must be created to implement the results approach; it will begin with a small but important set of indicators. And it will evolve over time as the quality of data and evaluation systems in recipient countries are strengthened and as the MDBs, other shareholders, and developing countries realize that the U.S. priority on measuring results reflects a genuine desire to ensure that the lessons—both successes and failures—of 50 years of development assistance result in more effective assistance and less poverty around the world.

More broadly, pursuing a results-based approach in IDA and the other MDBs will require real changes in operating style. It means stating in quantitative terms the expected results of individual projects and overall country assistance before providing funding. It means measuring progress towards stated results and assessing the reasons for success and failure. It means structuring projects in a way that steps up or cuts back funding contingent on achieving results.

Third, IDA will devote significant resources over the next three years to projects and programs that raise productivity. The logic behind this approach rests in the simple fact that countries are poor because productivity is low. This requires concentrating IDA funding on addressing the basic causes of low productivity such as inadequate education, low business investment, and inadequate health care. For the first time, IDA funds can be used in the private sector, including increased collaboration with the International Finance Corporation (IFC), the arm of the World Bank Group that provides financial products to private sector projects in developing countries.

AFRICAN DEVELOPMENT FUND

Negotiations for the ninth replenishment of the African Development Fund (AfdF-9) are not yet complete. With strong U.S. leadership, the AfdF negotiators have al-

ready agreed on an important set of policy reforms including an enhanced focus on measurable results, an improved link between financial support and results, and deepened coordination with the World Bank and bilateral donors. The AfDF has a good record of making information available to the public, and management has committed to improving disclosure policies. The institution is also developing specific expertise in the areas of regional integration and governance, and will be adopting a new private sector strategy this year.

Two issues remain—the overall size of the replenishment and the proportion of assistance to be provided as grants. The AfDF is expected to adopt a grants program which is similar to the agreement on grants reached in IDA, with an emphasis on grants for urgent human needs such as education, health, and water and sanitation, linked to country performance and commitment to economic reforms. Discussions to date project a replenishment size of \$2.9-\$3.2 billion to fund AfDF operations over the next 3 years. The Administration is requesting authorization to contribute \$354 million over the next 3 years. This represents an 18 percent increase in funding AfDF-8.

The African Development Bank has been using its comparative advantage as a regional MDB to participate actively in the on-going elaboration of the New Partnership for African Development (NEPAD) initiated by African Heads of State. The Bank will be assisting, in particular, on promoting economic regional integration and improved banking and financial standards.

ASIAN DEVELOPMENT FUND

Important achievements were made during the last replenishment negotiations on the Asian Development Fund (AsDF), including a performance-based system for allocating resources and a Memorandum of Understanding with the World Bank to strengthen collaboration and minimize duplication. More recently, a strategy for combating money laundering and terrorist financing has been developed by the AsDB.

The Asian Development Bank—including its concessional lending arm, the AsDF—has moved quickly to assist Afghanistan, by participating in the multi-donor trust fund and by pledging support to finance the country's urgent reconstruction needs. The Bank has approved \$15 million in grants to support critical capacity-building in key ministries, such as health, education, and agriculture, and to assist with disaster preparedness. In the road sector, we are working closely with the Bank and USAID to accelerate the flow of donor assistance to critical roads.

The Bush Administration intends to implement its MDB reform agenda for the AsDF much as it has with IDA, including the use of grants. Our ability to influence the policy direction of the institution will be helped over time by a reduction in our arrears.

CONCLUSION

MDB reform has been a priority of the Administration from the outset. I believe that steady progress is being made in achieving our key objectives within each of the institutions and that these reauthorizations will allow us to make further progress. Working with the international affairs staff at Treasury, I will endeavor to be demanding and to set high standards for the MDBs in order to make them more effective in raising living standards around the world.

Senator SARBANES. Thank you very much, Secretary Taylor. Concerning the \$2.85 billion replenishment for IDA—if you go from loans to grants and if you are not going to cut back on the program, you are going to have to have additional resources. Would that be correct?

Mr. TAYLOR. Because of the grants, rather than loans, there is less payment back in the future, but, as you indicated in your introduction, the IDA loans at this point have a 10-year grace period, and they also have an effective interest rate of .75 percent, and a 40-year duration, so these payments, these reflows come back into the future, and therefore have no direct implication immediately on the funding.

However, and I want to add, because this is very important, a number of studies, a very significant one by the GAO showed that

the actual increase in the funding that is necessary to make up for the difference that you are raising is very small, and in fact all it requires is that IDA funding be increased at a rate that is actually less than the inflation rate over the years, and that is enough to make up for the lost inflow.

Senator SARBANES. Can that be encompassed within the \$2.85 billion request?

Mr. TAYLOR. Well, in a way the \$2.85 billion is more than enough of that. Because as you say, it is an 18-percent increase, and according to the studies, if you have just a 2-percent increase year after year, it is enough to make up for the loss of reflows, so it is more than enough.

Senator SARBANES. So in the IDA negotiations, where agreement was finally reached, the replenishment figure covers what is estimated to be the additional cost? I mean, are the donor countries all agreed on that?

Mr. TAYLOR. No, it is not correct to say that the replenishment we have agreed to covers the additional cost. That additional cost, one way to think about it is, it is a 2-percent increase year after year, say, for the next 40 years, which is less than inflation that's projected, but the 18 percent just for this first 3 years. So it takes a good chunk of that, but it does not make commitments for IDA 14, IDA 15, IDA 16, et cetera, so the payments really in the future will determine the offset of the reflows, but the 18 percent is just for this replenishment.

Senator SARBANES. I thought I read somewhere that the donors were planning to meet in the near future to discuss the additional resources necessary to cover going from loans to grants. Is that correct?

Mr. TAYLOR. There will be continuing meetings through the time where IDA 13 plays itself out, and then in preparation for negotiations in IDA 14, we have agreed there will be a review of the grants, the whole grants operation to see how that is working in plenty of time before IDA 14. And one of the elements to consider would be to review the cost, if you like, of the loss in the reflow. But the whole grants proposal is going to be reviewed on an ongoing basis.

Senator SARBANES. Well, I am having difficulty getting an answer to my question. Let me continue to pursue it.

Does the shift from loans to grants, is that funded by this replenishment, or does it remain unfunded as a matter that continues to be on the agenda of the donor IDA members?

Mr. TAYLOR. The 18-percent increase alone does not fully make up for the lost reflows from the loans.

Senator SARBANES. Is it intended to make up for any of it, or is it intended to be an additional replenishment? With the funding of the loan-to-grant shift being dealt with separately?

Mr. TAYLOR. It is being dealt with separately. The 18 percent is a good chunk of it, but the rest of it will be dealt with separately into the future, so when IDA 14 is considered, and IDA 15 is considered, then a deliberation will take place on whether additional contributions are appropriate at that time. And it is going to be based on many things in addition to the lost reflows, I think most important how measurable results are working, how effectively the

institution is working. All those things will come into play, just like how big IDA 14 will be.

And if I could just say one other thing on this, the lost reflows are a reduction in the payments that the poorest countries in the world have to make, so the grants are a way in which we can provide more resources in the future by having less in the way of interest payments from these very poor countries to help make them more sustainable.

Senator SARBANES. I understand. The question now is whether you are borrowing from the future to cover the present, or whether there is going to be a flow of resources that will assure that the level that is going in for program purposes remains constant or, indeed, continues to increase.

Mr. TAYLOR. We are trying to make the resources effective right now.

Senator SARBANES. I understand, but are you doing that by pulling in from the future, or providing the resources?

Mr. TAYLOR. We are providing more resources as a result of the grants. We have not reduced the amount we are putting in. We have actually increased the amount we are putting in and converted that from loans to grants, which is an increase in funding, so not only are we increasing funding by 18 percent, we are providing more funding in the form of grants rather than loans. Those are more resources.

Senator SARBANES. What was the basis of the resistance that you encountered in shifting from loans to grants?

Mr. TAYLOR. I would say that it's, as any new idea there is resistance. It came from positions that were held for many years. As you know, the World Bank has been thought of as a bank that makes loans.

Senator SARBANES. So you think there was no rational argument on the other side. It was just the resistance to a new idea.

Mr. TAYLOR. In my opinion as an economist and economic financial analyst, the arguments in favor of the grants proposal were overwhelming, and it eventually carried the day.

Senator SARBANES. What were the arguments against it? Let me ask you to think as a lawyer, instead of an economist, who tries to see the arguments on both sides, and therefore has to be careful not to be absolutely convinced of the rightness of his cause, since he has to understand where the other side is coming from. What was their rationale? Because you encountered considerable resistance.

Mr. TAYLOR. Yes. I was involved in the negotiations. I know it is important to understand the other side's perspective as best as possible. One perspective was that in some countries the institutions of government get in the way of changes.

For example, the distinctions between loans and grants is sometimes a distinction between finance ministry operations and foreign affairs ministry operations, or development ministry operations, where the loans tend to be from finance ministries, so shifting from loans to grants is effectively in some countries shifting from one ministry to another. You can understand how that can get in the way of change. That is an example of a reason.

Another reason are the things you just mentioned, Senator, that what would be the cost of this operation. And as I say, thanks to a lot of good work, including that of the GAO, people pointed out that there really were not costs in any sense of the word, because you can make up for the loss reflow simply by keeping the contributions growing at a very small nominal rate, less than the rate of inflation. So that was very serious and good discussions about those technical issues, but ultimately when people looked at the numbers, the proposal made a lot of sense.

I think another thing that eventually carried the day here was the recognition by many people who are concerned about the debt burden in poor countries, realized that grants would be a way to reduce debt burdens in the future, and that became very important in the end for all parties.

Senator SARBANES. Now, I gather you went to a range of 18 to 21 percent grants?

Mr. TAYLOR. Yes, out of total IDA funds, that is exactly right.

Senator SARBANES. But your proposal was for 50 percent?

Mr. TAYLOR. The President's proposal was for 50 percent of funding to the poorest countries, for areas in social services, health, education, and water, and that is pretty close to what the agreement was.

IDA funds are also used for projects, for roads, which will be in the form of loans in the future.

Senator SARBANES. Is the performance standards that you mentioned—you have this stepped-up contribution over a 3-year period, the performance targets. Were they adopted by IDA? Are they part of its framework, or are they a separate U.S. determination?

Mr. TAYLOR. It is a combination. If I can answer your question as best I can, it is a combination. The overall framework is provided by IDA. That is, the performance measures, the improvement in completion rates of schools, et cetera, the agreement to provide a new measurement system for measuring. That is part of IDA and part of the agreement. The World Bank will be creating this new measurement system.

The United States is the only country which will, at this point in time, gear its contributions of \$100 million and \$200 million to this amount. I believe it is the only one at this point.

Senator SARBANES. Now, was that accepted by IDA? As part of the—

Mr. TAYLOR. Yes. We have an agreement. The whole document that is agreed to this, that is exactly right.

Senator SARBANES. Has agreed to what now, specifically?

Mr. TAYLOR. To these performance measures and to the U.S. proposal that the United States will provide \$100 million more only if these goals are achieved, and then in the second year \$200 million more only if the goals are achieved. They agreed to that as part of the framework.

Senator SARBANES. Are other countries coming in conditionally, in the same way?

Mr. TAYLOR. No. I believe no other countries have, just the United States, but the other countries have agreed to the United States proceeding that way, and also to the new measurement system that is going to be developed.

Senator SARBANES. Senator Allen.

Senator ALLEN. Thank you, Mr. Chairman. In following through some of the questions, in order for the taxpayers to support and for the Congress to support additional funds that the President has generously put forward, I think we need to know that these funds will not be squandered, and that there will be some positive changes made in these countries. You specified, some of the educational and health matters that obviously are important.

And you mentioned performance criteria and measurable results. Could you please tell us, elaborate more on what will be the performance criteria, what will be the measurable results? So the American taxpayers know that these grants, and how many of them are going to be grants, obviously paid out over a period of years is your proposal, but what will be those measurable results, tangibly, that we could see, that look at this investment of however many dollars it may be, here is how this has impacted this country, benefited their lives, maybe their education, maybe their health, but also making those countries, allowing the people of those countries to have greater opportunity for economic success in life, as opposed to just worrying about the bare necessities.

Mr. TAYLOR. We are just beginning this process of insisting on measurable results, and so ultimately I hope that there is much more in the way of a good answer to your question, Senator, but thus far I think the answer can be good.

We are agreed that there should be an improvement in education as measured by completion rates in primary education, so that means more kids are completing primary school. We have agreed that there should be some improvement in immunization in the area of measles. That is actually a good measure, because you have to have a good health system, delivery system, refrigeration, et cetera, in order to make this improvement. And third, improvement in the time and cost to startup a business.

So those are a start. All those are important for the well-being of people, and for economic growth to be started. Ultimately, I would like to see even more of these kinds of measures in the programs, and as we go forward in order to achieve those goals, of course, there is going to have to be in each grant and each loan specific performance measures by time, what happens each quarter, what happens each year, and that will be a process that will be taking place in the months and years ahead, but the specifics that I indicated are actually in the IDA agreement now.

Senator ALLEN. I think all those are fine. Obviously, education is important for any individual. Of course, what they are being taught is another matter. I am not sure that we care to get into the details of the curriculum of their countries, but nevertheless, what you find in some countries is, if people are illiterate, the basic things that we care about in their country, if they are illiterate they are going to have very few opportunities in life.

Now, the prompt permitting I think is fine, and that is good, but you still could have prompt permitting for business startups, but in the event that contracts are not being adhered to, if there is not fair adjudication of disputes, if that prompt permit is given to someone whose property is capriciously taken, or the value of it diminished without compensation or due process, then that is a prob-

lem, and I would hope that beyond those things of prompt permitting for business startups and so forth, that you get into some of the underlying aspects.

I know that the Meltzer Commission has proposed that the World Bank adopt a results-oriented, or results-based performance system, where organizations implementing bank programs would be paid only if they achieved the goals specified in their program plan. The new IDA 13 plan says the World Bank will establish a results-based system for measuring, monitoring, and managing its development programs.

Now, will it look anything like the procedure proposed by the Meltzer Commission as you go forward, and if not, how does the International Development Bank, or Association plan to maintain accountability and avoid putting money into failed programs?

I know there are a lot of questions in there.

Mr. TAYLOR. The measures are important to quantify and meet, and I think we have made good progress on that. As I indicated. There are additional measures, as your examples indicate, Senator, that could have to do with test scores for kids, rather than simply completion rates. Completion rates, as you know, is not the best measure when you can promote kids easily. And with respect to other kinds of measures, the question is, what is the penalty if you do not meet the measure?

I think that is implicit in your question, and I think for particular grants, if there is a grant and the performance results are not being achieved, then the grant should be pulled. We should stop. If things are not being accomplished as planned, then someone has to say no, this is not going to the right place, it is not being done in the right way, and so you move in a different direction, so that is the kind of carrot and the stick that goes along with the actual measures themselves.

Senator ALLEN. Well, I think what you are trying to do is in the right direction. I want to work with you in the years to come. I think some of the initial criteria may not be as strict as I would like, but you also have to be understanding. This is a new approach, and I think it is a refreshingly new approach of reform to make sure that if our money, our taxpayers' money is being used, we want to make sure it is being used in the right way. And it is not just for our benefit; it is for the benefit and the foundational changes that need to be made, fundamental changes as well in some of these countries.

And so count me as somebody 100 percent behind performance-based results, performance-based lending, and I think that your concept of paying out over the years to see if progress is being made in education, you are not going to do it quarterly. That is going to have to be more of an annual or long-term situation. You cannot turn an education system around in 1 year in another country, any more than you can turn it around in our States in our Union, but some of these ideas that the Meltzer Commission has put forth, I am glad to see that you are fairly well parallel with them, and commend you and want to work with you in the years to come.

Mr. TAYLOR. Thank you. Senator, could I just say one thing in response to that?

Senator ALLEN. Sure.

Mr. TAYLOR. There is another very important change that is going on in U.S. foreign aid policy, and that is the President's proposal for the Millennium Challenge Account. That is not part of these proposals, of course. These are multilateral, and therefore it requires multilateral negotiations and all of the donors to these institutions to participate in, but in the Millennium Challenge Account which the President proposed and we are working to implement right now, it does include rule of law issues, it does include contracts being enforceable, so it actually is beginning to move even further in the direction that you indicate is important, and we think is important as well.

And that is not the subject of this testimony, but I think that is another example where there is an increase in funding being proposed of substantial magnitude, in this case a 50-percent increase in our foreign assistance, but only when it goes to countries that are performing well in terms of the policies you indicate, and getting good results, so that, combined with this 18-percent increase in IDA I think demonstrates the philosophy that there can be increased support for developing countries, and it is going to be effective if we have this approach that we are proposing to take.

Senator ALLEN. Well, I am glad you added that, too, because while it is not the specific focus of this hearing, the larger question is, how are we going to help developing countries develop so that they live healthier, better, more prosperous lives; and thank you for bringing that up, because I do think that is an important part of our overall foreign aid policy.

Thank you, Mr. Chairman. I have no further questions.

Senator SARBANES. Mr. Secretary, I understand that we are running considerable arrearages to the multilateral development banks, is that correct?

Mr. TAYLOR. Yes, that is correct.

Senator SARBANES. And even on IDA, and both the Asian Development Fund and the African Development Fund, we are in arrearages as well, is that right?

Mr. TAYLOR. That is correct. The amounts vary by institution, but that is correct, and I would say, Senator, that one of, I think, the other important things to mention about our proposals for appropriations in the 150 account is a 3-year plan to clear all of our arrears. We think these arrears are a mistake. It is not good budget policy, and we have laid out a plan in the next 3 years to clear those arrears out, and the first year a third of them are proposed to go as a part of our appropriations.

Senator SARBANES. Does it handicap our efforts in these multilateral development banks, the fact that we are in arrearages when we try to impact the direction of policy?

Mr. TAYLOR. Sure. It is an issue people raise, I think therefore it is important to clear them out.

Senator SARBANES. And how unusual is it? Are there many donor countries that are in arrearages, or do we tend to stick out in that regard?

Mr. TAYLOR. Because of our system, we tend to have more of an issue than other countries. The parliamentary systems, it is easier just to have the funds go exactly as negotiated by the government,

but I would have to get a more specific answer to you, if you would like the details on that, Senator.

Senator SARBANES. Well, we thank you. Mr. Secretary, we thank you very much for your testimony.

Mr. TAYLOR. Thank you.

Senator SARBANES. If the panel would now come forward, our second panel features five witnesses from outside the government, James Orr, the executive director of the Bretton Woods Committee, a group of chief executives, former Cabinet officials and others who joined together to promote reforms and increase public understanding of the World Bank, the IMF, and the multilateral banks. Jim Orr actually served for 8 years as legislative counsel for the International Trade and Development Subcommittee over in the House of Representatives.

Ms. Caroline Atkinson, adjunct senior fellow in international economics at the Council on Foreign Relations, and senior director of Stonebridge International, a consulting firm. Ms. Atkinson from 1997 to 2001 was senior advisor to the Secretary and Senior Deputy Assistant Secretary for International Affairs at the Treasury, and she has worked at the IMF, and as an economics writer and columnist for the Washington Post, the Times of London, and the Economist.

Reverend David Beckmann, president of Bread for the World, a leading NGO dedicated to eliminating world hunger. Bread for the World is a member of the Coalition for World Bank Reform, an umbrella organization of NGOs. Reverend Beckmann served for several years on the board of directors of Bread for the World before becoming its president in 1991.

Actually, prior to that he spent some time as a World Bank economist focusing, or trying to move the bank in the direction of poverty reduction.

Dr. Allan Meltzer, who has been here with us a number of times before, professor of political economy at Carnegie Mellon University in Pittsburgh. He has been there now a very long time—

Dr. MELTZER. For 46 years.

Senator SARBANES [continuing]. And is a visiting scholar at the American Enterprise Institute. Dr. Meltzer was a member of President Reagan's Council of Economic Advisors, and of course he has authored a number of important academic studies.

George Ayittey, and I hope I pronounced that correctly, is distinguished economist in residence at American University, previously a fellow at the Hoover Institution, and was a Bradley Resident Scholar at the Heritage Foundation. And we are very pleased that all of you could come and be with us this morning, and I think I will simply begin with Jim Orr, and we will move straight across the panel.

**STATEMENT OF JAMES C. ORR, EXECUTIVE DIRECTOR, THE
BRETTON WOODS COMMITTEE, WASHINGTON, DC**

Mr. ORR. Thank you very much, Chairman Sarbanes, Senator Allen. It is a pleasure to be with you today. As Senator Sarbanes mentioned, I am here representing the Bretton Woods Committee this morning, which is a group of 700 opinion leaders across the country who have banded together to work to help improve the ef-

fectiveness of the World Bank and the IMF and to support them where they need support.

Senator SARBANES. Self-proclaimed, or so designated by others?

Mr. ORR. Self-proclaimed, Senator, but perhaps you could fit a line designating us congressionally in the next authorization bill.

Senator SARBANES. I doubt that is going to happen.

Mr. ORR. I am going to talk mostly about IDA because that is the program I know more about, and briefly about the African fund and the Asian fund.

Our sense, Mr. Chairman, is that IDA is deserving of continued strong support from the Congress for a number of reasons. First of all, it is the main program that the United States has to help the world's poorest countries. As we all know, many of these people live on a dollar or two a day. IDA and the other soft loan programs at the regional development banks pay for the bulk of the infrastructure development and social services in 80 or 90 of the poorest countries in the world, and it helps guarantee a basic level of social welfare that could not possibly exist without these programs. Ultimately IDA paves the way for self-sustaining growth, and that is its purpose. It is also worth pointing out that much of the assistance goes to countries that are strategically very important to the United States.

I am going to comment briefly on the effectiveness of the World Bank. We have already heard a great deal about this subject this morning. I have to say I bristle slightly when I hear these discussions, because it is possible for someone who joined us today for the first time to get the idea that no one has ever thought about World Bank effectiveness until the last few years, and that is just not true. I would say that of all the bilateral and multilateral programs in existence, IDA and the World Bank have been the most effective in promoting development over the last 30 or 40 years.

Clearly, improvements in effectiveness need to be made. We are all supportive of that, but we have to remember that IDA works on one of the most challenging problems that faces mankind today. It is not for lack of great talent or serious effort that there are still many countries that lag way behind in development. It is just a very hard business. No one knows exactly how to do it. IDA and the other development institutions have changed strategies a dozen times over the last 50 years trying to do a better job, but I would not want the impression left that the institutions have been ineffective until now, because that is not the case.

I think one of the best measures of effectiveness is the fact that over the lifetime of IDA 32 countries have graduated out of eligibility for soft loans into eligibility for hard loans, loans based on market rates of interest, and that is an impressive statistic. We all wish that 100 countries had graduated, and perhaps they will.

Certainly, it is appropriate to be skeptical about effectiveness, and all of us welcome the innovations made by the Bush administration and this Treasury Department, many of which had their roots in proposals by the Meltzer Commission, which I am sure you will hear more about. Supporters of IDA certainly welcome the demand that IDA and the other regional development banks' soft fund window should be subjected to tougher standards.

Another point I would like to make is that people often do not feel that IDA recipients are grateful for this support, and I had a personal experience which perhaps is worth relating in this regard. Two years ago, I accompanied a group of nine IDA Ambassadors to visit lawmakers, mostly on the House side, I am sorry to say, but it was remarkable to hear these Ambassadors talk about how IDA funds had been used in countries from Haiti and Nicaragua in our hemisphere to Africa and South Asia and East Asia. They were extremely grateful for the sacrifice of the American taxpayers to fund IDA, very positive about the work of the World Bank, and I think this is something Congress should hear more, because I sense they do not hear it very often.

IDA is evolving in many ways to meet the challenges of today. Transparency has been one of the main areas where I think the World Bank and IDA have made the most progress in the last 10 years. It is quite startling to see how much information about what the World Bank is doing is now available to the public.

A good example is the IDA replenishment agreement that you talked about with Under Secretary Taylor. When the agreement was still in draft form, it was circulated to the NGO community and put up on the World Bank's Web site, and NGOs were given an opportunity to comment on it and suggest improvements, and scores of NGOs took the World Bank up on this offer and made constructive criticisms, many of which were embodied in the final IDA replenishment proposal, so we have come a long way with transparency. There is certainly more to be done in this area.

Another place where I think this administration has been pushing the bank that is very important is the emphasis on private sector development. I think most members of the Bretton Woods Committee would agree that private sector development is the key to self-sustaining growth, and it cannot be emphasized enough.

Sometimes help for the private sector gets lost among a list of very worthy objectives at the bank, like education and gender equality and fighting environmental problems and infectious diseases, but the private sector is ultimately the best hope for these countries. I cannot think of a single country that has graduated from the ranks of the poorest countries to the ranks of emerging market countries without having first established a vibrant private sector.

John Taylor mentioned briefly this—may I finish my sentence?

Senator SARBANES. Sure. Why don't you just view the timer as an indication that you should start drawing to a conclusion. It is not as a guillotine.

Mr. ORR. Thank you, Mr. Chairman. John Taylor mentioned that one of the performance criteria for IDA to get the remaining money in the next 2 years is improvements in poor countries in the amount of time it takes to start a business. I had the privilege of visiting Nicaragua last spring, the poorest country in Latin America. A new World Bank study shows that in Latin America it takes three times as long and costs 15 times as much to establish a small business as it does in an OECD country like the United States, and I think in that statistic, and in the fact that Nicaragua still lacks a fully functioning vibrant private sector is part of the reason why that economy lags behind.

I will save the rest of my comments for questions.
[The prepared statement of Mr. Orr follows:]

PREPARED STATEMENT OF JAMES C. ORR, EXECUTIVE DIRECTOR, THE BRETTON
WOODS COMMITTEE

INTRODUCTION

Mr. Chairman, Ranking Senator Allen, and members of the Subcommittee, it is an honor and pleasure to appear before the Committee today. My name is Jim Orr.¹ I am Executive Director of The Bretton Woods Committee, a public education foundation dedicated to promoting sensible reforms and building understanding for the work of the Bretton Woods institutions—the World Bank, the International Monetary Fund, the World Trade Organization and the regional development banks.

The Bretton Woods Committee is comprised of about 700 members from across the country. Typically, they are opinion leaders: heads of businesses, universities, labor groups and NGOs and former government officials. We are proud of the fact that all the former Secretaries of the Treasury and State are members, as are a good number of former Members of Congress. Our co-chairmen are former Congressman Bill Frenzel and Gerald Corrigan, the one-time president of the New York Federal Reserve.²

I am here today to express our strong support for continued U.S. funding of IDA—the International Development Association of the World Bank, and in addition to support replenishments for the Asian Development Fund and the African Development Fund. In line with my experience, however, I will speak mostly about IDA, but in many cases my comments can be applied to all three institutions. In my testimony, I will stress the historical and future significance of IDA and discuss some of the ways it advances U.S. interests.

WHAT IS IDA?

The International Development Association is the World Bank's concessional lending window. Designed to be a channel for the "haves" of the world to help the "have-nots," IDA provides long-term loans at zero interest to the poorest among the developing countries. These loans carry maturities of 35 or 40 years with a 10-year grace period on the repayment of principle. IDA lends to countries that have a per capita income of about \$900 or less and lack the financial ability to borrow from the World Bank's primary lending institution, the International Bank for Reconstruction and Development, or IBRD. At present, 79 countries, comprising over 2.5 billion people and more than half the total population of the developing world, are eligible to borrow from IDA.

HISTORY OF IDA

IDA was created in 1960 at the initiative and insistence of the United States, and today it remains the single largest source of donor funds for basic social services—health, education, clean water, sanitation, infrastructure, etc.—to the world's poorest countries. During the 1950s it became increasingly evident to World Bank shareholders that the Bank must turn its attention beyond its primary mandate—post-war reconstruction of Europe—toward assisting the world's poverty-stricken nations, many of whom were newly independent from colonial rule, plagued by economic and political instability, and unable to afford the development loans on commercial terms traditionally offered by the World Bank. To fill this void in development financing, U.S. President Dwight D. Eisenhower urged World Bank shareholders to create the International Development Association (IDA), giving the Bank the resources and mandate it needed to address the problems of the poorest nations and their citizens. Since 1960, IDA has lent \$107 billion to 106 countries to address the basic needs of billions of people surviving on less than a dollar or two per day. It uses the same criteria to evaluate loans as that of the World Bank's IBRD facility, and aims to fund projects that build needed infrastructure, protect the environment, improve conditions for private industry to develop, and support reforms aimed at liberalizing countries' economies.

¹ In compliance with Congressional rules, a brief biographical statement appears at the end of this statement.

² Truths in Testimony rules require a statement about the receipt of any federal grants or contracts. As a matter of policy, The Bretton Woods Committee accepts no government support of any kind. Nor does it accept funding from the international financial institutions. It is supported solely by voluntary contributions of its members.

As the members of this Committee know, whereas the IBRD raises most of its funds on the world's financial markets, IDA is funded largely by contributions from the governments of the more wealthy member countries. Donors get together every three years to replenish IDA funds. IDA lending is a cost-effective way for the U.S. government to promote its development goals, since each dollar contributed by the United States is matched by over seven dollars from other donors and repayments from borrowing countries.

As the Committee is also well aware, there has been a consistent record of bipartisan congressional support for IDA, dating back to the 1950s. Interestingly, it was a Republican Senator who initially proposed creation of the program. It has been supported by every president since Dwight Eisenhower. It also enjoys support from a broad array of interest groups, ranging from poverty and church groups to the business community.

America's business community has a strong interest in seeing the IDA program succeed. By advancing living standards from one generation to the next, peace and stability are more likely, and thus, IDA helps promote a more stable world economic environment. IDA borrowers are precisely the countries that have the greatest need for the exports the United States specializes in, such as animal feed to upgrade diets, technologically-enhanced crops, renewable fuel sources, and modern capital equipment to improve countries' manufacturing base. Many of today's IDA countries will be tomorrow's emerging markets.

IMPACT AND SUCCESS OF IDA

Over more than forty years IDA has, by and large, been successful in achieving its objectives. IDA lending has impacted the global development community on a major scale, and its success rate compares favorably with private and public sector investments around the world.

Over the years, thirty-two IDA borrowing countries have seen their economies develop and grow beyond the point where they are no longer eligible to use IDA funds, thus enabling them to "graduate" from IDA to reliance on commercially-priced lending. The list of graduates includes Chile, China, Costa Rica, Egypt, Morocco, Thailand and Turkey. Other former IDA borrowers, such as Korea, have made enough progress that they now contribute funds to IDA as donors.

Further, living conditions and basic services have improved dramatically in most IDA borrower countries. On the whole, life expectancy, literacy and nutrition have increased over the past generation. While there have been development failures among IDA borrowers in parts of Africa, for instance, it is important to note successes in regions like South Asia, where IDA funds and policies helped fuel the Green Revolution. Thanks to IDA, over 6,700 health care facilities in Asia were constructed or upgraded, and then equipped and staffed to provide basic healthcare to rural populations.

In the Caribbean, IDA policies have helped turn around Haiti's devastated power sector—giving users access to about 20 hours per day of electricity, in contrast with only 6 hours per day just a few years ago. IDA lending has succeeded in parts of Africa too, over 45,000 primary school classrooms in African countries have been constructed or refurbished, and more than 5 million textbooks (most locally developed and produced) were supplied to primary schools, enabling about 1.8 million children to benefit from access to primary education.

A recent empirical study performed by the World Bank's research department measured the effectiveness of development aid throughout the 1990s and found that the effectiveness of IDA resources improved over the course of the decade, and was far more effective than the overseas development assistance (ODA) in general. The study concluded that IDA funding was better targeted to the specific needs of poor countries that maintain reasonably good policies.³

A major, independent evaluation of IDA's record between FY1994-FY2000 performed by the World Bank's independent audit agency (the Operations Evaluations Department) recently found IDA's compliance with more than 150 undertakings to be satisfactory, with some modest qualifications. The report cited that over the seven-year review period, IDA significantly enhanced its relevance and the performance of its portfolio became a more selective lender and more responsive to borrowers, and recast its mission to address new concerns of poverty reduction. IDA also improved its presence in the field and diversified its policy instruments. The report concluded that, with IDA's help, "a number of poor countries are in a better

³Dollar, David. "Has Aid Efficiency Improved in the 1990s?" Revised Draft, *World Bank Development Research Group*. Washington, DC, March 15, 2000.

position now than at the beginning of the evaluated period to achieve broad-based growth and poverty reduction.”⁴

CONCERNS

However, a number of legitimate criticisms about IDA resources, policies and effectiveness have been raised by members of the IDA community, including some of IDA’s most ardent supporters. For one, IDA’s track record needs to be better: progress in poverty reduction has been disappointing in some pockets of the world, particularly Africa, where living standards have barely kept pace with population growth. Neither donors nor borrowers must become complacent or be left unaccountable for such failure. Although IDA’s effectiveness is increasing the translation of key IDA objectives into successful programs must become more clear and demonstrable.

Key areas where IDA needs to focus new efforts include private sector development and gender, environmental and social development strategies. Some of the Bretton Woods Committee’s members from the business and finance communities have taken a special interest in the need for more private sector development efforts. Most observers take for granted the fact that poor countries that reach the level of self-sustaining growth will increasingly rely on private sector resources, primarily internally generated, but also foreign direct and portfolio investment.

No country has broken out of the ranks of the “poorest” to achieve the status of an “emerging market” without first creating a well functioning private sector to permit capital formation and the building of local businesses, which employ workers and pay taxes to support other governmental services. At the same time, there is a critical need for an active civil society to keep pressure on the government for sound policies and regulations and help keep local institutions responsive and up to date.

The Bretton Woods Committee recently established a working group called the Group to Assist Private Sector Development, or GAPS, to assist poor country governments and multilateral institutions in strengthening their private sector development strategies. After only five months of operation, GAPS members have launched numerous efforts to promote local and foreign businesses and capital formation in poor countries, and to offer advice on bilateral and multilateral assistance programs to help foster growth and competitive enterprises in IDA borrower countries.

GAPS ideas have already been well received in official development circles. Its members are working now with various cabinet departments on a proposal to establish a U.S. Government-sanctioned Private Sector Volunteer Office to help harness volunteer efforts from the U.S. private sector to assist other low-income countries. Ultimately, we hope we can organize a major effort to allow U.S. executives to deliver pro bono advisory services on local governance, corporate reform and capital market development plans to a few selected IDA countries.

IDA-13 REPLENISHMENT

IDA donor countries addressed these and other concerns when they concluded negotiations in June on the thirteenth replenishment of IDA. The new replenishment prioritizes the following four objectives:

- To promote sound policies that will lay a secure basis for productivity growth and poverty reduction in IDA borrowing countries;
- To ensure IDA assistance is effective and delivers measurable results;
- To improve IDA’s coordination, transparency and consultation to increase operational effectiveness; and
- To provide for a substantial replenishment of IDA resources to support countries demonstrating commitment to good policies and sustainable growth.⁵

Donors agreed IDA policies must be more closely tied to countries’ overall poverty reduction strategies, and that greater emphasis should be placed on improving policies toward education, gender, infectious disease, private sector development, rural development, and governance.

New to the agreement is an emphasis on lending effectiveness and tying aid to performance by rewarding countries that make the most progress by granting them access to additional resources. Donor representatives called for a results-based sys-

⁴Gwin, Catherine. “IDA’s Partnership for Poverty Reduction: An Independent Evaluation of Fiscal Years 1994-2000.” *World Bank Operations Evaluation Department*, Washington, DC, 2002.

⁵International Development Association. *Additions to IDA Resources: Thirteenth Replenishment*. The World Bank Group, July 9, 2002. Washington, D.C.

tem employing specific indicators to measure and enhance effectiveness and improve borrower accountability performance. They also arranged to include an incentive-based supplemental financing mechanism to allow additional donor contributions to be added based on progress to be tracked during this three-year IDA cycle.

Finally, donors recommended that IDA continue to build on its progress with respect to strengthening elements of transparency and coordination within its programs.

GRANTS VERSUS LOANS

A final issue of contention during the discussion of increasing IDA resources has been whether to replace IDA loans with grants. The United States has pressed IDA donors to convert a greater percentage of IDA loans to grants. The Bush administration has argued that chronically indebted and impoverished countries cannot afford additional debt build-up. Those opposed to the administration's proposal have worried that, without substantial new resources sustained over many years, a significant increase in grants would eventually deplete IDA resources.

Under the compromise reached in the IDA negotiations, donors agreed to convert between 18-21 percent of IDA instruments into grants, recognizing the special difficulties facing some of the poorest and most vulnerable IDA-eligible countries. The use of grants will be expanded for education, health, nutrition, sanitation, HIV/AIDS, and natural disaster reconstruction programs, as well as for countries recovering from conflict.

Initially, The Bretton Woods Committee expressed concern about the proposal to convert up to 50 percent of IDA loans to grants. While grants make great sense, we were worried about the feasibility of the proposal for two reasons. First, a large-scale move to grants ran somewhat contradictory to the original intention of the IDA to create a culture of investment and credit within developing countries. Second, and more important, given the declining trend of official U.S. development assistance over the last two decades and the large increase in IDA contributions that would be required to sustain future resources in the face of lost future income (reflows) caused by replacing loans with grants, we were not convinced that the United States and other IDA donors would commit the financial resources needed to sustain a healthy IDA program. Our concerns about the viability of this proposal were strengthened by a CRS study by Jonathan Sanford detailing the significant donor contribution increase that would be required to maintain IDA resources should IDA donors adopt the Bush administration's 50 percent grants proposal.

However, the new compromise to convert approximately 20 percent of loans to grants appears feasible, so long as the U.S. and other major IDA contributors continue to replenish IDA funds in the future.

The Bretton Woods Committee also considers the U.S.-initiated recommendations in the new IDA agreement to establish an accountability function for borrowers and a monitoring and evaluation system to be important steps toward improving IDA effectiveness. We urge that framers of this proposal include indicators of private sector development, which can help in alleviating poverty. The Committee stands willing to offer its advice and support to help make this possible.

The significant strides that IDA has made over the past decade has helped it to become the most efficient international institution in terms of lending based on country performance. IDA has proven itself as the most cost-effective way to fight extreme poverty on a large scale. The proposals that IDA donors have made for this replenishment will further strengthen IDA's capacity, sharpen its focus on policy and institutional performance, and equip it to meet future challenges.

Just as important, IDA squares with U.S. strategic and humanitarian interests, directly serving and supplementing America's own aid objectives. Moreover, it helps the United States solve devastating global and regional problems that have taken on an added importance to the Nation in the last year.

Now, Mr. Chairman, let me make a few, brief remarks about the African Development Fund and the Asian Development Fund. The African Bank and Fund have made tremendous strides in recent years to close the gap between that institution and its sister institutions. AFDB President Omar Kabbaj deserves a great deal of credit for overcoming a bureaucracy resistant to change and in helping modernize the Bank and institute many reforms. Friends who have visited Bank headquarters recently say there is a new sense of optimism on the staff that the Bank can make an important contribution as an African institution.

The Bank has adopted an impressive new strategic plan for 2003-2007. It is carving out the special niches where it believes it has a comparative advantage in African development. The African Bank is making a new effort to implement results-based management, tracking what the Bank is actually achieving through its loans

and technical assistance efforts. This includes building into all projects and programs from the beginning specific statements regarding what is expected to be achieved in the development area, monitoring the implementation of the project and finally measuring and evaluating what was actually achieved.

As members of the Committee know, Bank governors will soon adopt a replenishment of the Fund's resources. The U.S. Treasury is using this negotiation to advance its policy agenda at the Bank, including more selectivity and focus in project selection and making new strides in improving Bank effectiveness, in addition, the African Bank should beef up its inspection function and perhaps implement an independent evaluation system.

It remains true that some management systems at the African Bank remain well behind best practices at other regional development institutions. Lack of funding for training is one of the reasons for this. Perhaps Congress might want to consider making a special technical grant to the African Bank to help it pay for new training and other improvements in this area, I am sure such a grant would be well received by the Bank and put to good use.

As for the Asian Development Bank, it remains a very efficient and well-run institution, despite having been slower than some other regional institutions to adopt the next generation of approaches to development lending. Many of its members feel it remains too much a "project driven" institution, and that the time has come for it to concentrate more on increased participation, transparency, governance and other current imperatives.

It should be noted that the Asian Bank is very active in Afghanistan now, helping finance the reconstruction efforts. In addition, the Bank has been very helpful in funding projects relating to APEC, an important U.S. priority.

One of the biggest problems I see with respect to the ADB is the failure of the Congress to provide sufficient backing for it. It is something of an embarrassment that the United States—the member country that is the most active in pushing the Bank in new directions—has yet to authorize or fund the newest ADF replenishment, which was negotiated two years ago. Similarly, Congressional appropriators for years have raided the ADB's accounts to pay for what they view as more pressing development priorities. When this happens and arrears build up, other countries take notice. Ultimately, this will undermine U.S. influence in the institution in ways the United States will not like. I would therefore urge Congress to authorize and fully fund the Asian Bank and other MDB windows, including making up the arrears.

Thank you.

BIOGRAPHICAL STATEMENT FOR JAMES C. ORR

James C. Orr is co-founder and Executive Director of the Bretton Woods Committee, a group of 700 corporate chief executives, former cabinet officials and other prominent Americans who have joined together to promote sensible reforms at and increased public understanding of the World Bank, the International Monetary Fund, the World Trade Organization and the regional development institutions.

Mr. Orr has worked for thirty years in government and the private sector in international finance and development. In addition to his position with the Committee, he is also managing partner of James Orr Associates, a Washington, D.C. based policy consulting firm. In this capacity, Mr. Orr advises the firm's clients, which include international finance companies and corporations and government entities in the United States, Europe and Asia.

Prior to the formation of his firm in 1983, Mr. Orr served both Republicans and Democrats during eight years as legislative counsel for the International Trade and Development Subcommittee of the U.S. House of Representatives. He holds an undergraduate degree in economics from Wesleyan University (1968) and a master's degree in international economics from the School of Advanced International Studies, Johns Hopkins University (1974).

Mr. Orr has advised a number of national and international commissions dealing with aid and trade issues. He has performed specialized consulting assignments for major public and private financial institutions around the world. He is a frequent speaker on development and finance issues, international affairs, and trade issues. His writings include books and articles on the regulation of the U.S. financial sector, the activities of the multilateral development banks, Third World debt, international currency markets, etc.

Mr. Orr serves pro bono on a number of boards of directors, including TechnoServe, Inc, a company working to create business solutions to rural poverty. He has inspected dozens of development projects in Latin America, and in Asia and

Africa, both as a member of U.S. Congressional delegations and as a private businessman. He currently serves as a member of the Panel of Independent Experts, a group charged with assisting the Asian Development Bank in reviewing controversial development projects in Asia.

Senator SARBANES. Ms. Atkinson.

STATEMENT OF CAROLINE ATKINSON, ADJUNCT SENIOR FELLOW IN INTERNATIONAL ECONOMICS, COUNCIL ON FOREIGN RELATIONS, SENIOR DIRECTOR, STONEBRIDGE INTERNATIONAL, WASHINGTON, DC

Ms. ATKINSON. Mr. Chairman, thank you for the opportunity to appear before the subcommittee. As you mentioned, Mr. Chairman, I had the honor of serving in the U.S. Treasury in the previous administration, and for those of you who are puzzled by the strange way I talk, I am actually an American born in the District of Columbia, and that was where I was able to work in the U.S. Treasury.

While there, I had opportunity to see the importance for the United States of a well-functioning global economy and the contribution that can be played by the World Bank and other international financial and development institutions. I also saw the key role that the United States, often pushed by Congress, can play in helping to make these institutions as effective as possible.

As Under Secretary Taylor and you have discussed, the IDA 13 replenishment that you are now considering includes many important reforms in measurement and in policy objectives that were pressed by the United States.

Following up on Jim Orr's comments, I would just like to note that the 79 countries that are IDA recipients, some of which also get support from the Asian and African Development Funds, are home to 90 percent of the world's very poorest people, who survive on less than \$1 a day, and they include amongst them 1 billion children.

Meeting essential human needs with the provision of basic health care, access to clean water, and education is, of course, critical to the hope of a better life and, as you on this subcommittee know all too well, development in the poorest countries is needed to make the world a stronger and safer place as well as a fairer one.

The highly concessional terms that are provided by IDA and the other funds are essential to avoid adding dangerously to the debt burdens. They are also only possible because of the decision by the United States and other donors to provide our own budgetary funds in support of that.

A lot of people have suggested recently, although as Jim says there has been a lot of talk over 50 years about how to make development succeed, and some feel that the evidence that we have seen that past foreign aid has been misused suggests that it is all ineffective and not worth taxpayers' money, but broadly accepted research and our experience does show that well-focused assistance, channeled as Senator Allen was stressing, to countries that own and champion reform, can make a huge difference, and IDA has been shown to be the most effective channel for making this linkage.

A list of early IDA recipients who have now graduated includes such key U.S. allies and economic success stories as South Korea, Chile, Thailand, and Turkey. In fact, more than half of all the repayments that are now made back into IDA come from countries that no longer need to use these taxpayer funded programs. Some of them are even in a position to contribute back into IDA as donors, such as Korea. It is important to continue the full funding of these programs to allow other countries the opportunity to escape also from poverty.

This subcommittee has traditionally recognized the enormous stake for the United States as the world's leading global power and a champion of freedom and openness in the further integration of the poorest into the world's economy, and just a couple of points on that. As we cannot help but remember this week, the United States is not impregnable to outside threats. There is, of course, not a simple equation between poverty and terror, but poverty, hopelessness, and failed states such as Afghanistan before September 11 last year provided a breeding ground for terrorism.

The new focus in the multilateral development banks on governance and institution-building and legal reforms, largely at U.S. insistence, is critical for fighting corruption and helping to establish decent, more open, and better-functioning societies. The World Bank has launched for example, more than 600 anticorruption programs and government initiatives in about 100 client countries in recent years. IDA credits presently support governance reforms and legal reforms in Azerbaijan, Bangladesh, Mongolia, and other countries.

More broadly, the United States is obviously a natural champion and a beneficiary of a vibrant and successful world economy with the openness and competition, trade, and capital markets that has marked our own success. Succeeding in the battle against global poverty is in the interests of all Americans, and it is, of course, critical that development go hand in hand with strong environmental standards and other hallmarks of a healthy society as, again, the United States in its contributions has pressed for.

American leadership in the multilateral effort to attack poverty is both good economics and good politics. The money contributed by the United States to IDA in the comparable funds leverages resources many times that amount. Moreover, and I believe that Chairman Sarbanes is referring to this in his questioning with Under Secretary Taylor, an active leadership role and full funding and full payment gives the United States a more effective voice in determining the best use of that money.

Finally, many of the new global challenges being addressed by the multilateral development banks can affect Americans directly. With two teenagers nearby in Loudoun County contracting malaria without leaving this area, we do not need much more convincing of the dangers to Americans of communicable diseases which thrive in the poorest countries. The impact of pollution and poor environmental standards in individual countries also, of course, can be felt far beyond.

Often, the poorest countries can only move to address these global threats with the advice and financial support of others. IDA, for example, is committed to spend \$1 billion to help African countries

expand their HIV/AIDS programs, \$500 million of which was spent in 12 countries last year. Money, in combination with strong government action, can work, as in Uganda and Senegal, for example, there is evidence that this is beginning to turn the tide on the epidemic of AIDS.

I just wanted to speak briefly about the reform initiatives in the current replenishment. First, as Mr. Orr mentioned, the process by which agreement was reached was much more transparent and open than any before. Representatives of borrowers were in the discussions, and NGO comments were sought and taken account of.

Second, the United States call for a greater share of grants has, indeed, led to a significant expansion in particular for the poorest countries for AIDS and HIV programs and for recovery from conflict and natural disasters. I think these additional grants can help to break the cycle of rising indebtedness and impoverishment. At the same time, IDA's ultimate aim is obviously to lift countries out of poverty and into participation in the global market, including the capital markets, and repayment of IDA loans is often a first step. I think the balance in the IDA replenishment is a good one.

Finally, the critical push from the United States for linking finance to results gives much greater assurance that money will be well spent. I think it also helps to reinforce good governance. There is evidence where people in local areas know what money is being provided and what the goals of the finance are. They are much better at pushing for accountability in their own political regions, and that is obviously what is critical for successful development.

Thank you very much.

[The prepared statement of Ms. Atkinson follows:]

PREPARED STATEMENT OF CAROLINE ATKINSON, ADJUNCT SENIOR FELLOW IN INTERNATIONAL ECONOMICS, COUNCIL ON FOREIGN RELATIONS, SENIOR DIRECTOR, STONEBRIDGE INTERNATIONAL

INTRODUCTION

Mr. Chairman, Senator Allen and other Members of the Subcommittee, it is an honor to appear before you to testify on the World Bank's International Development Association, the Asian Development Fund and the African Development Fund. My name is Caroline Atkinson I am an adjunct Senior Fellow at the Council on Foreign Relations and Senior Director of Stonebridge International, a global strategy group. Until January 2001, I was the Senior Deputy Assistant Secretary for International Monetary and Financial Policy in the United States Treasury, and a Senior Adviser to Treasury Secretary Lawrence H. Summers.

In that position, I had ample opportunity to see the enormous importance for the United States of a well-functioning global economy and the contribution that can be played by the World Bank and other international financial and development institutions. I also saw the key role of the United States in making these institutions as effective as possible. Often led by Congress, the U.S. has pushed—successfully in many cases—for important reforms to promote aid effectiveness, to focus the World Bank and other Multilateral Development Banks on their main task to poverty alleviation, and to address new global problems, notably communicable diseases such as HIV-AIDS, that reflect increasing global interdependence.

I am thus part of the bipartisan consensus that has supported IDA since it was first created over 40 years ago, under the leadership of President Eisenhower. I would like to speak today in favor of the replenishment authorizations for the World Bank's International Development Association, the Asian Development Fund and the African Development Fund.

THE ROLE OF IDA AND OTHER MULTILATERAL AID PROGRAMS

The World Bank's IDA is the main source of development assistance to the poorest countries of the world that are unable to borrow from private capital markets

and so are dependent on foreign aid for much-needed capital. Indeed, IDA is now the single largest source of donor funds for basic social services in the poorest countries. The vast majority of the 3.6 billion people who live in the countries that receive funds from IDA, AsDF and AfDF have an income of less than \$2 dollars a day. The 79 IDA recipients are home to more than 60 percent of the world's population, and 90 percent of the very poorest people, defined as those surviving on less than one dollar a day.

Looking to the future, there are now one billion children who live in countries that receive development assistance from IDA and the comparable funds linked to the Asian and African Development Banks. For these children in particular, meeting essential, basic human needs through provision of basic health care, access to clean water, primary and literacy education, is critical to provide a hope of a better life. As members of this committee know well, growth and development in the poorest countries are in turn needed to make the world a stronger and safer place, as well as a fairer one.

The money provided to desperately poor countries by IDA, and by the Asian and African Development Funds, is only available because of the decision by the United States and other donor countries to provide their own budgetary funds to support these programs. Unlike the main World Bank lending agency, the International Bank for Reconstruction and Development (IBRD), IDA does not borrow money from capital markets. IDA's continued financing on highly concessional terms—essential to avoid adding dangerously to the debt burden of the poorest countries—is possible because of the regular replenishment to its resources by the United States and other donor countries, now numbering 39. These countries also set the guidelines for IDA's policies. The IDA 13 replenishment now under consideration incorporates important reforms to these guidelines, agreed by the donors.

As global poverty has remained a scourge and it has become clear that substantial foreign aid in the past has been misused, with little or no impact on improving the lives of those in recipient countries, some have decried all such aid as ineffective. But careful research shows that well-focused assistance, channeled to countries and users that own and champion reform, can make a huge difference. A list of the early recipients of IDA aid includes such key U.S. allies as South Korea, Chile, Thailand, and Turkey. These and many others around the world have since made enormous strides in conquering poverty and diversifying their economies. More than half of the reflows of repayments into IDA now come from countries that no longer need these tax-payer funded concessional resources, and are paying back into the program that helped them to escape from poverty. In some cases, former IDA recipients, such as Korea, are even in a position to contribute as donors.

Of course, there have also been many development and aid failures. But on the basis of widely accepted research by Paul Collier and David Dollar of the World Bank, IDA has been shown to be the most effective channel for linking foreign aid to sensible policies and good governance.

THE FIGHT AGAINST POVERTY: THE STAKE OF THE UNITED STATES

This Committee has traditionally recognized the enormous stake of the United States—as the world's leading global power and a champion of freedom and openness—in the further integration of the poorest in the world economy.

As we cannot fail to remember this week, the United States is not impregnable from outside threats. There is not a simple equation between poverty and terror. But dreadful poverty, hopelessness, and failed states, such as Afghanistan before September 11 last year, provide a breeding ground for terrorism. The United States thus has a huge interest in supporting multilateral reform efforts to deliver economic growth and basic human services, alleviate poverty and disease, and help to build functioning societies. The new focus in the multilateral development banks on governance and institution building—largely at U.S. insistence—is critical for fighting corruption in failed states and promoting decent and open societies. The World Bank has launched more than 600 anticorruption programs and governance initiatives in almost 100 client countries in the past six years.

Earlier this year, IDA announced funding for measures to improve accountability and transparency in the public sector in Azerbaijan, crucial for monitoring expenditures targeted to poverty reduction. Legal and judicial reform in Bangladesh and Mongolia are also supported by IDA credits.

More broadly, the U.S. is a natural champion as well as a beneficiary of a vibrant and successful world economy, based on the openness to competition, trade and capital markets that have marked its own success. Success in the battle against global poverty is in the interests of American workers and consumers, farmers and businessmen. All stand to gain as poor countries join the world economy, providing new

markets for American goods and new products for Americans to buy. It is of course critical that development go hand-in-hand with strong environmental standards, protection of essential labor rights and other hallmarks of a healthy society.

American leadership in the multilateral efforts to attack poverty is both good economics and good politics. The money contributed by the U.S. to IDA and the comparable Asian and African Development funds leverages contributions many times that amount. Every dollar that the U.S. puts into IDA is matched by seven from other sources. Moreover, an active leadership role gives the U.S. a more effective voice in determining the best use of that money. The United States, with Congress playing a key role, has called for, and achieved, important reforms in the World Bank and the other development banks, including a clearer focus on measures to fight poverty. Successful IDA programs range from microfinance for small enterprises in Asia and Africa to scholarships for Bangladeshi families who keep girls in school. In India, IDA is supporting the District Primary Education program to help areas where female literacy is below the national average. In Mali, an IDA financed health project helped to establish 300 new community health centers.

Finally, many of the new global challenges being addressed by the multilateral banks can affect Americans directly, even if they stay far from the rural poverty or urban slums of the poorest countries. With two teenagers in nearby Loudon county contracting malaria without leaving this area, it is hard to ignore the dangers of communicable diseases. The impact of pollution or poor environmental standards in one region can also be felt far beyond.

Often, the poorest countries can only move to address such global threats with the advice and financial support of others. The World Bank and other MDBs are playing a leading role in this field, with strong bipartisan support. In Africa, the Bank has launched a multi-country initiative to combat HIV/AIDS (MAP), recognizing that the disease does not respect national boundaries. IDA is committed to spend \$1 billion to help African countries expand their prevention, care and treatment programs. Some \$500 million was spent last year in 12 African countries and a further \$500 million is slated for an additional 15 countries. The battle against HIV/AIDS is an example where the combination of external finance and advice with strong domestic commitment is key. In Uganda and Senegal for example, there is evidence that strong government action with financial backing from IDA is turning the tide on the epidemic.

The World Bank has now committed \$16 billion to projects with clear environmental objectives, IDA support for a biodiversity initiative in Uganda—with a \$27 million credit approved in July to help the government manage its wildlife and cultural resources—is one example of a welcome shift in environment strategy towards a focus on climate change, forests, water resources and biodiversity.

REFORM INITIATIVES

Addressing poverty and making globalization work are crucial objectives. But if they are to be met, there must be a renewed focus not just on the quantity of development assistance but, just as importantly, on its quality. Americans need to see their money well spent, in pursuit of the goals they support. The U.S. Congress, together with this Administration and the one in which I served, have pressed hard for reforms in the MDBs so that the money the U.S. commits works to achieve success.

The IDA 13 replenishment, which the Subcommittee is now considering, incorporates a number of key reform initiatives. First, the process by which agreement was reached was far more transparent and open than any before. The world has moved a remarkable distance towards the traditional United States' view in favor of openness and transparency. Representatives of borrowers and civil society were included in the replenishment discussions and documents were regularly posted on the World Bank Web site.

Secondly, the U.S. call for a greater share of grants has resulted in a significant expansion of grants in particular for HIV/AIDS programs, recovery from conflict and natural disasters, and for the poorest indebted countries. There has been strong bipartisan support for additional grants to help break the cycle of rising indebtedness and impoverishment. I believe that a combination of grants and concessional loans is a good approach. Grants will help to tackle exceptionally severe circumstances and establish a basis for economic progress without adding to debt burdens.

At the same time, IDA's ultimate aim must remain to lift countries out of poverty and towards participation in the global market, including the capital market. For some countries, managing their finances responsibly and paying back IDA loans is a first step in this process. There have already been success stories of countries that have made this step as they outgrew the need for the highly concessional help that

taxpayers in donor countries provide through IDA and the other multilateral funds. Loan repayments (which only begin after a long grace period) also ensure that more money becomes available for new needs, bolstering the resources made available by donor contributions. I believe that the balance struck in the IDA 13 replenishment—with 18-21 percent of new finance in the form of grants—is a good one that deserves support.

Thirdly, the critical push from the United States for linking finance to measured results gives a much greater assurance that money will be well-spent. It is already leading to changes not just in the World Bank but in the way that other development organizations manage their lending. It will be crucial that this initiative be maintained so that good policies, access to increased finance and proper measurement of results are integrated in countries' own policies and programs. A better understanding of what works and how money has been spent will also reinforce good governance. When people in local areas can see what new funding has been received they will press more effectively for delivery of the promised services that it is supposed to finance. It is inevitable that the performance targets first chosen are those that are relatively easy to measure. Going forward, countries need help to develop better data to measure desired outcomes. This will require not just technical support but also financing, and backing from the U.S. and other key bilateral donors in their own programs.

CONCLUSION

I respectfully submit that I believe that full funding of the replenishments of IDA, AsDF and AfDF, as requested by the Administration, would be in the best interests of the United States. It would support the continued leadership role of the United States in these institutions and play a crucial role in alleviating poverty around the world. The new objectives laid out for IDA 13 largely reflect those that the U.S. has pushed for. Congressional support for this development assistance would continue the record established by the far-sighted bipartisan support for the debt relief program for Highly Indebted Poor Countries (HIPC) all of which are IDA recipients.

Senator SARBANES. Thank you very much. Reverend Beckmann.

STATEMENT OF REV. DAVID BECKMANN, PRESIDENT, BREAD FOR THE WORLD, WASHINGTON, DC

Reverend BECKMANN. I am honored to testify. Senator Sarbanes, you have been helpful on poverty and hunger issues around the world for many years, and Senator Allen, I am a Virginian, and so I am especially glad for this opportunity to speak before you. I want to make four points.

First, Bread for the World supports this authorization. Second, we are especially enthusiastic about debt relief, and think that some things could be done to make debt relief work better. Third, we have some ideas about the performance indicators, how to improve the performance of IDA and development assistance generally, and then fourth, it is important that Congress and the administration think about IDA and the Millennium Challenge Account, other development assistance, in a coordinated way.

On the first point, we support this authorization. Bread for the World has not always supported IDA, but over the years we think that the institution has improved, and we do support it. As Senator Sarbanes mentioned, we are part of a coalition of NGOs that advance a lot of criticisms of IDA and the World Bank, and I have submitted my own written testimony and a report¹ of that coalition to you for the record.

My own views about IDA reform have been shaped by working for 26 years on IDA. I worked in the bank for 15 years in various ways to try to make IDA more effective for poor people. Then I

¹The report referred to is maintained in the committee files.

have been at Bread for the World for 11 years, where we have continued to work on IDA reform. I think there is a lot of scope for continued reform.

At the same time, the basic thing I want to say is that I think IDA is a very good institution. It has always been a competent institution, and it has improved in terms of transparency and poverty focus over the last 10 to 15 years, partly because of the work of this subcommittee.

I am less familiar with the Asian Development Fund and the African Development Fund, but the dealings I have had with them, and that we as an institution have had with them, has led us to be supportive. We are pleased that the management problems that the African Bank had seem to be being addressed.

So our bottom line is, we support this authorization. We think it is important for feeding hungry people around the world.

Second, we are especially enthusiastic about debt relief for the poorest countries. A lot of church people all over the country and other people of goodwill worked hard for debt relief. It is probably the most popular initiative in international development assistance ever, and we have tried to follow, now, whether it is really working for poor people. We have followed through the official reporting processes. We are also in touch with church groups in some of the poorest countries to see from their perspective whether it is working, and we are encouraged.

It is very clear that in at least 10 countries there have been dramatic increases in the number of kids in school, and the availability of medicines in rural clinics. In a few countries at least, there have been improvements in democratic participation, reductions in corruption.

Senator Sarbanes, I would encourage you to hold a hearing on debt relief, because it is important for a lot of Americans. It is important that Congress know that it is working pretty well, and also if you shine a spotlight on it you will make it work better, because there are some problems.

One way to make it work better has to do with additional funding. The President agreed at the G-8 to some additional funding to meet the goals that were set a few years ago, because with the world economy in a slump, it is harder to get those countries to the level of debt sustainability.

Another specific idea, which is pending in Congress, is the Biden-Santorum proposal to modify the way that the bank and the fund calculate debt sustainability. The proposal is to take into account the ratio between debt service and government revenues, and to give special consideration to countries that have unusual payment financing problems because of severe health and AIDS situations.

The Biden-Santorum proposal passed the full Senate as a part of the AIDS bill, but I would also encourage you to put it in this authorization so that it has a better chance of actually becoming law.

My third point has to do with the review of performance. We welcome the Bush administration's insistence on making sure that development assistance really results in a better life for poor people. We would put the emphasis on monitoring how well the bank is doing in continuing to move toward transparency, accountability, and fostering democracy, because we have seen over 15 years that

people in rural Tanzania can monitor the effectiveness of IDA in ways that people at 15th and Pennsylvania are never going to be able to do.

The issues that you raised, Senator Allen, regarding property rights and so forth, those issues are conditions in some IDA credits. If local people know that they are conditions, that the government has agreed to do some things in those areas, and then it does not do them, or does not live up to its agreements, those local people can insist on real progress.

So this system of measurement really should not be so much a system of reporting up to the Treasury or to you, even, or to us, it should be better systems of letting everybody in the world, including people in those countries, know what is going on.

The last point I would like to make is about the connections among IDA, the multilateral development banks, the Millennium Challenge Account, and the whole development system. I was really pleased that Secretary Taylor talked about the MCA.

We are thrilled by the President's proposal for a major increase in funding for poverty reduction in the poorest countries linked to performance, and the administration is working hard to be able to bring to Congress detailed proposals. But I think their planning regarding on coordination with the rest of the system is probably the least well developed aspect of their thinking. If the MCA is going to make the maximum impact, it should be coordinated with IDA and with the other MDBs.

Also, the Europeans have committed to an increase of \$7 billion a year in their development assistance, and to my knowledge there has been very little serious discussion about how that \$7 billion and our proposed \$5 billion are going to work together. If the MCA is planned as a part of the multilateral development system, and all these elements work together, we are more likely to get good results.

[The prepared statement of Reverend Beckmann follows:]

PREPARED STATEMENT OF REV. DAVID BECKMANN, PRESIDENT, BREAD FOR THE
WORLD

Mr. Chairman, I'm grateful for your leadership over the years on many issues of importance to hungry and poor people around the world. You are a good friend to Bread for the World. Since I am a Virginian, I also especially welcome the opportunity to testify before Senator Allen.

Thank you for this opportunity to offer some comments about IDA, the Asian Development Fund and the African Development Fund. Basically, there are four points I would like to emphasize.

First, while Bread for the World favors continuing efforts to improve the multilateral development banks, we wholeheartedly support the authorization of the replenishment of IDA and its counterparts in the regional development banks.

Second, the shift to grants for a portion of IDA funding is a welcome modification of IDA and will help prevent already indebted countries from taking on new debt. However, much more needs to be done to reduce the debt countries already hold. Debt relief is working for poor and hungry people but it can be done better and needs to be deepened.

Third, I support the administration's focus on results. Through participation, monitoring and evaluation, and improved data collection and analysis, much can be done to make IDA programs more effective.

Finally, the administration is looking to the new Millennium Challenge Account, MCA, to address many concerns about traditional development assistance. But to be truly effective, it has to be coordinated with what other donors are doing. In re-authorizing IDA's replenishment, Congress ought to work with the administration

to think about how the MCA relates to IDA and other development assistance programs.

SUPPORT FOR IDA

I was on the staff of the World Bank for 15 years. I worked in various ways to make the Bank a more effective instrument in reducing poverty, I then moved to Bread for the World, where I've worked on World Bank reform from the outside for another 11 years. While I'm always pushing to improve the Bank, I want to affirm that the Bank is an excellent development institution. Moreover, the Bank has gradually become more focused on poverty and more responsive to democratic participation, partly because this subcommittee has pushed in these directions for two decades. In my judgment, IDA is one of the best international instruments in support of poverty reducing development.

Although I am not as familiar with the regional development banks, I am impressed with what I know about the Asian Development Bank. Its expertise in Asia's specific development needs is important. In the past, I too shared concerns about the management of the African Development Bank but have been encouraged by the role Treasury has played in reforming the institution. While continuing to push for reform, I believe we should support the African Development Fund.

Bread for the World is part of a coalition of non-governmental organizations that are critical of the World Bank in various aspects. I submit for your attention a report prepared by the U.S. Civil Society Coalition on "Responsible Reform of the World Bank". Bread for the World doesn't share all the views expressed in the report but you will want to be aware of the issues and the debate.

DEBT RELIEF

Bread for the World has been following the implementation of debt relief, and I urge the subcommittee to do its own monitoring of debt relief implementation and the effectiveness of the Enhanced Highly Indebted Poor Country (HIPC) Initiative in reaching poor people. Based on what Bread for the World has gathered through both church and governmental channels, we believe that debt relief is indeed helping to reduce poverty and, at least in a few countries, empowering citizens to make their governments less corrupt and more responsive.

The Jubilee campaign to reduce the debt burden of the world's poorest countries mobilized more public support in the United States than any other international development initiative in U.S. history—certainly more public support than anything else related to the World Bank or IDA. So it is really important that this subcommittee help to inform Congress and the U.S. public that debt relief is working—and that, in the process, you push to make this popular program work even better.

THE POVERTY REDUCTION STRATEGY PAPER PROCESS

One of the great things that came out of the debt relief movement was the Poverty Reduction Strategy Paper (PRSP) process. In principle, the PRSP gives countries ownership of their own development process, and it focuses policies and resources on the goal of poverty reduction. Indeed, the PRSP process has directed new investment to basic health, education, and poverty reduction in many countries, and it has opened new opportunities for democratic participation in some countries. Because of this, in a few countries, it has helped reduce corruption and improve governance and could have this effect in other countries as well.

But much has been learned in the few years since the PRSP was introduced about how to improve the process. The PRSP is supposed to come out of a consultative process that allows for full participation of the country's civil society. But this is not easy where democratic institutions are weak. In any case, public consultation takes time and entails financial costs, and it is hard to reach people in remote areas. Finally, civil society has often been excluded from the discussion of major issues of national economic policy. All these factors often result in PRSPs that are not based on full participation and therefore full ownership, and that have taken longer to complete than originally anticipated, slowing down debt relief.

One of the criticisms of the PRSP process is that it sometimes seems that World Bank and IMF staff have written the PRSPs in Washington. It's important that the Bank be respectful of the governments with which it deals. But it's not enough that the government really "owns" Bank-supported policies and projects. The wishes of people outside government are also important. Social and environmental conditions that could seem onerous to an official might be important in securing broader popular ownership.

Additional technical and financial assistance would help to enable broad, informed and timely participation by civil society in all aspects of the design, implementation,

monitoring and evaluation of the PRSP. Donors could also do more to monitor PRSP processes and coordinate their funding activities. As the PRSP has been widely embraced by donors and will be the basis for IDA lending in the future, it is important that we get it right.

GRANTS VS. LOANS

Last year the United States made an important intervention in the history of IDA when President Bush proposed to shift 50% of IDA lending to grants. Bread for the World supports the agreement that IDA will provide grants for some types of projects. The grants proposal is a step forward in addressing some of the concerns that were raised by Bread for the World members and other grassroots groups around the country during the Jubilee movement. A shift toward grants for the social sectors will help to improve living conditions and prospects for poor people without further increasing the indebtedness of low-income countries. This proposal makes a lot of moral and practical sense.

In one of my early jobs at the Bank, I worked on slum improvement projects in East Africa. These projects reduced poverty and usually achieved high economic returns. But slum improvement doesn't generate the foreign exchange needed to pay back an international credit, so in retrospect we were contributing to Africa's accumulation of unpayable debt.

Bread for the World also applauds the administration's proposed 18% increase in funding for IDA. We hope the United States will continue to increase its contribution to shore up IDA in light of the agreed shift of between 18-21% of IDA funding to grants.

DEEPER DEBT RELIEF

There is clearly an urgent need to deepen debt relief. The global economic downturn and falling commodity prices have hit sub-Saharan African countries hard. A World Bank study on the economic impact of September 11 estimated that a one percent decline in the global rate of economic growth would push an additional 2-3 million Africans into poverty. African economies are heavily dependent on commodity exports, so the debt-to-export ratio has risen for many HIPC countries. These countries have demonstrated good economic management and a commitment to investing in their people, but the debt relief they are receiving is no longer enough. Deeper debt relief is needed for them to achieve some financial stability, confront the HIV/AIDS epidemic, and invest in the human and institutional capacity needed to lift themselves out of poverty.

The G8 Summit in June agreed to "top up" the Enhanced HIPC Initiative by \$1 billion to compensate for the impact of the decline in commodity prices and to cover the shortfall in HIPC funding. This is an important step and we urge Congress to approve the additional funding needed to implement current debt relief policies.

Further, the debt-to-export ratio is not an adequate measure of debt sustainability. There are companion bills in the House and the Senate—Smith-LaFalce in the House and Biden-Santorum in the Senate—that would amend the HIPC framework to lower debt service of HIPC countries to no more than 10% of government revenues, 5% for countries suffering a severe health crisis. This modification in the HIPC initiative would yield an additional \$1 billion in debt relief, with a relatively small cost to the U.S. The Senate passed an AIDS bill that includes the Biden-Santorum language. I urge you to also include that language in the reauthorization of IDA.

PERFORMANCE GOALS

The Bush administration has put a lot of emphasis on performance goals and preconditions. Both the grants proposal and the recent Millennium Challenge Account (MCA) proposal share the goal of measuring results and setting performance indicators. The World Bank has insisted on goals and preconditions for many years (sometimes too much so), and the Bank already does a relatively good job of reporting to its member governments on its own performance. But we welcome the administration's determination to make sure development assistance really makes a difference in the lives of struggling families.

The U.S. Treasury has not yet announced what performance indicators it will use to decide on whether to propose increased funding for IDA in the second and third year of this replenishment. We have three suggestions.

First, Treasury could do an annual assessment of the Bank's progress on issues of transparency and participation, because the best way to strengthen the performance of Bank-supported policies and projects is to make it easier for local people,

especially poor people, to have some influence. Far-off officials will never be able to monitor development activities as effectively as local people can.

Second, we would like to see the World Bank and IMF undertake ex-ante social, economic and environmental impact assessments for all their lending to ensure that policies and projects they support are not harmful to poor people, both in the short and long term.

Third, Treasury could assess how well the Bank is working with other institutions to upgrade the international systems that monitor trends in poverty, hunger, and others aspects of basic well-being in poor countries. More accurate and current data would help everybody—beginning with citizens in poor countries—to evaluate development efforts.

IDA AND THE MILLENNIUM CHALLENGE ACCOUNT

Finally, I urge the subcommittee to think about the next replenishment of IDA in the context of the major increases in development assistance that President Bush and European authorities have recently proposed. I am tremendously enthusiastic about President Bush's proposal for a Millennium Challenge Account. The MCA can have a meaningful impact on global poverty reduction and can be a significant step toward the Millennium Development Goals. But the MCA should be limited to IDA-eligible countries, and it should be coordinated with IDA and with what other donors are doing. One of the lessons on development effectiveness is the importance of donor coordination. The PRSP process is an attempt at improving donor coordination, and Congress should counsel the administration to use countries' national development strategies or PRSPs as a basis for allocating all development assistance funds, starting with the MCA.

The MCA will put more emphasis on democracy and human rights than the Bank and Fund can do (in keeping with their charters). This emphasis on democracy and some MCA funding to strengthen democratic institutions could very much improve the Poverty Reduction Strategies. That would enhance the impact of IDA and many other development efforts that are guided by the Poverty Reduction Strategies.

DAVID BECKMANN

The Rev. David Beckmann is president of Bread for the World, a nationwide Christian citizens' movement against hunger. Bread for the World mobilizes about a quarter of a million letters to Congress each year on issues that are important to hungry people in the United States and worldwide. In recent years, Bread for the World has worked for debt relief, increased development assistance, and other changes to strengthen food security in Africa. Bread for the World has also lobbied to strengthen the Food Stamp Program and make Temporary Assistance for Needy Families more effective in reducing hunger and poverty in the United States.

Beckmann is a Lutheran pastor as well as an economist. After a term with Lutheran World Relief in Bangladesh, he worked at the World Bank—on urban poverty projects, then as a speech writer for the president of the Bank, and then as senior advisor on nongovernmental organizations. He led the Bank's early thinking about popular participation in development.

Beckmann became president of Bread for the World and Bread for the World Institute (a related educational organization) in 1991. Bread for the World Institute does research and education on World Bank and International Monetary Fund reform issues.

Senator SARBANES. Very good. Right on the button. Thank you very much.

Reverend BECKMANN. I am a preacher. I am used to it.

Senator SARBANES. Dr. Meltzer.

STATEMENT OF DR. ALLAN H. MELTZER, PROFESSOR OF POLITICAL ECONOMY, CARNEGIE MELLON UNIVERSITY, PITTSBURGH, PA

Dr. MELTZER. Thank you, Senator Sarbanes, Senator Allen. I am pleased to have an opportunity to testify on the replenishment of appropriations for the World Bank's International Development Association, IDA, and the African and Asian Development Banks.

The United States has taken leadership since World War II in developing and fostering economic growth, political freedom, and social progress. The development banks have at times had prominent roles in assisting development in the newly developing countries, in emerging market economies, and IDA has worked at times to improve the quality of life for the poorest on the planet.

The United States has continued its leadership role. This year, the administration, led by Treasury Secretary O'Neill and Under Secretary Taylor, worked very hard to change some of IDA's concessional role to performance-monitored grants. This proposal, initiated by a bipartisan congressionally appointed commission that I chaired, can be of major importance if performance monitoring succeeds in increasing the effectiveness of foreign aid and improving the quality of life in poor countries. I believe it will.

I support the appropriation under consideration today, subject to two provisions that I urge the Congress to adopt as part of the appropriation bill. First, a portion of the appropriation should be set aside for an independent performance evaluation of past loans by IDA and the development banks.

Second, IDA and the two development banks should agree to have an independent performance evaluation of their record of accomplishments and failures for the past 10 years as a condition of receiving the appropriation. The GAO, the Swiss SGS or a private consulting firm could perform the evaluation. I think it is well known that the African Bank under its new leadership has made progress, but problems remain.

Time is limited, so I will restrict my comments to IDA, although some will apply to all three institutions. I will answer any questions I can about the Asian and African Development Banks. I urge the subcommittee, however, to ask and get answers to questions about these banks.

Why do we continue to have so much duplication between the World Bank group, including IDA, and the regional development banks? Why is the International Monetary Fund expanding its poverty program, adding to overlap and duplication? I believe the Congress should require the administration to submit a coherent plan for rationalizing the current structure to reduce overlap and make better use of scarce resources.

In the year 2001, IDA made \$6.8 billion of new loans and, based on World Bank data, allocated \$550 million for administrative expenses charged to IDA. This 8 percent cost of lending is typical of IDA's cost in recent years. It includes travel, lending, and hiring consultants. This is large, but it might be justified by the difficulty of lending or granting to poor countries with inadequate infrastructure and information, if we had reason to believe that generally the lending programs were effective and the objectives realized. We do not have such information, and we cannot get it from IDA or the World Bank. The information the World Bank supplies shows that program failure rates are highest in the poorest countries, perhaps as high as 70 percent in Africa, in the recent past.

Discouraging as these data are, they are suspect for at least two reasons. First, they are provided by the bank's operations evaluation department, OED. The head of this department reports directly to the bank's directors, but his staff consists of bank employ-

ees on loan to OED. Second, and more important, OED does most of its evaluations 6 months to 3 years after the disbursement of the last payment on the loan or grant.

On the public record, I asked President Wolfensohn of the World Bank why the bank audits and reports soon after lending has been completed. Why does it not routinely audit performance to learn whether the project succeeded in raising living standards or improving the quality of life several years after funding stops?

He agreed that this was desirable, and said that he had asked the same question, but nothing has been done in his 7 years at the bank. The Congress and the public ought to know what works well, what can be improved, and what should the bank and IDA stop doing because it is ineffective or wasteful of scarce resources. That is why the Congress should insist on independent performance evaluation.

Chairman Sarbanes, you led the Congress and the country toward improved accounting standards and transparency in the private sector. Should you not expect and require the same degree of transparency when we allocate the public's money to foreign assistance? Are not the poorest entitled to the protection that greater transparency would provide? Can we not shift emphasis to performance, not lending?

There is evidence that the World Bank and IDA are ineffective. President Wolfensohn often shows a card listing the number of people living on less than \$1 a day. This is the bank's measure of extreme poverty. Between 1987 and 1998, the number of people living on less than \$1 a day remained the same. Their proportion of the world population declined modestly from 28 percent to 24 percent. This is not much of an accomplishment for an expenditure of about \$200 billion in current dollars.

Last year, the press reported on a memo written by the staff of one of the bank's major divisions in response to a request from President Wolfensohn for a discussion by all divisions of the bank's problems. A staff member sent me the memo. The memo was unsigned, but it states that it represents, "consensus views that emerged from discussions among the managers and staffs of the divisions."

A reader of the internal memo gets a picture of an ineffective organization with low morale and uncertain direction. The memo lists five major problems at the bank, the president's management and leadership style, an overload of institutional mandates and a lack of clear direction, problems at senior management levels, inadequate resources for the work, and the high degree of negativity among the staff.

To amplify these charges, the memo says that the president's proposals, "while perhaps individually worthwhile, have tended to diffuse the bank's focus. Their importance in individual countries is often unclear. The ideas have not been accompanied by adequate resources for implementation."

In other words, the bank is not organized to assist countries to develop their economies and improve the quality of life for their citizens.

Further, the internal memo charges, "The bank today has no focus and is driven by an ever-growing list of mandates imposed on

it through a variety of means, the president's favorite subjects, board sentiments, public pressures, ideas generated by internal constituencies, and even fads. No initiative that starts as a pilot is ever considered a failure, because of a lack of any honest evaluation."

I do not underestimate the difficulties in project evaluation. Money is fungible. Countries can offer the most attractive programs to IDA and the development banks but use the money to finance a marginal project that is difficult to identify. Evaluation can establish that children can read and do arithmetic, that water is potable, and that inoculations for disease are carried out, and that sanitary sewers are available. It cannot always show a direct link to IDA funding.

No less important, project evaluation can both create incentives for improved performance, and show that some projects fail repeatedly and should be abandoned. How can we expect to improve the living standards and quality of life of the poorest on the planet if we do not learn what works and what fails? What lessons do we teach if we provide money to corrupt governments and do not ask whether the projects they proposed were completed, function, and contributed to a better quality of life?

When traveling to countries that received IDA and bank assistance, I have heard many stories of money wasted, money taken, projects never completed, schools without books, consultants paid handsomely, but no apparent outcome. These are anecdotes, disturbing, if true, but at best, suggestive. The Congress should want more, and should demand more. It should require performance evaluation to raise the standards of international aid and the living standards of the poor.

With this proviso, I strongly support funding for IDA and the development banks. The United States should give generously when there is greater assurance that its contributions support effective programs, programs that improve living standards, increase productivity, and improve the quality of life for the unfortunate, many for whom life remains nasty, brutish, and short.

Thank you, Senator.

[The prepared statement of Dr. Meltzer follows:]

PREPARED STATEMENT OF DR. ALLAN H. MELTZER, CARNEGIE MELLON UNIVERSITY
AND THE AMERICAN ENTERPRISE INSTITUTE

REPLENISHMENT OF THE MULTILATERAL BANKS

Senator Sarbanes and Members of the Foreign Relations Committee:

I am pleased to have an opportunity to testify on the replenishment of appropriations for the World Bank's International Development Association (IDA) and the African and Asian Development Banks. The United States has taken leadership since World War II in developing and fostering economic growth, political freedom, and social progress. The development banks have, at times, had prominent roles in assisting development in the newly developing countries and emerging market economies, and IDA has worked at times to improve the quality of life for the poorest on the planet.

The United States has continued its leadership role. This year the administration, led by Secretary O'Neill and Undersecretary Taylor, worked very hard to change some of IDA's concessional loans to performance monitored grants. This proposal, initiated by a bipartisan, Congressionally appointed commission that I chaired, can be of major importance if performance monitoring succeeds in increasing the effectiveness of foreign aid and improving the quality of life in poor countries. I believe it will.

I support the appropriations under consideration today subject to two provisions that I urge the Congress to adopt as part of the appropriation bill. First, a portion of the appropriation should be set aside for an independent performance evaluation of past loans by IDA and the development banks. Second, IDA and the two development banks should agree to have an independent performance evaluation of their record of accomplishments and failures for the past ten years as a condition for receiving the appropriation.

The GAO, the Swiss SOS, or a private consulting firm could perform the evaluation. I think it is well known that the African bank, under its new leadership, has made progress, but problems remain. Time is limited so I will restrict my comments to IDA, although some will apply to all three institutions. I will answer any questions that I can about the Asian and African Development Banks. I urge the committee, however, to ask and get answers to questions about these banks: Why do we continue to have so much duplication between the World Bank Group (including IDA) and the regional development banks? Why is the International Monetary Fund expanding its poverty programs, adding to overlap and duplication? I believe the Congress should require the administration to submit a coherent plan for rationalizing the current structure to reduce overlap and make better use of scarce resources.

In the year 2001, IDA made \$6.8 billion new loans and, based on World Bank data, allocated \$550 million for administrative expenses charged to IDA. This 8 percent cost of lending is typical of IDA's costs in recent years. It includes travel, lending, and hiring consultants. This is large, but it might be justified by the difficulty of lending (or granting) to poor countries with inadequate infrastructure and information, if we had reason to believe that generally the lending programs were effective and the objectives realized.

We do not have such information, and we can not get it from IDA or the World Bank. The information the World Bank supplies shows that program failure rates are highest in the poorest countries, perhaps as high as 70% in Africa in the recent past. Discouraging as these data are, they are suspect for at least two reasons. First, they are provided by the Bank's Operations Evaluations Department (OED). The head of this department reports directly to the Bank's directors, but his staff consists of Bank employees on loan to OED. Second, and more important, OED does most of its evaluations 6 months to three years after disbursement of the last payment on the loan or grant.

On the public record, I asked President Wolfensohn of the World Bank why the Bank audits and reports soon after lending has been completed. Why does it not routinely audit performance to learn whether the project succeeded in raising living standards or improving the quality of life several years after funding stopped? He agreed that this was desirable and said that he had asked the same question. But nothing has been done in his seven years at the Bank. The Congress and the public ought to know what works well, what can be improved, and what should the Bank and IDA stop doing because it is ineffective or wasteful of scarce resources. That's why Congress should insist on independent, performance evaluation.

Chairman Sarbanes, you led the Congress and the country toward improved accounting standards and transparency in the private sector. Should you not expect and require the same degree of transparency when we allocate the public's money for foreign assistance? Are not the poorest entitled to the protection that greater transparency would provide? Can we not shift emphasis to performance, not lending?

There is evidence that the World Bank and IDA are ineffective. President Wolfensohn often shows a card listing the number of people living on less than a dollar a day. This is the Bank's measure of extreme poverty. Between 1987 and 1998, the number of people living on less than a dollar a day remained the same. The proportion of the population declined modestly, from 28 percent to 24 percent. This is not much of an accomplishment for an expenditure of about 200 billion current dollars.

Last year the press reported on a memo written by the staff of one of the Bank's major divisions in response to a request from President Wolfensohn for a discussion by all divisions of the Bank's problems. A staff member sent me the memo. The memo is unsigned, but it states that it represents "consensus views that emerged from discussions among the managers and staffs of the divisions."

A reader of the internal Bank memo gets a picture of an ineffective organization with low morale and uncertain direction.

The memo lists five major problems at the Bank: the President's management and leadership style; an overload of institutional mandates and a lack of clear direction, problems at senior management levels; inadequate resources for the work; and the high degree of negativity among the staff.

To amplify these charges, the memo says that the President's proposals "while perhaps individually worthwhile, have tended to diffuse the Bank's focus. Their importance in individual countries is often unclear. The ideas have not been accompanied by adequate resources for implementation."

In other words, the Bank is not organized to assist countries to develop their economies and improve the quality of life for their citizens.

Further, the internal memo charges, "the Bank today has no focus and is driven by an evergrowing list of mandates imposed on it through a variety of means: President's favored subjects, board sentiments, public pressures, ideas generated by internal constituencies, and even fads. No initiative that starts as a pilot *is ever considered a failure* because of a lack of any honest evaluation." (Emphasis added.)

I do not underestimate the difficulties in project evaluation. Money is fungible. Countries can offer their most attractive programs to IDA and the development banks but use the money to finance some marginal project that is difficult to identify. Evaluation can establish that children can read and do arithmetic, that water is potable, that inoculations for disease are carried out, and that sanitary sewers are available. It can not always show a direct link to IDA funding.

No less important, project evaluation can both create incentives for improved performance and show that some programs fail repeatedly and should be abandoned. How can we expect to improve the living standards and quality of life of the poorest on the planet, if we do not learn what works and what fails? What lessons do we teach if we provide money to corrupt governments and do not ask whether the projects they proposed were completed, functioned, and contributed to a better quality of life.

When traveling to countries that received IDA and Bank assistance, I have heard many stories of money wasted, money taken, projects never completed, schools without books, consultants paid handsomely but no apparent outcome. These are anecdotes, disturbing if true, but at best suggestive. The Congress should want more and should demand more. It should require performance evaluation to raise the standards of international aid and the living standards of the poor. With this proviso, I strongly support funding for IDA and the development banks.

The United States should give generously when there is greater assurance that its contributions support effective programs, programs that raise living standards, increase productivity, and improve the quality of life for the unfortunate many for whom life remains "nasty, brutish, and short."

Senator SARBANES. Dr. Ayittey, we would be happy to hear from you.

STATEMENT OF DR. GEORGE B.N. AYITTEY, DISTINGUISHED ECONOMIST IN RESIDENCE, AMERICAN UNIVERSITY, WASHINGTON, DC

Dr. AYITTEY. Mr. Chairman and Senator Allen, first of all I would like to thank you for giving me this opportunity to testify before your subcommittee. I would like to make some short remarks, and then I would later on submit a much longer version for the record.

I would like to make three points, the three points being, speaking specifically in reference to African World Bank policies, IDA policies in Africa, first of all I think you should know the Continent of Africa is in a mess. It is a tragedy. It is a sad story, and a tragedy in more ways than one.

We are talking about a continent that had vast development potential. Its mineral wealth is immense, but the mineral wealth of Africa is not being utilized to lift its people out of poverty. This past February, Prime Minister Tony Blair warned that unless poverty in Africa is tackled vigorously, the continent will become a new source of international terrorism.

Now, the second point which I would like to make, and I was somewhat touched by the testimony of the Under Secretary, James Taylor, and also some of the witnesses on the panel who want to

help Africa, and I am sure that there are Senators who sincerely do want to help Africa, but past programs in Africa simply have not worked.

I would like to give you some kind of an idea of the involvement of Western governments, donor governments, IDA, and international development banks. Since 1960, they have pumped in more than \$400 billion into Africa; and the standard of living in Africa continues to deteriorate. Even the World Bank itself, 2 years ago, the World Bank came up with a report, and the report, the title of the report is, "Can Africa Claim the 21st Century," and I would like to quote a section of that particular report that says: "Sub-Saharan Africa enters the new century with many of the world's poorest countries."

Now, it is a fact that many Africans, the vast majority of them are now poorer than they were in 1960. The irony is that the World Bank has been involved in Africa's development for the past three decades. Now, instead of admitting the ineffectiveness of its policies, the World Bank chooses to focus on phantom economic success stories. The reason why I am saying phantom economic success stories is because this list continuously shrinks, and some of the countries on this list simply vanish.

In 1994, the World Bank came up with a report about adjustment lending in Africa. It evaluated the performance of 29 African countries, 29, after spending \$20 billion to support structural programs in Africa. And out of the 29, the World Bank said only 6 of them were successful. Now, 6 out of 29 gives you a failure rate of more than 80 percent.

Now, since 1994, the World Bank has added some other countries like Uganda. It has also added Guinea, Lesotho, Ethiopia, Eritrea, but even then within a very short period of time, Ethiopia and Eritrea were taken off the list because of the senseless civil war between those two countries. Now, Uganda is also reeling under huge bureaucratic red tape, and also the Danish Government has even suspended aid to Uganda.

Now, of the success stories that the World Bank listed in 1994, Ghana was one of them, Zimbabwe was one of them, and I am sure we are all aware of what is going on in Zimbabwe right now. Now, in the case of Ghana, the World Bank's director who is now leaving the country says that it was a mistake to list Ghana as a success story.

Now, there is more. This success story 2 years ago was placed on HIPC, that is, the Highly Indebted Poor Country, so how can the success story in 1994 all of a sudden go into the intensive care unit on HIPC in the year 2000?

There is also more. Two years ago, the IMF demanded a refund of \$38.5 million. The IMF claimed that the Government of Ghana fraudulently obtained as a loan by providing the IMF with false information, which means that many of the recipients of IDA loans simply cooked their books in order to receive their loans.

Now, the problem which disturbs many of the African people is that they have loans which have been taken by governments which do not represent the people. These governments do not represent the interests of their people, the welfare of their people, and do not

respond to the needs of their people, and they are not accountable to their people.

Now, in the case of Ghana, for example, the World Bank IDA loans exceeded \$5 billion within that period from 1983 to 1992. Nobody knows what the money was used for. Now, I have heard that some of these loans are to be converted into grants. Maybe that might help, but if the loans are squandered, do we have any guarantee that the grants will not be squandered? And who will be held accountable?

In the case of Ghana, finally we have had some accountability. The Deputy Finance Minister of the previous government was prosecuted and jailed for 8 years for squandering \$1.2 million of World Bank loans.

Mr. Chairman, there are many, many horror stories, and the African people are in pain. A lot of money has been borrowed on their behalf without them knowing what the money or the loans were used for. Now, I would recommend replenishing or reauthorization of IDA funding, provided certain conditions are met. One of those conditions, and this is a strong recommendation, is that the World Bank operates on the false premise that in many African countries there is something called a government which cares about its people, represents the interests of the people, and also responds to the needs of the people. This simply confutes reality.

Now, what we have in many African countries is a pirate state, governments which are corrupt and squander money. We cannot hold them accountable. The African people cannot hold them accountable.

Now, second, and I would like to make two brief comments in order to wrap up. Second, the loan agreements are often shrouded in secrecy. There needs to be some sunshine on this particular process so that at least the people would know what is being conducted behind closed doors on their behalf. And finally, there is a complete lack of accountability in country after country. What we find is no accountability in the disbursement and also in the use of these loans.

Now, Mr. Chairman, I would like to remind you that there is a certain doctrine which was applied by the United States; it is called the Doctrine of Odious Debt. The United States itself in 1898 applied this doctrine to the Spanish Government, refusing to pay the debts owed by Cuba to Spain, arguing that the debt was contracted by the Spanish Government without the consent of the Cuban people.

Now, there are angry African groups and organizations, especially in South Africa, who are arguing that many of the loans which are taken from the World Bank were done so without the consent of their people, and if so, if these loans are illegitimate, then the people should not be held accountable to repay those loans.

Mr. Chairman, there is much that can be done to help Africa, but the old way simply will not work.

Thank you.

[The prepared statement of Dr. Ayittey follows:]

PREPARED STATEMENT OF GEORGE B.N. AYITTEY, PH.D.,¹ DISTINGUISHED ECONOMIST
IN RESIDENCE, AMERICAN UNIVERSITY

THE FAILURE OF WORLD BANK POLICIES IN AFRICA

Mr. Chairman, Ladies and Gentlemen. Thank you for the opportunity to testify before the Economic Affairs Subcommittee. As I understand it, the purpose of this hearing is to determine replenishing and reauthorizing Development Assistance funds to the World Bank, as well as U.S. contributions to the Asian Development Bank and the African Development Bank over the next three years. I would like to speak specifically in regard to World Bank programs and Africa's development.

AFRICA'S BLEAK PROSPECTS

Africa is a sad story—a tragedy in more ways than one. The continent's development potential is vast. Its untapped mineral wealth is immense. As an old continent, it is the source of strategic minerals, such as tantalite, vanadium, palladium, uranium and chromium. It has the bulk of the world's gold, cobalt, diamonds, and manganese. Africa could well be the next and final frontier for roaring market-based capitalism. Yet, paradoxically, a continent with such abundance and potential is inexorably mired in steaming squalor, misery, deprivation, and chaos. At the Organization of African Unity Summit in Lome, Togo, on July 10, 2000, U.N. Secretary-General, Kofi Annan, was blunt: "Instead of being exploited for the benefit of the people, Africa's mineral resources have been so mismanaged and plundered that they are now the source of our misery." (*Daily Graphic*, July 12, 2000; page 5).

On February 5, 2002, British Prime Minister, Tony Blair, warned that unless poverty in Africa is tackled vigorously, the continent could become the new source of international terrorism. "More states would collapse into anarchy and mayhem," he added (*BBC World Service*, Feb. 6, 2002).

There are many country horror stories, which, I am sure you know of. The Congo Basin is extremely rich in minerals but its people are yet to derive any substantial benefit from that wealth. Instead, they have slipped with indecent haste back to near stone-age existence. Provision of basic social services—such as education, health care, sanitation, clean water and roads—is non-existent. In the eastern part of the DRC, particularly in Goma, there is no government. Free-lance banditry and pillage are the order of the day.

Equally mired in such Neanderthal existence are the people of Angola, Sierra Leone and vast stretches of the Niger Delta in Nigeria. Today, one of every five Africans lives in a country severely disrupted by conflict. And the wealth that once enriched Europe's colonial powers now fuels many of those wars.

Independence and freedom did not bring the prosperity promised by the nationalist leaders. Poverty levels instead increased sharply in the post-colonial period. By the early 1990s, many Africans were economically worse off than they were at independence and prospects for the new millennium are bleak. Sub-Saharan Africa, consisting of 48 countries, is the least developed region of the Third World despite its immense wealth in mineral and natural resources. Indices of human development have performed abysmally.

Two years ago, the World Bank released a book with the title, *Can Africa Claim the 21st Century*. I would like to quote a section of that book:

Sub-Saharan Africa enters the new century with many of the world's poorest countries. Average income per capita is lower than at the end of the 1960s. Incomes, assets, and access to essential services are unequally distributed. And the region contains a growing share of the world's absolute poor, who have little power to influence the allocation of resources. Moreover, many of the development problems have become largely confined to Africa. They include lagging primary school enrollments, high child mortality, and endemic diseases—including malaria and HIV/AIDS—that impose costs on Africa at least twice those in any other developing region. One African in five lives in countries severely disrupted by conflict. Making matters worse, Africa's place in the global economy has been eroded, with declining export shares in traditional primary products, little diversification into new lines of business, and massive capital flight and loss of skills to other regions. Now the region stands in danger of being excluded from the information revolution. (World Bank, 2000; p.1).

¹ The author, a native of Ghana, is an Associate Professor of Economics at the American University and president of The Free Africa Foundation, both in Washington. He is the author of *Indigenous African Institutions (1991)*, *Africa Betrayed*, which won the 1993 H. L. Mencken Award for "Best Book," and *Africa in Chaos*, which was published this year.

THE WORLD BANK AND AFRICA'S DEVELOPMENT

The irony is that various Western governments, development agencies, and multi-lateral development banks (MDBs) have been involved in Africa's postcolonial development and have provided generous assistance, pouring in more than \$400 billion since 1960 support Africa's development efforts. For its part, the World Bank has provided more than \$50 billion to fund various projects and programs—in particular, Structural Adjustment Programs—over the past 30 years. However, the consensus everywhere is that World Bank programs in Africa have failed miserably in alleviating poverty in Africa. Adjustment lending has been a miserable fiasco in Africa. According to UNCTAD (1998), “Despite many years of policy reform, barely any country in the region has successfully completed its adjustment program with a return to sustained growth. Indeed, the path from adjustment to improved performance is, at best, a rough one and, at worst, disappointing dead-end. Of the 15 countries identified as ‘core adjusters’ by the World Bank in 1993, only three (Lesotho, Nigeria and Uganda) are now classified by the IMF as ‘strong performers’” (p.xii). This year (2002), Nigeria decided to leave the World Bank program, although there is strong political pressure to return and Denmark suspended aid to Uganda, citing massive corruption, Uganda's involvement in the plunder of Congo's riches and a festering civil war in northern Uganda.

To deflect attention from the ineffectiveness of its own programs, the Bank persists in focusing on phantom economic success stories in Africa. The Bank itself evaluated the performance of 29 African countries it had provided more than \$20 billion in funding to sponsor Structural Adjustment Programs (SAPs) over a ten-year period, 1981-1991. Its Report, *Adjustment Lending in Africa*, released in March 1994, concluded that only six African countries had performed well: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. Six out of 29 gives a failure rate in excess of 80 percent. More distressing, however, the World Bank concluded, “no African country has achieved a sound macroeconomic policy stance.” A year later, however, this number had shrunk. In The Gambia, a military coup toppled Sir Dawda Jawara on 24 July 1994, quashing any hopes of economic recovery. Continuing political turmoil in Nigeria throttled economic reform. In the remaining four “success stories,” reform was on the verge of collapse—Ghana in 1995 and Zimbabwe in 1999 with President Robert Mugabe's ill conceived involvement in Congo's war for mercenary motives and violent seizures of white farmlands. On Ghana, the World Bank's own Operations Evaluation Department noted in its December 1995 Report that, “although Ghana has been projected as a success story, prospects for satisfactory growth rates and poverty reduction are uncertain.”

In 1998, four new countries were added (Guinea, Lesotho, Eritrea and Uganda) were identified as the new “success stories.” However, the senseless Ethiopian-Eritrean war, the eruption of civil strife following an army take-over in 1998, and the eruption of civil wars in western and northern Uganda have knocked off most of the new “success stories.” The following table provides the list of the African “success stories,” whose economic performance can at best be characterized as “mediocre” to “abysmal.”

Table 2: The Success Stories—GNP Per Capita

[In U.S. dollars]

	1980	1990	1991	1992	1993	1994	1995	1996	1997
Burkina Faso	260	290	310	280	230	200	210	230	240
Gambia	430	320	330	350	350	340	340	340	350
Ghana	430	390	410	430	410	360	350	360	370
Guinea	—	460	470	480	500	520	540	560	570
Lesotho	440	540	530	590	590	620	660	690	670
Nigeria	710	270	270	280	250	230	220	260	260
Tanzania	—	190	180	160	170	160	170	180	210
Uganda	—	340	260	200	190	190	250	300	330
Zimbabwe	950	920	910	740	670	650	650	710	750

Source: African Development Indicators, 1998-99; p.35.

Of the 9 African “success stories” listed above, 6 of them had income per capita in 1997 that was less than in 1980. Declining income per capita, used as an indicator of standard of living, can hardly be considered a “success.” Prospects for the new millennium remain bleak (Schwab, 2001; p. 5).

To be fair, the World Bank has periodically admitted that its projects and programs have performed poorly. In 1989, for example, it conceded that: "There are countless examples of badly chosen and poorly designed public investments, including some in which the World Bank has participated. A 1987 evaluation revealed that half of the completed rural development projects financed by the World Bank in Africa had failed. A cement plant serving Cote d'Ivoire, Ghana, and Togo was closed in 1984 after only 4 years in operation. A state-run shoe factory in Tanzania, the Morongo Shoe Factory, has been operating at no more than 25 percent capacity and has remained open only thanks to a large government subsidy" (p. 27).

By the mid-1990s, the World Bank has undertaken more than 2,200 projects in Africa with nearly all of them seriously undermined by poor Bank supervision, lack of domestic maintenance or neglect. Mr. E.A. Sai, member-Secretary of Ghana's Committee of Secretaries, echoed these observations: "Apart from a few success stories in the management of public enterprises in Africa, such as in the Kenya Tea Development Authority, Botswana's Meat Commission, Tanzania's Electricity Company, The Guma Valley Water Company of Sierra Leone and Ghana's Volta River Authority, the record of state enterprises has been poor" (*West Africa*, 16 May, 1988; p. 897).

In September 2000, the World Bank again admitted that its policies have not worked. Acknowledging that its traditional prescriptions of balanced budgets, sound currency and free trade have failed to significantly reduce poverty around the world, the World Bank recently called for a fresh approach that puts equal emphasis on giving the poor more power and more income security in times of crisis (*The Washington Post*, Sept 13, 2000; p. E1).

WORLD BANK ECONOMIC SUCCESS STORIES

1. Ghana: A Fallen Star

Ghana adopted the World Bank's Structural Adjustment program in 1983, after inane economic policies of the regime of Fte.Lte Jerry Rawlings sent the economy reeling. Seduced by the charisma and rhetoric of Rawlings and the chance to snatch Ghana from the Soviet orbit, the West poured in billions. The World Bank, in particular, pumped more than \$4 billion into Ghana, declaring the country an "African economic star" in 1993. Ghana was also the first country on President Clinton's itinerary, during his historic visit to Africa in 1998. By the year 2000, Ghana's economy was in crisis.

Ghana's income per capita in 1981, which economists take as an index of the average standard of living, was \$410 when Rawlings seized power in 1981. In 2001, it was \$360. Ghana's economy was in a coma and the World Bank-sponsored Economic Recovery Program (ERP) or structural adjustment a miserable failure. Inflation raged at 60 percent; unemployment hovered around 30 percent; interest rates had reached 50 percent and the currency, the *cedi* had virtually collapsed. In 1981, the exchange rate was 2.85 cedis to the dollar; in 2001, it was 7,200 cedis to the dollar.

Fed by huge expenditures on security, corruption and wanton wastes, government expenditures had careened out of control. The distinction between government and Rawlings' ruling party (National Democratic Congress, NDC) funds had vanished and looting was open and brazen. Mr. Vincent Assisseh, the press secretary of the ruling party, built a multi-million dollar empire, acquired several mansions and a fleet of expensive automobiles. Even Rawlings himself, the Marxist revolutionary, cruised around in a Jaguar convertible.

The regime, which preached World Bank gospel of "accountability" and "transparency," never accepted responsibility for its failures, choosing to blame foreigners and "external factors" for the country's worsening economic crisis and even corruption. At the United Nations General Session in New York on September 8, President Jerry Rawlings blamed Western countries for much of the monumental corruption in Africa, saying they have a responsibility to curb the menace so as to promote good governance on the continent (Panafrikan News Agency, September 8, 2000).

At least 40 percent of World Bank loans and Western aid were squandered. According to Goosie Tanoh, who broke with the ruling regime to form his own National Reform Party, "many grants from Japan, Canada, USA and Britain, given to NDC party functionaries, were misapplied or misappropriated" (*The Ghanaian Chronicle*, August 14, 2000). There were cases upon cases. I have provided details in my lengthy report but one stands out.

- Court Computerization Program: The World Bank granted a loan of \$1,297,500 to help disseminate all legal information and court cases through computerization of Ghana's court system. The project could not be implemented and therefore the coordinators could issue an impact report.

The new Ghanaian government successfully prosecuted the former Deputy Minister of Finance, Mr. Victor Selormey, and jailed him for 8 years for misappropriating the money. The money was said to have been transferred to Dr. Frederick Boadu, a Consultant in the United States, and there was no record to show that the consultant had been contracted to work on this project for either the Ghana government or the World Bank. (Source. *Serious Fraud Office Report, Ghanaian Times, and Daily Graphic*)

In March 2001, the incoming Kufuor administration placed Ghana on the Heavily Indebted Poor Country (HIPC) list. In the same month, the IMF demanded a refund of all loans and grants, totaling \$38.5 million, given to the Ghana government between August and September 2000. The refund is a penalty the country has to pay for providing false information.

On July 5, 2002, the outgoing World Bank Resident Director in Ghana admitted that the bank probably made a mistake in tagging Ghana a "Star Pupil" at a time when the country was just beginning to restructure its economy. "One of the mistakes our institution made is building these tags. Ghana was reported as a Star Pupil between 1985 and 1991. It is because Ghana chose to adopt the same policies that the bank and the IMF were advocating all the time. There was a period in 1992 to 1996 when that status changed a lot. Ghana abandoned some of the medicines. Classic structural adjustments were abandoned," according to the Director (*Public Agenda*, July 5, 2002).

2. Uganda: Teetering

Relations with the World Bank under the Museveni regime were relatively satisfactory. Uganda's macroeconomic performance showed an average real growth rate close to 7 percent per year. The Bank of Uganda reported that the rate of inflation dropped to 2.4 percent per annum by June 1993, but rose suddenly to 4.1 percent in December of the same year. Substantial progress was however made in adjusting the economy.

Recent information is that a bloated government with a huge expenditure characterizes Uganda. Contrary to efforts to implement measures for improving the efficiency and transparency of the privatization process, progress in this area was significantly slow, including measures for reforming the ministries and the civil service. Revenue receipts have been inadequate to meet rising expenditures. Indeed, tax collection was characterized by highly corrupt and inefficient tax administration. The budget recorded deficits largely reflecting ad hoc expenditures stemming from defense spending. The banking system also came under severe pressure due to weak prudential regulations and supervision. Those insolvent ones were ultimately closed. In an uncertain economic environment reflecting poverty, modest gains in human and social development, Uganda is now ravaged by the HIV/AIDS epidemic. This has led to a reduction in life expectancy that has adversely affected the working population, and created a large number of orphans, as well as great pressure on the government's health budget.

Corruption is rampant in Uganda, not to mention the involvement of Ugandan soldiers in the plunder of the Congo. In early September 1999, a senior Ugandan police officer appeared before a commission of inquiry into police corruption in Uganda. He explained that he could not account for a large chunk of the money allocated to the police because such payments were regularly passed on to the Ministry of Defense. "The commission summoned the head civil servant at the defense ministry, who promptly corroborated the story, saying the defense ministry disperses its expenditure among other ministries, because the government does not want trouble from aid donors who insist on limits to military spending" (*The Economist*, Oct. 9, 1999; p. 52).

RECOMMENDATIONS

Mr. Chairman, Ladies and Gentlemen. Let me reiterate that we cannot pin the blame for Africa's current economic mess on the World Bank and the IMF. Much of the blame resides with African leaders and governments, who pursued wrong-headed policies in the post-colonial period. Specifically, the vast majority established statist economic systems and one-party state political systems under the guise of socialism. The statist economic systems entailed state-ownership of business enterprises, massive government intervention in the economy and the institution of a plethora of government regulations and edicts. The political systems admittance of no democratic pluralism, the banishment of opposition parties, intolerance of dissent and the ultimate degeneration into dictatorships. These defective systems were in a large part, responsible for the economic crisis that emerged in the early 1980s.

However, in helping Africa to manage or resolve this crisis, the World Bank and the IMF have made matters worse.

I am not suggesting that the World Bank and the IMF should pack up their bags and leave Africa. Given their record in Africa, this would probably not be a bad idea. However, if they are to continue to operate in Africa, then their own approach to Africa needs a major “structural adjustment” or reform. This is needed in three key areas.

1. Flawed Presumptions

Somewhat the World Bank persists in a rather naive presumption—in the teeth of all evidence to the contrary—that there exists in a loan-recipient African country a “government” that represents the people, cares for the people, responds to their needs, and is accountable to them. This confutes reality. What exist are “pirate states”—a government hijacked by a phalanx of kleptocrats and megalomaniacs who employ the institutions of the state to enrich themselves, their cronies and kinsmen, excluding everyone else. The richest persons in Africa are often the heads-of-state and their ministers. The chief bandit is often the head of state himself. Congo’s Mobutu Sese Seko was a leading example when he appropriated to himself billions of dollars of World Bank and foreign aid funds. The Bank ought to be aware of this.

Most African governments were simply not interested in economic reforms when these became urgent because their efficient implementation would strip them of their power to allocate foreign financial resources to themselves, their cronies, and relatives. For Western donors and MDBs to continue to believe, that dishonest African governments are capable of reform is only to set themselves up to be duped. African governments restructure not to save their economies but their regimes. Further, restructuring proceeds in cycles, aborted when the crisis abates and reinstated upon reemergence (Sudan, Equatorial Guinea, Zaire, and Liberia). Even during restructuring, measures are often implemented perfunctorily without the conviction and the dedication needed to carry them through.

2. Loan Agreements Shrouded in Secrecy

The most infuriating aspect of World Bank loan agreements with corrupt and despotic African governments is that the loan agreements are often conducted in secret. World Bank directors meet with high-ranking African government officials to conduct negotiations behind closed doors. The media is not invited; nor is the public—or the people on whose behalf billions of dollars are being borrowed and who, ultimately, are liable to repay the loans. This must change.

The loan grant process needs to be opened up and information provided to the public to learn more about Bank policies and the projects that it funds and how these impact their lives. Further, it is recommended that, in non-democratic African countries, the Bank should hold a public hearing before approving loans for specific projects.

3. Lack of Accountability

In country after country in Africa, there has been no accountability in the use of World Bank loans. No single government in any African country—not even star pupil Ghana—has been called upon to account for the loans it took from the World Bank. Billions in World Bank loans have been squandered in Africa and rarely anyone is held accountable and prosecuted. (Victor Selormey’s case in Ghana appears to be the first.) This is an outrage. Yet, the African people must shoulder the responsibility of paying back these loans.

Sir, some African groups and organizations are demanding that much of Africa’s debt to the World Bank be canceled. Some groups are even more irate, demanding a repudiation of Africa’s debt. They claim that it is immoral to demand repayment of loans that did not benefit the African people—loans that the World Bank knew were being misappropriated. Take the case of Zaire—now the Democratic Republic of the Congo. These civil organizations argue that Zaire’s \$14 billion national debt should be treated as Mobutu’s personal debt. Foreign creditors should hold Mobutu personally liable and go after his assets. The Congolese did not benefit from those foreign loans. Neither did they give Mobutu any authorization to contract any foreign loan on their behalf. The late Julius Nyerere, ex-head of state of Tanzania, had this to say on Zaire’s debt in an October 9, 1997 speech at the University of Edinburgh:

The new Government of the Democratic Republic of the Congo, formerly ZAIRE, has inherited an external Debt of \$14 billion. That country is totally dilapidated. That money did almost nothing for the people of the Congo. It was stolen by Mobutu and his close friends with the assistance or connivance of his American and European Allies. We all know where

that money is; not in the Congo, but in Europe, in the form of cash or property. It is being used in Europe, to make money in Europe. Is it not IMMORAL to ask the poor people of the Congo to pay that Debt?

What is being applied here is an international legal instrument known as the “doctrine of odious debts.” Odious Debts is about a tax revolt. “Third World’s debts were accumulated without public knowledge and consent, with most people benefiting not one whit. Having paid once with their environment as the loans financed destructive development projects—among them hydro dams flooding rainforests and irrigation schemes destroying farmland—the Third World populace finds odious the proposition that it pays one more” (Adams, 1991, inside flap). As Patricia Adams of Probe International, a Toronto-based environmental group, charged: “In most cases, Western governments knew that substantial portions of their loans—up to 30 percent, says the World Bank—went directly into the pockets of corrupt officials, for their personal use” (*Financial Post*, May 10, 1999).

This doctrine originated in 1898 when the Americans captured Cuba from Spain in 1898, the Spanish demanded that the U.S. repay Cuba’s debts. The U.S. refused, arguing that the debt had been “imposed upon the people of Cuba without their consent and by force of arms . . . The creditors, from the beginning, took the chance of the investment” (*New Internationalist*, May 1999; p. 23). The proceeds of the debt prevented the Cuban people from revolting against Spanish domination. “They are debts created by the Government of Spain, for its own purposes and through its own agents, in whose creation Cubans had no voice,” the U.S. said (*Financial Post*, May 10, 1999).

The doctrine was first applied in 1923 when the Royal Bank of Canada sought to recover debt from a new government in Costa Rica in a landmark case, *Great Britain v. Costa Rica*. The new Costa Rica government successfully argued that the debt had been incurred by the former dictator, Frederico Tinoco, and not by the country’s people. Chief Justice Taft of the U.S. Supreme Court, sitting as an arbitrator, agreed that the debt was not legitimate because “the Royal Bank of Canada knew that this money was to be used by the retiring president, F. Tinoco, for his personal support after he had taken refuge in a foreign country” (*Financial Post*, May 10, 1999). Thus, “If a despotic power incurs a debt not for the needs or interest of the state, but to strengthen its despotic regime, to repress the population that fights against it . . . this debt is odious to the population of the state,” said the doctrine. “The creditors have committed a hostile act with regard to the people, they can’t therefore expect that a nation freed from a despotic power assume the odious debts, which are the personal debts of that power,” it added.

This principle is being resurrected in South Africa, which is laboring under a debt of \$71 billion which is expected to reach \$110 billion by the turn of the century. Millions of South Africans lacking basic services such as housing, decent schools and hospitals toil daily to pay back the billions of dollars borrowed by former apartheid regimes to oppress them. When apartheid fell in 1994, it left behind a debt which is now the second largest component of South African annual expenditure after education. In the 1997/98 budget, debt service payments were projected at \$8.8 billion. But the Alternative Information and Development Center (AIDC), a non-governmental organization based in Cape Town said South Africans should not shoulder the burden and be penalized for the debts of a system that oppressed them. In June 1997, AIDC launched a campaign against this odious debt. “Our targets will include international financiers such as the World Bank and the IMF,” says Brian Ashley of AIDC, who plans to make a submission on South Africa’s “odious debts” to the Truth and Reconciliation Commission. The TRC’s Christelle TerreBlanche says the Commission is willing to listen to the AIDC submission” (*The African Observer*, 15-21 May 1997, 7).

In South Africa, apartheid was defined by the U.N. as “a crime against humanity.” By 1982, as the campaign for international sanctions grew, lawyers for U.S. banks publicly warned that a majority government might not repay apartheid debts: “If the debt of the predecessor is deemed to be ‘odious’ and the debt proceeds are used against the interests of the local populace, then the debt may not be chargeable to the successor.” (*New Internationalist*, May 1999; p. 21).

Archbishop Njongonkulu Ndungale, who took over the TRC after Bishop Desmond Tutu, argued that: “South Africa’s foreign debts were largely incurred under the apartheid regime to suppress the majority population. Thus, they should be declared odious and written off” (*Financial Post*, May 10, 1999). Indeed, South Africa itself set an example when its first black government took office. It canceled Namibia’s debt to South Africa. “We did not ask whether the debt was payable or unpayable. Nor did we impose any condition on our neighbor. We merely declared those debts

as immoral, odious debts incurred while Namibia was occupied by the apartheid regime," said Archbishop Ndungane (*Financial Post*, May 10, 1999).

Earlier in 1999, the Latin American and Caribbean Jubilee 2000 Coalition described the foreign debt of member nations as "illegitimate because in large measure, it was contracted by dictatorships, governments not elected by the people, as well as by governments which were formally democratic but corrupt. Most of the money was not used to benefit the people who are now being required to pay it back" (*Financial Post*, May 10, 1999). Activists want legitimate debts to be repaid, illegitimate debts ones repudiated.

Loans should not be granted to just "any" government. If the World Bank is not willing to uphold accountability, then the African people themselves would do so by repudiating loans taken on their behalf without their consent or approval.

Thank you.

Senator SARBANES. Thank you. Senator Allen has another engagement. I am going to yield to him first so he has an opportunity to ask his questions.

Senator ALLEN. Thank you so much, Mr. Chairman, and thank you all, each one of you, for your testimony and your insight. It is very beneficial to us.

I liked what you said, Mr. Orr. The bottom line is, the key is private sector development. If you do have private sector development, property rights, contractual rights, and so forth, every one looks at those as economic rights, but they also are political rights.

And Ms. Atkinson, thank you for your testimony. The point of all this that I gleaned from it is, while there are varying degrees of commentary and views here, they are all supportive of this proposal, and that is very, very important, regardless of the past, regardless of some allegations and assertions that money has been misspent in the past, and so forth. All of your testimony was very helpful to us.

I would like, I guess, to ask you, Reverend Beckmann, in your four points, you were mentioning all of your support, and it kind of fits in with what Dr. Ayittey was mentioning, and you are working on hunger as a primary focus. Here you have a country in Africa that has people starving in it. We are trying to provide American grain to them, and they deny it to their people because it is a hybrid grain that they do not like. Can you explain the logic of such a regime?

Mr. BECKMANN. Well, that has been an issue recently. I think it is a little bit more complicated. There is a big disagreement between the United States and Europe on the issue of agricultural biotechnology, and some of these countries export to European markets. Their agriculture goes much more to European markets than to U.S. markets, and they have a commercial interest in being genetically modified [GM] GM-free, because a lot of European governments and European consumers will buy their stuff if they are a GM-free country.

Senator ALLEN. Was this grain going to be used for seed, or was it going to feed starving people?

Reverend BECKMANN. It can be used for seed, so one reason for their concern about the GM corn in the U.S. shipments was that it then makes it difficult for them to say to their European markets that they are GM-free. Another part of the debate is that, Europeans see this as a U.S. move to spread the use of agricultural biotechnology, so there was some of their voice in the criticism of the U.S. grain.

Just to complicate the issue a bit more, one State Department staff person told my staff that they saw this as a good opportunity—to mix some GM grain into those shipments to demonstrate to the Africans that it is not dangerous. Well, when they are flat on their back, when they have got hungry people, is that the time to carry on that debate? So there are two sides to the story.

On the other hand, Bread for the World has done a lot of work to think about agricultural biotechnology and hunger in Africa, and our considered view is that biotechnology holds real promise for a lot of African farmers. It is important not just that they take it in a grain shipment, but that they have the capacity to do the research, to do the extension, and to make their own safety judgments.

We are broadly supportive of the dispersion of this new technology. We think it can help to reduce hunger in Africa. But the current controversy is a little bit more complicated than thinking they are obtuse, or wondering how they could possibly not take our corn. There is more to it than that.

Senator ALLEN. I knew there was, and I knew the Europeans were a concern. I just wanted you to say it, since you provide bread to the world, and in your testimony you apparently find genetically modified, which is a new term for hybrid corn, which in many cases would require less insecticides, or pesticides, and other aspects of some drought-resistant crops, that as far as you are concerned it is safe and nutritious.

Reverend BECKMANN. Obviously, there are concerns about environment and health, and different countries will handle those differently. But we think that there is a lot of potential for biotechnology in African agriculture, so it is important to give them the capacity to do the research, extension, and also to have systems so that they can say to their own people, “We have looked at this, and we think it is safe for Uganda to use biotechnology in bananas” or whatever.

Senator SARBANES. Have the Europeans been better about taking African agricultural products than we have?

Reverend BECKMANN. I do not think so. It is just proximity. They are closer. Much more of Africa’s agricultural products go to Europe. Well, there are, of course, trade restrictions in agriculture. I am not sure how much of the difference is due to that. I will check and get back to you, Senator.

Senator ALLEN. Dr. Ayittey, following up on what Reverend Beckmann was talking about, I think it is great, and it follows in with what you did, Mr. Chairman, as far as the transparency of the financial conditions of companies, that we ought to not just have us all theoretically talking about the reforms and private property and the rule of law and so forth. Let the people of those countries know what is going on to hold their so-called leaders accountable for their actions. That is a great comment that follows in what Dr. Meltzer mentioned as well in his compliments of you.

I would ask Dr. Ayittey, you were talking about some of, in your view, the failures of various countries in Africa, and really while you were critical of some of the past evaluations, it seemed to me you are supportive of these ideas of performance and results and measurement to make sure that countries are actually making

progress. Could you share with us any countries that you think in Africa that could benefit from performance-based lending, and the Bush administration's soon to be released Millennium Challenge Account? Give us some hope, hopefully.

Dr. AYITTEY. Please do not misinterpret my comments as being pessimistic. The thing is, many Africans will realize things have gone wrong and we are not trying to pin the blame on the World Bank. Our governments pursued misguided policies. We set up defective economic and political systems in the post colonial period, so these governments and leaders are likely responsible for the mess in Africa.

Now, the positive, and the hope here is that when Africans themselves realize that their leaders and governments have made mistakes, then the people themselves will demand accountability, and all put in place measures by which they can hold these governments accountable and also bring about the solutions. The solutions have to come within Africa itself, not imposed from the outside.

So it is nice to hear all this talk about performance-based results, that is fine, but the other half of the story is in Africa, and the other half of the story is that people cannot hold their leaders or governments accountable. Nobody knows who borrowed what or what the money is used for, and this is why several organizations now, some of them are demanding that the debt be canceled, or the debt be repudiated, because there are many people in Africa who are angry, angry. Look, Africa's total foreign debt right now is \$350 billion.

Take the case of Congo, or Zaire, for example. When Mobutu was there, this man had a personal fortune of \$10 billion. His country's foreign debt was \$7 billion. That man alone could have written a personal check to pay off his country's entire foreign debt. Now, look at Zaire or Congo right now. The country has degenerated into Stone Age existence. Must the Congolese people be held responsible to repay the debt of Mobutu, for example?

So while it is nice to hear that the U.S administration and Treasury is talking about ways in which they can reform and, of course, ensure that performance-based results are actually implemented, the other part in my view also lies in Africa, and I think this is why we have to find a way by which we can either empower the African people so they can demand accountability from their own governments, or also put in place in Africa measures by which we can ensure that the grants are utilized effectively.

Senator ALLEN. Thank you. Thank you, Mr. Chairman. If I may be excused, I have a meeting at noon, although for your testimony and for your concern I want to thank you. I think there may be slight variations, but I think we are all going toward the same goal, and I think this is a positive step forward.

Thank you, Mr. Chairman. Thank you all.

Senator SARBANES. Thank you very much, Senator Allen.

To what extent do the World Bank and these other multilateral institutions work through the NGOs in carrying out their programs? Does anyone on the panel know the answer to that?

Reverend BECKMANN. When I was in the bank, my last job at the bank was to lead the bank's NGO unit. In fact, when I started

working on NGOs in the bank there was virtually no relationship between the bank and the NGOs, and in retrospect it is just incredible how little bank staff knew about civil society. But there has been a lot of change. The efforts we were making in the bank at that time worked like gangbusters, partly because—we did not know it—we were getting up on a surfboard just before the wave came in. The wave was the democratization of developing countries.

All over the world—also in some African countries—a lot of people worked really hard to get more democratic governments. If the World Bank was working in Mobutu's Zaire, the notion that a World Bank official was going to go talk to a church leader was crazy, because the church leader was probably considered subversive in Mobutu's Zaire, or in other dictatorships at the time.

But as developing countries have become more democratic, many governments want to involve their people and organizations of civil society. So they have welcomed help from the World Bank and other aid assistance agencies in engaging organizations of civil society—NGOs and just ordinary people—in projects—in implementation and, maybe more importantly, in design and monitoring. That is, helping to think about what kind of government program is really going to work, and then monitoring that it gets carried out in a good way.

Since about 1980 the bank has moved light years in its engagement with NGOs, most importantly nongovernmental organizations in the developing countries. There is still a long way to go. I was on a telephone conversation recently with a number of U.S. PVOs, and they are still talking about all kinds of frustrations. The bank is bureaucratic. They find it hard to work with the bank.

I was struck—these are big institutions like World Vision and Save the Children, and they still have trouble working with the bank. But I do not think it is for lack of trying on either side. The bank's response to the recent complaints of U.S. PVOs was right away, "Let's set up a joint task force and look at specific problems." Why do these organizations have trouble working with the bank?

I am pretty optimistic that the bank will continue to move in this direction of opening the doors to public participation in thinking and monitoring and carrying out programs. This is the direction of change that I think will do the most to improve the quality of the bank's development results.

Senator SARBANES. Did you want to add something?

Ms. ATKINSON. I agree with much of what Reverend Beckmann has said. I thought your question was also aimed a little bit at, to whom does the World Bank lend its money, I mean, who actually gets the money? And generally that is still to governments, or they may be governments that are lower than Federal level in some cases, to states and so on.

And so I agree with Reverend Beckmann that the critical role of the NGO relationship is to help in the monitoring, and the kind of pressures toward better governance that we all spoke about before, when the people know what money is being borrowed, what it is supposed to go toward, and has some involvement in seeing whether it has been well spent, and the results. And I think I agree,

there has been a transformation in the role of the NGOs working with the bank, as with the donor countries.

Dr. MELTZER. Can I add a note of caution here? There are two down sides to this. Much as one can recognize that the NGOs play a very useful role in many areas, they are not the local people, and they often have their own objectives that may differ very much from what a democratic society might choose to do, and they tend to emphasize single issues that they are most concerned with that may not be the most important issue to the people who live in the country. That is one.

The second is, there is not any substantial evidence of increased improvement in the effectiveness of the programs over these years. There are some numbers that have improved, but it is not clear that those number improvements that the World Bank reports actually represent real, on the ground improvement in the quality of programs or their effectiveness.

Senator SARBANES. Do you all address the same criticisms toward the Asian Development Bank and the African Development Bank that you addressed toward the World Bank here this morning?

Ms. ATKINSON. Well, we may know less about those. I think each of us probably for various reasons may know less about those institutions. I think that the World Bank's IDA is the longest running, has had probably the best record, mixed as that might be, and I think sometimes there are joint programs, so Professor Meltzer referred to some of the difficulties that there have been in the African Development Bank, in the African Development Fund in the past, and there are now steps being taken to address that. So I would think the record of IDA is probably somewhat better than those of the others, but they are all operating in a fairly similar way.

Dr. MELTZER. I agree with Caroline to a degree. The African Development Bank had a very serious problem about the effectiveness, the corruption issue. Mr. Kabajj, who has taken leadership of the African Development Bank in the last few years, has really done a lot, I think, quite a superhuman effort to clean up some of those problems. They still have a long way to go, but they certainly understand their problem and are headed in a better direction.

I think, probably on a pure efficiency basis, it was the conclusion of my commission that the Asian Development Bank on a pure efficiency basis, that is, making sure that the money goes where it is supposed to go and all that, is probably the best of the group. It has other defects that one might comment on, but probably in terms of making sure that the dollars or yen end up where they are supposed to end, they probably do the best job of that, and do the most extensive monitoring of their programs.

Dr. AYITTEY. The African Development Bank, it is nice to get some reforms under Kabajj. Before, it was just a hopeless organization. It was financing specific projects, but it had no eligibility criteria. If you were an African country, they would loan money to you, and much of the loans that were loaned out were not paid back.

Nigeria, for example, owes a huge amount to the African Development Bank, and a lot of their projects were also sort of placed

in countries which were subsequently engulfed, like Liberia and Sierra Leone, engulfed in civil war, so the projects never showed a return, or did not even become sustainable, so there were a lot of problems there.

Senator SARBANES. Did you want to add something?

Mr. ORR. Just to say, Mr. Chairman, that people I know who have been to the African Bank recently have come back expressing a new sense of optimism that is felt on the staff that the African Bank has turned the corner. They have adopted a new strategic plan which many people think will help them a great deal in the future. They are beginning the process of loan monitoring, and trying to increase their effectiveness in the way the other institutions are, so I think it is heading toward a brighter future.

The Asian Fund and the Asian Bank are doing very well, as Dr. Meltzer said. It still has a reputation of being a project-driven institution, and it is very good at projects. It lags behind some of the other institutions, however, in some of the newest priorities like transparency, focus on governance, some of the other current priorities in this area.

Dr. MELTZER. You should know, Senator, we have the least influence over the Asian Development Bank because of our share of ownership, and it is very much driven by the Ministry of Finance in Tokyo.

Mr. ORR. We probably have the least influence in that institution, too, because the Congress, the appropriators cut their funding as a matter of course almost every year to gain \$50 or \$100 million that they need for some other program.

If there is one message—I know I am talking to the wrong committee here, but if there is one message I could leave with the Congress today, the best way to improve U.S. effectiveness at these institutions, or U.S. influence at these institutions, would be to clear up the arrears, as Secretary Taylor asked, and make sure that the United States approves authorization and appropriation measures on time.

It is ironic, and the Europeans particularly are unhappy about this, that the country that makes the most demands on these institutions in terms of adopting new strategies is often the country that is the slowest and the latest to approve funding measures.

Senator SARBANES. Well, it just hands others a very effective weapon to use against us in these discussions that take place in these institutions, and it extends across the board. We have this extraordinarily severe problem at the United Nations, of course, and we have the French and the British actually sort of scoring off the United States because we were lagging so far behind.

I agree with you completely, once we enter into the agreement, and undertake to do it, and we approve all of that, then we ought to deliver on the obligation that we assume. It is a different question from how much more of an obligation we ought to undertake the next time there is a replenishment and a negotiation. Those are two separate questions. But once we sign on and we are aboard along with the others, then we ought not to be the laggards. I think that puts us in an extraordinarily difficult and awkward position.

Reverend BECKMANN. Sir, referring back to your question to Secretary Taylor about the grants proposal, in my judgment the real

issue was that some of our European allies see us as consistently stingy and laggard in paying up when we have made commitments. Our overall level of development assistance as a proportion of national income is so low compared to them that they get tired of the United States popping in with new ideas.

The idea of IDA grants came up in a hurry. The President was going to the G-8 in 2001. The administration needed something for him to talk about that wouldn't really cost much money. They put the idea of IDA grants on the table, and the Europeans called them on it and said "Look, this is going to cost money 10 and 20 years out. You are getting credit for being liberal or progressive, and 10 or 20 years out we are going to be the ones picking up the check."

I think that was the real issue. It was a proposal to be a little bit more generous now at the expense of later costs. The United States came back later and said, "Look, we will agree to an 18-percent increase in this replenishment, and we have this idea for the Millennium Challenge Account." That changed the framework of the debate and helped us get to an agreement on IDA grants.

Senator SARBANES. Well, this has been a very helpful panel. We very much appreciate your testimony, and also the prepared statements. Thank you all very much. The committee stands adjourned.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

