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WORLD BANK AND IMF ACTIVITIES IN AFRICA

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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WORLD BANK AND IMF ACTIVITIES IN AFRICA

TUESDAY, MAY 15, 2001,

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL MONETARY
POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:06 p.m., in room 2128, Rayburn House Office Building, Hon. Doug Bereuter, [chairman of the subcommittee], presiding.

Present: Chairman Bereuter; Representatives Roukema, Ryun, Green, Shays, Capito, Sanders, Watt, Carson, Lee, Sherman, and Bentsen.

Chairman BEREUTER. The hearing will come to order.

The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony to conduct oversight of the World Bank and the International Monetary Funds' activities in Africa.

There's much that's going on in Africa now. It's receiving some of the attention I think it richly deserves. And this subcommittee intends to play a major constructive part in that discussion and in proposals that are being put forth. In particular today, we are going to focus on poverty alleviation, HIV/AIDS, and the debt relief issues in Africa. Today's distinguished panel should provide a basis for an objective view on the activities of the World Bank and the IMF in Africa.

This is the second subcommittee hearing on the subject of Africa. On April 25, the subcommittee conducted a hearing on the African Development Banking Fund, the region's multilateral development banks.

With respect to today's hearing, it's well known that the United States was a leading founder and continues to be the largest contributor to both the World Bank and the International Monetary Fund.

The Secretary of the Treasury and his representatives are responsible for implementing the U.S. policy toward these jurisdictions and institutions.

As required by the fiscal year 1999 Omnibus Appropriation Act, Secretary of the Treasury Paul O'Neill will testify before the Full House Financial Services Committee on efforts to reform international financial systems and the international financial institutions. And that's on Tuesday, May 22nd.

Today's hearing should provide valuable information on the activities of the World Bank and the IMF in preparation for the upcoming Full Committee hearing.

The United States, with the urging and support of the U.S. Congress, has been a key supporter of reform efforts at the international financial institutions. Our goals have included increasing the transparency of the financial institutions and promoting greater financial disclosure by member countries.

The U.S. has urged that the Bank and the Fund focus on crisis prevention and on the importance of developing strong, open financial systems with better debt management policies.

Most relevant to this hearing, this hearing's primary topics is the fact that the U.S. has urged the international financial institutions to focus their resources for the world's poorest countries on key priorities such as education, health care, and economic and government reform, insisting that poverty reduction and economic growth be the central goals of these countries' economic programs.

Moreover, this hearing on the World Bank/IMF activities in Africa is very timely, I think, for at least two different reasons.

First, the Joint World Bank/IMS spring meetings were just completed in this city during the weekend of April 28th. At these spring meetings, members of the World Bank and the IMF emphasized ways to coordinate their activities, effectively focus their resources on helping the poorest countries, and combat the HIV/AIDS pandemic.

Second, last week, yes, Friday, President George W. Bush pledged an initial $200 million for fiscal year 2002 for a new global fund to fight the HIV/AIDS pandemic, which will be discussed later.

Before introducing our very distinguished panel of witnesses, I want to briefly mention three recent actions or initiatives which, among others, are important to today's subcommittee hearings: current World Bank and IMF activities in Africa; the Highly Indebted Poor Countries Initiative HIPC; and the HIV/AIDS initiatives.

First, with respect to the activities in Africa, the World Bank's primary mission is economic development of poverty alleviation. The mission supports the international community's commitment to reduce the proportion of people living in extreme poverty by at least one-half between 1990 and 2015.

In order to accomplish this goal, the World Bank's current Africa portfolio is just over $13 billion with the new commitments in fiscal year 2000 of $2.2 billion.

With respect to the IMF, the mission of this organization is to promote exchange rate stability and to provide loans conditioned on economic reform to countries that are facing economic problems.

The IMF provides concessional lending through its Poverty Reduction and Growth Facility, the PRGF, the IMF PRGF's program supports economic policy programs in some 20 Sub-Saharan countries, which is roughly half the countries in the region.

I'm interested in hearing from our witnesses, particularly Dr. Westin, regarding the impact of the PGRF's activities in Africa.

Second, the Highly Indebted Poor Countries HIPC initiative has provided both bilateral and multilateral debt relief to eighteen countries in Sub-Saharan Africa.

The U.S. and other donor countries have pledged to provide 100 percent bilateral debt relief to the HIPC countries.

Furthermore, this initiative also includes World Bank and IMF multilateral debt relief to the HIPC countries.

It is important to note that Congress has already fully authorized and appropriated funding for the U.S. bilateral debt relief. However, further authorization and appropriations for the World Bank/IMF multilateral debt is still needed to complete the U.S. pledge of $600 million to the HIPC Trust Fund.

The Administration has requested that $224 million be appropriated for fiscal year 2002, with $165 million required to be authorized for fiscal year 2002.

Since this subcommittee has jurisdiction over multilateral financial institutions, we need to authorize this additional $165 million figure.

Third, with respect to HIV/AIDS, the World Bank has recently become more active in the fight against this deadly plague.

However, obviously much more remains to be done. For example, UNAIDS, which is testifying today, has estimated that 36 million people are now living with HIV/AIDS. Seventy percent of these people are in Sub-Saharan Africa.

Last Friday, President Bush pledged an initial $200 million to a global trust fund to combat HIV/AIDS.

In addition to the President, U.N. Secretary General and the President of the World Bank have called for the creation of International Fund. This fund will focus on prevention and treatment of HIV/AIDS.

The Administration has said it will work with our allies in the GA and different private foundations, corporations, faith-based groups to increase support for this global fund.

To assist the subcommittee in examining these issues, I'm pleased we will have the opportunity to hear from our distinguished panel of witnesses which are at the suggestion of the majority and minority.

First, Dr. Susan Westin will testify. She's the Managing Director for International Affairs and Trade for the General Accounting Office, GAO.

In May 2001, at the request of Senator Helms, GAO published a report entitled "International Monetary Fund: Few Changes Evident In Design of New Lending Programs For Poor Countries." In addition, GAO has issued a number of reports on HIPC debt relief initiative.

Next, Dr. Nancy Birdsall of the Carnegie Endowment for International Peace will testify. Dr. Birdsall is the Senior Associate and Director of the Economic Reform Project at Carnegie.

Dr. Birdsall has extensive experience with a wide array of multilateral financial institutions. She has held previous management positions at the World Bank, including Director of the Policy Research Department, where her focus included African poverty.

Our third distinguished panelist is Dr. James Sherry, M.D., PhD, of the Joint United Nations Program On HIV/AIDS called UNAIDS.

Dr. Sherry is the Director of Program Coordination of UNAIDS, also testified before the former House Banking Committee in March of 2000.

Subsequently, Dr. Dyna Arhin-Tenkorang, a citizen of Ghana, will testify. She is with the Harvard Kennedy Schools Center for International Development and a member of the World Health Organization's Commission on Macroeconomics and Health. Additionally, she advises on issues of developing country public health systems.

Lastly, the Reverend Doctor Leon Spencer, the Executive Director of the Washington Office on Africa will testify. Dr. Spencer is an Episcopal priest with extensive experience in Africa.

As Executive Director, Dr. Spencer has given considerable attention to debt cancellation and he was an active member of Jubilee 2000 USA's Steering Committee.

We absolutely welcome the distinguished panelists to our hearing today. As I mentioned this subcommittee I think has a broad consensus that we intend to be active and constructive on issues of poverty and HIV/AIDS relief, for example, in Africa.

Without objection, your written statements will be included in their entirety in the record. And I have a request that the GAO testimony supporting documents accompanying the testimony today be entered in the subcommittee record.

Without objection, that will be the order.

Now I'm pleased to turn to our distinguished Ranking Minority Member, the gentleman from Vermont, Mr. Sanders, for his opening comments.

[The prepared statement of Hon. Doug Bereuter can be found on page 52 in the appendix.]

Mr. SANDERS. Thank you very much, Mr. Chairman, and we're delighted that our guests are with us today for what I think is a very important hearing on arguably one of the major crises and issues facing humanity today.

So I thank you very much, Mr. Chairman, for calling this hearing and for focusing on this issue of enormous consequence.

Africa today, as I think all of us know, is facing many crises, from extreme poverty to HIV/AIDS that threaten the very future of that continent.

Concentrated in Sub-Saharan Africa, the poorest, the most heavily indebted countries in the world, are getting even poorer. Twenty years ago, the average per-person real income in Sub-Saharan Africa was a meager $400 a year. It is tragic that today that average income has declined significantly. Half the people of the sub-continent struggle to survive on less than a dollar a day.

So this is a huge crisis and it is appropriate that this subcommittee focus on it.

Poverty in Africa has been compounded by the HIV/AIDS pandemic that is ravaging the continent. Twenty-five million people in Africa are living with HIV/AIDS. That disease has orphaned 13 million children in that continent.

Yet, of the 25 million people in Africa who live with the HIV/AIDS virus, and the three-to-four million who are dying from AIDS, only about 10,000 have access to the anti-retroviral drugs they need to fight the disease.

In my view, this subcommittee and this Congress must demand that the pharmaceutical industry, composed of some of the most profitable companies in the world, accept its moral responsibility to help alleviate this crisis.

I am pleased that the pharmaceutical industry recently dropped its 3-year lawsuit against the South African law to allow that government to import affordable medicines and increase the use of generic drugs in its fight against the deadly HIV/AIDS virus.

And recently, as you know, several foreign drug manufacturers have begun marketing generic versions of life-saving AIDS drugs at fractions of the prevailing cost.

For example, one year's supply of GloxoSmithKline's Combivir, a drug used to treat HIV/AIDS, costs about $7,000 in the United States. Cypla, Ltd., an Indian company that manufactures generic drugs—Mr. Chairman, as I mentioned, I hope at some point we can have the president of that company here before this subcommittee—is selling a generic version of that drug at $275 compared to the $7,000 that is being charged in the United States.

Clearly, common sense suggests that when you have people living on $300 a year, they are not going to be paying $7,000 for drugs. And we have got to work with the pharmaceutical industry in this country and manufacturers around the world, to demand that medicine is made available to people in Africa at a price that they can afford.

The United States Congress, as well as the rest of the world, must work as hard as we can to address the HIV/AIDS crisis in Africa and elsewhere.

President Bush, last Friday, committed to providing $200 million in the fight against global HIV/AIDS. That is a step in the right direction, but public health experts have said Africa alone needs $10 billion a year to effectively address the HIV/AIDS pandemic.

So the President has started the effort but clearly we need to go a great deal further.

Africa needs more resources to have any hope of containing and defeating HIV/AIDS and that is something that we, as a subcommittee, can do to significantly improve the ability of the African people to win the fight against poverty and HIV/AIDS.

We should call on the World Bank and the IMF to cancel the debts that they are owed by the impoverished countries of the world.

In my view, it is unacceptable that many African countries today are forced to spend more on debt repayments than they will spend on health care for their people when they are suffering one of the great health care crises of our time.

Zambia, one of the world's poorest countries, will send $89 million in debt servicing to the IMF, $89 million, and the World Bank this year, while it spends only $76 million on its health care budget. More going to the IMF for debt payment than going into health care.

Meanwhile, 14 percent of Zambia's children have been orphaned by AIDS. This is an unacceptable equation.

And Zambia, Mr. Chairman, is a country that is currently participating in the World Bank and IMF Debt Relief Program known as Heavily Indebted Poor Countries, HIPC.

Clearly, the HIPC program of debt reduction has not lived up to its promise. According to a recently released report by the U.S. GAO, which we will hear about today, the current IMF and World Bank debt reduction program is likely to leave the HIPC countries just as highly indebted as they were when that program was begun.

Again, I think that this is unacceptable. We need to change that. We should call on the World Bank and the IMF to write off the debts of Africa and the world's most impoverished nations.

Some will question whether the IMF and the World Bank can afford to write off these crippling debts; I believe they can.

The United States and the world's most developed countries have promised to completely cancel virtually all debts owed to them by the most heavily indebted poor countries in Africa and around the world. But the IMF and the World Bank have agreed only to reduce, not cancel—but reduce, the debts owed to them by about half. They can and must be asked to do much more than that.

Experts who have considered proposals to cancel the debts that the world's poorest countries owe to the IMF and the World Bank have concluded that the resources for such debt cancellation already exist at the World Bank and the IMF.

Adam Lerrick, formerly with Credit Suisse First Boston, and the International Financial Institution Advisory Commission, known as the Meltzer Commission, which I know you were active in forming, Mr. Chairman, has said that the IMF, the World Bank, and the Regional Development Banks have $633 billion in effective capital and $60 billion in provisions for loan losses and reserves. This is more than enough to cover the cost of writing off the entire $32 billion of effective debt that the poorest countries owe to these institutions.

According to Lerrick, the cost of writing off the effective debt held by the IMF, the World Bank, and two largest regional development banks is just five percent of their effective capital, and about half of their provisions for losses and reserves.

Cancelling the debts owed by impoverished countries to the World Bank and the IMF would free significant resources available to fight poverty and disease in Africa and to allow African governments to provide for the health care, education, clean water, and other basic needs of their people.

I believe the World Bank and the IMF have the resources to remove the burden of crippling debt from the world's poorest nations. They only lack the vision and the will. And it is our job to give them that vision and will.

I look forward to hearing from our witnesses about the role of the IMF and the World Bank in addressing the crises of poverty debt and HIV/AIDS in Africa.

And thank you again, Mr. Chairman, for calling this important hearing.

[The prepared statement of Hon. Bernard Sanders can be found on page 60 in the appendix.]

Chairman BEREUTER. Thank you very much, Mr. Sanders.

Under the Committee rules, any Member is allowed an opening statement of 3 minutes.

Are there Members who wish to be heard?

Ms. Lee, you are recognized.

Ms. LEE. Thank you, Mr. Chairman.

First I want to thank you and our Ranking Member for holding today's hearing. This is very timely, especially in light of the challenges and poverty crippling economies especially in Africa, which of course are exacerbating the crisis as it relates to HIV/AIDS.

As we know, each day over 6,000 or 7,000 people in Africa die from AIDS. In many African nations, people live on less than $1 dollar a day. Yet, addressing the AIDS crisis through education and treatment will cost billions each year.

I'm very concerned about increasing the burden of debt by providing additional loans as an option through the World Bank and the IMF.

Last year, it's my understanding the World Bank announced a $500 million loan program for Africa to help mitigate the effects of HIV/AIDS. While I can appreciate the gesture of the World Bank, I really do disagree with their tactic.

These poor countries must not be forced to incur more debt in order to provide lifesaving services and options for their people.

Last year, as you know, Mr. Chairman, Congress Leach and I led a bipartisan effort to establish an international AIDS trust fund at the World Bank that would provide grants, not loans, to African nations, civil society, and non-governmental organizations so that they could respond to the HIV/AIDS crisis.

I'm pleased to say that we are now seeing considerable movement on this initiative in the international community. We here are working with the Treasury Department, the World Bank and the Bush Administration, and our international HIV/AIDS partners, to finish the final negotiation of this fund.

And let me just say that last year, $20 million was appropriated last year for this Global AIDS Trust Fund, though a mere drop in the bucket, it did at least initiate the concept and the idea in a pool of money for the trust fund as it relates to HIV/AIDS.

Another aspect of this overall effort, which I hope we discuss today, must be actually targeted at the IMF. In many countries, as leaders attempt to develop and implement primary health and education programs, they are often forced to pay IMF user fees.

These are really primary services which should be considered a basic human right and I think we should eliminate user fees.

We introduced a bill last month, Congresswoman Waters and myself, HR 1567, the Debt Cancellation for HIV and AIDS Response Act of 2001, to provide for multilateral debt relief for countries which make determinations and decisions to invest their resources in providing for strategies that address the HIV/AIDS pandemic.

So I am encouraging my colleagues to join us in co-sponsoring this legislation, because we do want to make it a bipartisan effort.

I want to thank you again, Mr. Chairman, for holding these hearings today. I hope that we will look at the implications of providing grants versus loans, as we discuss the role of the IMF and the World Bank in addressing the HIV/AIDS pandemic.

Thank you very much.

Chairman BEREUTER. Thank you, Ms. Lee.

We're on opening statements. Do other Members wish to make an opening statement?

The gentleman from North Carolina, Mr. Watt.

Mr. WATT. Thank you, Mr. Chairman. I'll be very brief. I did not prepare an opening statement. Actually, I just came directly here from the airport.

But I did want to thank the Chairman for holding this hearing and as I was thinking about it in North Carolina this morning, and trying to get back, I couldn't imagine that there could be a more important subject and hearing being held on the Hill today or any day than the one we're having in our subcommittee.

The World Bank, the IMF, and the United States needs to do everything that is within our power to address poverty and the AIDS pandemic, and I'm anxious to hear the witnesses and to hear approaches that might be available and work with the Members of the subcommittee and the Full Committee to craft an aggressive approach to this.

Thank you, and I yield back the balance of my time.

Chairman BEREUTER. Thank you, Mr. Watt.

The gentlelady from Indiana, Ms. Carson, is recognized.

Ms. CARSON. I do too thank you very much, Mr. Chairman. I would like to thank the witnesses that are coming to speak on this important—I want to specifically point out, Mr. Chairman, how much I appreciate the focus that you're giving to Africa insofar as Congress.

Clearly, the crisis facing Africa screams for attention, and as Members of this subcommittee, we have an enormous responsibility to do whatever we can do to address the situation.

Countries in Sub-Saharan Africa are the poorest, most heavily indebted countries in the world. Their poverty is escalating, notwithstanding, even though many African countries have participated in the heavily indebted poor countries, many African countries continue to spend more on debt repayments than they can spend on health care for their people.

We must challenge ourselves for debt reduction as a model for providing debt relief to poor countries. Even though the United States has pledged to provide full bilateral debt relief to HIPCs, IMF and the World Bank have agreed only to reduce the debt owed to them by about a half.

We should call on the World Bank, Mr. Chairman and Members of the Committee and the IMF to write off the debts of Africa's and the world's most impoverished nations.

I have other statements here, Mr. Chairman, that I would like to have included in the record, but given the brevity of time, I would defer back the balance of my time and ask your permission that this would be incorporated as a part of the record.

Chairman BEREUTER. Thank you, Ms. Carson.

Without objection, that will be the order.

[The prepared statement of Hon. Julia Carson can be found on page 56 in the appendix.]

Chairman BEREUTER. And now we would like to proceed with the panel. My intention is to complete our hearing by 4:00 o'clock, but I think we should have time for full presentations and for questions from Members.

So we will allow each of the panelists to have 7 minutes, and first we'll hear from Dr. Susan S. Westin, Managing Director for International Affairs and Trade at the GAO.

I might say, thank you very much for the excellent work you've been doing for the International Relations Committee on the former Trust Territories, the Marshall Islands and the Federated States of Micronesia.

And we welcome this recent initiative that you've done for the Senate Foreign Relations Committee on the IMF.

You may proceed as you wish, and your entire statements in all cases will be made a part of the record.

STATEMENT OF DR. SUSAN S. WESTIN, MANAGING DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, GENERAL ACCOUNTING OFFICE

Dr. WESTIN. Mr. Chairman, Members of the Subcommittee, I'm pleased to have the opportunity to discuss our assessment of two important multilateral programs that are intended to help increase economic growth and reduce poverty in poor countries.

The first program is the Heavily Indebted Poor Countries or HIPC initiative, which is projected to provide about $29 billion in debt relief to 32 potential recipients, 24 of these in Sub-Saharan Africa.

The objective of the HIPC initiative is to provide recipients with sufficient debt relief to resolve their debt problems and free up resources that will be spent for poverty reduction.

The second program is the IMF's concessional lending facility known as the Poverty Reduction and Growth Facility. One purpose of this facility is to foster lasting economic growth leading to higher living standards and a reduction in poverty. Both programs require recipient countries to prepare country-owned poverty reduction strategies which are to be developed with the participation of civil society.

Today, I will highlight two major challenges confronting these programs. First, even with debt relief and continued concessional lending, many poor countries face the challenge of achieving strong, sustained economic growth well in excess of historical growth rates to resolve their debt problems and to graduate from the concessional lending program.

The second challenge for these countries is in preparing comprehensive, country-owned poverty reduction strategies.

Let me turn to the first challenge.

In our review of the HIPC initiative, we found that while the initiative provides significant debt relief, it is not likely to provide a lasting exit from debt problems unless countries grow far faster than they have the past.

For example, for most of the seven countries we analyzed, exports are projected by the World Bank and the IMF to grow at significantly higher rates than historically.

We believe such growth rates are overly optimistic since these countries rely on primary commodities, such as coffee, for much of their export revenue.

Past experience has shown that the prices of these commodities tend to fluctuate over time and, in fact, decline in certain years.

Failure to achieve the projected levels of economic growth could lead, once again, to these countries having difficulty repaying their debt.

Similarly, we found that most of the current recipients of the IMF's concessional assistance will require high, continuous economic growth to reach the point of graduation from such assistance.

This challenge is substantial, as illustrated by our analysis. The 32 countries that borrowed from the IMF's concessional facility last year must average income growth in excess of six percent annually during the next 15 years in order to graduate. These same countries had an average growth rate of negative one percent over the last 15 years.

Turning to the second challenge. We found that governments face challenges in preparing country-owned poverty reduction strategies. By linking debt relief and poverty reduction, the HIPC initiative has created tension between the desire for countries to receive quick debt relief, and the time required to create such comprehensive strategies.

Preparing the strategies is complicated. In particular, it is difficult to develop a country-owned macroeconomic framework for several reasons.

Many recipient governments have limited technical capacity to independently analyze and effectively negotiate macroeconomic policies.

Also, the challenges to effectively engaging civil society in a dialogue on these very complex matters are significant.

Furthermore, even if these challenges were overcome, a national dialogue on the choice of effective policies is constrained by the limited knowledge about how different policies actually affect the economy and poverty reduction.

Let me conclude with two observations.

First the HIPC initiative represents a step forward in the international community's efforts to relieve poor countries of their heavy debt burdens.

However, as I have noted, the initiative will not likely provide recipient countries with a lasting exit from their debt problems. Also, the tension between quick debt relief and the time it takes to prepare comprehensive country-owned strategies is likely to continue.

These issues should not be seen, however, as a reason to abandon efforts to provide debt relief to eligible countries. Heavily indebted poor countries continue to carry unsustainable debt burdens that are unlikely to be lessened without debt relief.

But participants and observers need to have a more realistic expectation of what the initiative may actually achieve.

Finally, while countries face difficulties in achieving ownership of their macroeconomic frameworks, efforts to involve civil society have potential benefit. Civil society participation may help improve the allocation of resources within the country.

In addition, if civil society helps establish priorities for poverty reduction, donors may be willing to increase the amount of resources they provide.

Mr. Chairman, Members of the Subcommittee, this includes my prepared statement. I will of course be happy to answer questions.

[The prepared statement Dr. Susan S. Westin can be found on page 79 in the appendix.]

Chairman BEREUTER. Thank you very much, Dr. Westin.

Next we will hear from Dr. Nancy Birdsall, Senior Associate and Director, Economic Reform Project, the Carnegie Endowment for International Peace. Dr. Birdsall, you may proceed as you wish.

STATEMENT OF DR. NANCY BIRDSALL, SENIOR ASSOCIATE AND DIRECTOR, ECONOMIC REFORM PROJECT, CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

Dr. BIRDSALL. Thank you very much, Mr. Chairman.

Mr. Chairman and distinguished Members of the subcommittee. Let me start by saying that I will concentrate on the IMF and the World Bank. And the fact is that these institutions have not been perfect. But I do want to speak strongly today in favor of continued strong U.S. support for their involvement in Sub-Saharan Africa.

My principal message is about an idea that has not been discussed in the statements of subcommittee Members, and that is the need for more selectivity across countries in Sub-Saharan Africa in the future lending of these two institutions.

By that I mean a much greater focus on more lending to those countries that are performing well, that are managing their economies in reasonable fashion, have managed to avoid corruption, kleptocratic state and so on. This matters in itself for new lending and it matters all the more as a follow-up to the HIPC debt relief initiative to ensure that the benefits of that initiative can be fully realized.

As the Chairman noted, the lending of these institutions constitutes a relatively small part of all the transfers of all of the donors to Sub-Saharan Africa. So why is it important that they be selective in their lending? It's important because they are the institutions that have the broadest picture of the economies overall; of the sectoral activities in transport, in infrastructure; of the state of judicial reform; of whether contracts are being enforced; and of how education and health systems are being managed.

So the other donors, particularly in Europe, are very much involved in making grants to African countries. They look to the IMF and the World Bank to signal which countries are in a position institutionally, politically, in terms of their economic management and their policies, to use resources well.

I would like to make four points in the rest of what I say that I hope are useful for the subcommittee.

The first is that development assistance in Africa can make a difference. Africa's problems should not obscure its potential. In particular, many countries in the last decade in Africa have undertaken some of the basic reforms, including reducing involvement of the government in banking, in agricultural marketing, which has been a kind of burden on poor people and on countries in general, getting their fiscal houses in order, making the kinds of changes that attract local private investment.

These changes have not produced healthy growth. More needs to be done along the kinds of institutional lines that the prior speaker was referring to. But I think it's important to note that there has been progress, and that in the early to mid-nineties, the average

growth rate did pick up, particularly in those African countries that had undertaken these sensible reforms—the kinds of reforms that all Americans would understand.

And that the recent setbacks have a lot to do with conflicts, with continued problems in terms of trade. Africa's exports are getting lower and lower prices in the world economy. The only exception, of course, has been oil in the last few years. That's the first point.

So there's room to be optimistic. It's not a situation of, you know, chaos at all in these countries.

Second, lending should be more focused on countries that are performing well, the point that I made in my introduction. Development assistance, we know now from extensive studies, only works when reasonably good government is already in place. The idea that World Bank and IMF lending could sort of bribe countries that had recalcitrant or incompetent governments into good behavior has been shown to be absolutely wrong.

And the point of that is that it's very difficult to do major lending programs, and even to make big grants to countries when government is incompetent and when there are problems. It's simply money down the drain.

Now the fact is that the World Bank and IMF have been reasonable selective in the last decade especially. In particular in the World Bank, a performance-based allocation system for deciding which countries would get how much lending was instituted in the early nineties. And there is evidence that that's made a difference.

It is the other donors as much or more than the IMF and the World Bank that have tended to put a lot of money into countries that were not performing well. That in other words were not selective.

Indeed, when countries get into very high multilateral debt situations where they have owed the IMF and the World Bank a lot in debt service, that is when other donors have tended to "finance"—you could put it in quotation marks—the debt service of those countries with the high debt, getting into a kind of cyclical situation where more debt service was generating more lending to these countries.

This does not mean that the World Bank and IMF could not become much more selective, and I would hope that the United States in particular would take a clear position on the selectivity issue, both in the context of the follow-up to the HIPC debt relief program and during discussions of the next replenishment of the IDA window at the World Bank.

The U.S. can press for improvement in the country performance rating system for making the methods and the ratings more transparent and available, in particular to the research community, and for more public disclosure and monitoring of the use of this performance-based system.

The U.S. could do other things through pressing for incorporation into these performance criteria of how much governments are spending on health and education, doing the kinds of things that the subcommittee is well aware of in terms of monitoring post-debt relief performance.

My third point has to do with the HIPC debt relief program.

Chairman BEREUTER. If you could finish up. Your time is up.

Dr. BIRDSALL. OK. It is in short that debt relief cannot be treated as a panacea. And to go right to the point, with due respect to the comments of Representative Sanders, I don't believe that it will make sense to insist on the World Bank and IMF writing off all of the debts of the countries concerned. This will only penalize countries that were responsible and did not get into debt, and it will reward countries that got into high debt situations.

It also, although there is a sense in which it could be afforded in the short run by those institutions, in the medium run, it will mean that they will have lower access to the repayments over 30, 40 years from countries that do owe them money. And it is those repayments which will help finance a new round of health, medium-term lending programs which will generate development.

I think there's more in my comments to explain my views on that matter.

Finally, let me go to my fourth point. And I'll be very brief. It has to do with the notion that the U.S. should go far beyond the initial commitment that was announced by President Bush on the global fund for AIDS. I'm sure that the others on the panel will speak more to the general point.

But I would like to just mention in this context that the U.S. could take leadership in finding a way to generate the international cooperation that is needed in order to allow the pharmaceutical firms, to allow them politically to charge lower prices, to have differential pricing, to charge less in poor countries and allow them to get rid of their fear of imports of generics from those poor countries so that they can relax a little bit and not resist the notion that in poor countries, the generic drugs can and should be manufactured.

There's a way to do this, to generate the kind of international cooperation that would give comfort to the pharmaceuticals, honor their property rights, and bring through competitive pricing much more affordability of drugs along the lines that was mentioned throughout Africa.

Thank you very much, Mr. Chairman.

[The prepared statement of Dr. Nancy Birdsall can be found on page 90 in the appendix.]

Chairman BEREUTER. Thank you, Dr. Birdsall.

Next we'll hear from Dr. James Sherry, who is an M.D. as well as a Ph.D., and he is the Programme Development Coordination Office of HIV/AIDS at the United Nations called UNAIDS. And his statement has just been given to your folders here a minute or two ago.

You may proceed as you wish, Dr. Sherry.

STATEMENT OF DR. JAMES SHERRY, M.D., Ph.D., DIRECTOR, PROGRAMME DEVELOPMENT AND COORDINATION, JOINT UNITED NATIONS PROGRAMME ON HIV/AIDS

Dr. SHERRY. Thank you, Mr. Chairman and distinguished Members for the opportunity to address your Subcommittee today. I would like to briefly address three sets of issues related to the work before the——

Mr. SANDERS. Could you pull your microphone up a little closer, please?

Dr. SHERRY. I'm afraid I won't be able to see my testimony then, but——

I'd like to briefly address three sets of issues related to the work of the Committee. First, a five-point update on the epidemic and our collective response. Second, five essential elements missing from the multilateral response to the epidemic in Africa currently. And third, why we need this Global AIDS Fund and five key areas it needs to focus its investments on, together with the multilateral organizations.

Mr. Chairman, with respect to the status of the epidemic and the global response, I would draw your attention to the two-page statement on the epidemic attached to my late testimony prepared just a week ago by a group of top experts from around the world in the areas of public health development, law, finance, medicine and community mobilization.

The group was convened as a part of our preparation for the special session of the United Nations General Assembly on HIV/AIDS which will take place at the end of next month in New York.

The statement speaks for itself with respect to the cost of the epidemic in human terms, the continuing need for the global community to act, and the order of magnitude and increase in investments that are required.

I'd like to expand quickly on five pints of relatively new consensus and potential relevance to the work of the Committee.

First, we are still very early in the natural course of this epidemic. It is not maxed out by any means. The rate of new infections continues to exceed the number of HIV deaths. This is particularly the case in Asia and Eastern Europe, but it is also true for Africa. Despite our observing for the first time last year that the number of new infections did not increase, nevertheless, the number of AIDS deaths is still lagging substantially behind. And so for the next number of years, the total number of HIV infections will continue to increase.

I don't want to give the impression that the natural course of the epidemic cannot be changed. Quite to the contrary, we have very clear proof of principle in an expanding number of countries to demonstrate that early investments make a lot more sense than late investments in responding to the epidemic.

Second, in most places of the world, in particular in Africa, we are still very early, at the very beginning of the response to the epidemic. Investments in Africa on AIDS were estimated at around $165 million in 1997 up to probably around $400 million last year and maybe to $600 million this year. But this compares with the roughly $4 billion minimum that there is now a growing consensus is required to make a credible response.

Third, there is no general acceptance of the principle, learned through both positive experience and neglect, that investing in youth remains our most effective strategy in altering the course of the epidemic. This is true regardless of country and regardless of the state of the epidemic in those countries.

Fourth, it is now generally appreciated that our prevention and care objectives are inextricably linked. AIDS care and support can no longer be viewed as a private good in contrast to HIV prevention being viewed as a public good.

We've learned that to slow the epidemic, we must do two things everywhere. We must make the epidemic visible in communities, and we must reduce the stigma associated with it.

Even if we were not motivated by our humanitarian concerns, we would be compelled to address AIDS care and support if we hope to be successful in our prevention efforts.

My fifth point, Mr. Chairman, is that antiretroviral drugs are an important part of the solution. We've learned that we need to use them in all countries. We've also learned that where we use them, we need to use them appropriately and according to rigorous guidelines. And finally, we've learned that even under the best of circumstances, resistance is inevitable probably more rapidly than we've been thinking.

Consequently, we will require ongoing streams of new AIDS drugs that only the research and development-focused pharmaceuticals are going to be in a position to provide.

And while I'll not get into aspects of intellectual property rights and their profit margins and how that relates to their basic business model, I would simply caution that if we continue a confrontational approach to their engagement in the response, we risk driving the R&D companies out of the response to the epidemic, and we will end up paying dearly for that in human lives.

Mr. Chairman, I'd like to suggest to the subcommittee that as you continue your review and oversight of the multilateral institutions in Africa, that attention be given to five essential elements currently missing in the response to the epidemic. And I'll be briefer than my testimony here.

First, a focus on accountability for HIV/AIDS-related results. Twenty years into this still-expanding epidemic, it's past time to begin holding ourselves accountable for what we're doing and what we're not doing. As a start, our economic modeling and policy advice must take AIDS fully into account. While there is room for debate to what extent a 7 or a 15 or a 20 percent inflation rate affects economic growth, we should by now be past the stage where we can pretend that a 30 percent HIV prevalence rate does not.

HIV is currently not being factored into the macroeconomic models we are using in any meaningful way, nor have we seriously looked at how our macroeconomic frameworks are impacting on the epidemic.

Second, we need to get beyond the summary tables in ensuring that our sectoral investment strategies are appropriately and effectively addressing AIDS. Currently, it is the exception when they do. We do not have AIDS-relevant investment strategies for the productive sectors, including the manufacturing sector, which is having increasing difficulty with international investment in Africa because of AIDS, nor do we have them in the protective sectors, in particular the health, education and social services which are both the front line of societies in response to the epidemic and are themselves reeling under its impact. Nor do we have good economic analysis of the propagating sectors. And by that we would include the informal commercial sex sector, but also sectors where employment entails separation of men and women from their families for extended periods of time. That includes the uniform services, the transport sector and some parts of the mining industry.

Third, the current response lacks urgency and intensity. Time-bound goals for institutions to complete their reorientation to AIDS and to incorporate it within their mainstream work and specific targets for how much of their resources should be addressing the epidemic are entirely appropriate in an emergency of this type, and they are largely absent.

Fourth, the response lacks sufficient leverage from communities and governments in the response in Africa. With respect to governments, the HIPC process has made a good but incomplete start. For example, in some 13 countries where we have data, $43 million has been budgeted for AIDS this year compared with less than $2 million last year, roughly 90 percent of that attributable to new resources provided through debt relief.

The downside is with two exceptions, both in relatively low endemic countries, less than 10 percent of debt savings, actually substantially less in most cases, were reprogrammed into efforts directly addressing AIDS.

Chairman BEREUTER. Dr. Sherry, if you could just hit your last point, please.

Dr. SHERRY. Fifth, the current response lacks sufficient coordination among the partner organizations, and I would suggest very briefly that our coordination model also requires review. And if you'll forgive the analogy, the multilateral organizations could perhaps benefit from a more NATO-like approach, building a platform on which governments and civil society partners can more effectively address the epidemic, rather than serving themselves as the prime actors in the response.

In lieu of time, Mr. Chairman, I'll be very brief to just share a few thoughts on why we need to urgently complete the work initiated here——

Chairman BEREUTER. Briefly.

Dr. SHERRY. ——by Congressman Leach and Congresswoman Lee and many others to establish the Global AIDS Fund to jumpstart our expanded response to the epidemic. The important undertaking came closer to reality last week with the actions of President Bush. However, it would have been an enormous mistake to simply wait for the existing multilateral mechanisms to kick in on this. But it would be an even larger mistake to undertake the scale-up in a way that duplicates the work of these mechanisms or gives the impression that Global AIDS and Health Fund would somehow obviate the need for the multilateral and bilateral organizations to do more and to do it more effectively.

Thank you, Mr. Chairman.

[The prepared statement of Dr. James Sherry can be found on page 98 in the appendix.]

Chairman BEREUTER. Thank you very much, Dr. Sherry.

Now we'll hear from Dr. Tenkorang. She is with Harvard University's Kennedy School Center for International Development and a citizen of Ghana. You may proceed as you wish.

STATEMENT OF DR. DYNA ARHIN-TENKORANG, SENIOR ECONOMIST FOR AND ASSISTANT TO THE CHAIRMAN, WHO COMMISSION ON MACROECONOMICS AND HEALTH, AND VISITING FELLOW AT HARVARD UNIVERSITY'S CENTER FOR INTERNATIONAL DEVELOPMENT

Dr. ARHIN-TENKORANG. Thank you, Mr. Chairman. Thank you for the invitation to testify. I am honored as an African professional from Ghana to have the opportunity to present my views and recommendations. These views have been shaped by a decade of research and consulting experience as a health economist in international public health, focusing on Sub-Saharan Africa.

Prior to this, as a physician, I treated patients in Ghana and Nigeria. I later held the position of Senior Health Planner in the Ghana Ministry of Health.

I would like to focus on issues that relate to the effectiveness of development assistance provided by the World Bank in particular in alleviating poverty and controlling HIV/AIDS.

In my statement, I wish to draw attention to the following:

One, health investments profoundly impact on poverty reduction, as has been substantiated by the ongoing work of the Commission on Macroeconomics and Health.

Second, the World Bank's health assistance to Africa has been characterized by the following:

A. Low priority placed on investments in hospital facilities, and by implication, on curative care.

B. Reluctance to support sector recurrent budgets; and

C. Advocacy for user fees.

Third, these characteristics have contributed to the unpreparedness of African health systems for the HIV/AIDS challenge.

Given the urgency of the situation, I urge that a Global AIDS Trust Fund should be granted autonomy from these institutions and their policies. This will permit the Trust Fund to assemble Rapid AIDS Response Task Forces charged with the responsibility of producing detailed country control plans that are needed for immediate disbursement of committed donor funds.

I suggest that the Task Forces be composed of professionals with in-depth knowledge of Africa as well as proven technical and managerial capacities, who are as it were on sabbatical from their regular positions.

Some of my convictions have been refined by recent analytical work undertaken as a Senior Economist for the Commission on Macroeconomics and Health. This Commission is an ad hoc organization initiated by WHO in January 2000. As part of the work, an analysis of the evidence linking investment in health to macroeconomic growth and poverty reduction support my view that the components and the philosophy of HIV/AIDS control currently advocated by the African community, and also recently echoed in statements by the World Bank, are crucial for poverty reduction. These components are prevention, care, and treatment. And the philosophy is that they must all be pursued simultaneously and rigorously.

Without treatment, HIV positive parents are denied the opportunity to make financial and social provision for their children who in the future will be orphaned. Particularly, some are prevented

from contributing crucial additional years to the economy as teachers, doctors, nurses and managers.

Until recently, the international donor community, including the World Bank, focus was on prevention, with less emphasis on the decisive role of treatment, thus ignoring that households can frequently accomplish prevention but are ill equipped to carry out effective treatment.

To illustrate, in the case of malaria, a farming mother in a village in Ghana can augment her immunity system and that of her child by consuming high protein foods that she grows and by breastfeeding, and can take actions to repel mosquitoes. Therefore, from the onset of the HIV epidemic, treatment should have been given the appropriate priority in control strategies.

High priority was given to treatment in Western countries, including the United States of America, and the results speak for themselves. Today it is evident that the prolongation of years of healthy life and years of survival of AIDS patients offered by antiretroviral therapy requires that the standards of African health systems be raised to basic minimal levels.

The health systems of all poor African countries will require massive investments in infrastructure and human capacity to permit this. Hence, treatment of African HIV patients will require that the World Bank revisit its past position that investments in secondary and tertiary health facilities is a low priority in African countries.

Second, treatments must not be offered at a fee, because fees will dissipate scarce household financial resources and prevent patients from seeking treatment. In this regard, another Bank measure that will have a positive impact on HIV and poverty is to change its long-held position on user fees, for example, the payment of out-of-pocket charges at the time of use of health care.

Substantially positive spillover effects are associated with curative care. For example, the benefits to society when an individual receives treatment for tuberculosis is far greater than the benefits to the individual patients, because others are prevented from contracting the disease. It is therefore rational for a society to facilitate higher consumptions of such treatment by the poor than the poor themselves can afford, rather than to erect financial barriers in the form of user fees.

Also, user fees policies do not take cognizance that out-of-pocket payments are usually the most regressive means to pay for health care, and as a payment method, heavily exposes poor people to catastrophic financial risks.

I have in my statement some other suggestions of how one might use the Global Trust Funds. Because I would like to submit that the fundamental problem is that there are insufficient numbers of personnel to engage exclusively in developing rigorous country and subregional AIDS response plans.

African countries have few financial and human resources and therefore cannot produce elaborate plans nor demonstrate adequate absorptive capacity, for example, the ability to use the funds. Yet these plans and the absorptive capacities are the prerequisites imposed by donor regulations and conditions in order to secure the needed resources.

It is my hope that the Trust Fund has been established recognizing that more funds are required in order to tackle the crisis. But it is also my hope that it be recognized that this is the opportunity for things to be done differently and for these Task Forces to be established.

The Trust Fund is being formulated, as I say, partly in recognition that the HIV interventions for Africa will need to be funded largely from donor assistance. One hopes that it also will permit the use of new approaches to development assistance for health, an approach that is not hindered by imperfection inherent in possible Bank and IMF assistance policies.

There is little time to debate endlessly on taking this bold step. At worst, all that may be lost is some fraction of the resources due to inefficiency and imperfections. And this is a normal occurrence in all human endeavors. And the price that is truly insignificant compared to the benefits. Millions of lives will be saved, and Africa could be given the opportunity to rise from its burden of disease and poverty.

Thank you.

[The prepared statement of Dr. Arhin-Tenkorang can be found on page 112 in the appendix.]

Chairman BEREUTER. Thank you very much. I realize it's difficult for any of you to summarize your testimony, even though we've allowed 7 minutes, and I know you have a number of very practical suggestions here. And I hope my colleagues will directly or through their staff look at some of the very practical and good suggestions that you've made.

Next we will hear from the Reverend Dr. Leon Spencer, Executive Director of The Washington Office on Africa. You may proceed as you wish.

STATEMENT OF REVD. DR. LEON P. SPENCER, EXECUTIVE DIRECTOR, THE WASHINGTON OFFICE ON AFRICA

Dr. SPENCER. Thank you, Mr. Chairman. It's been my great privilege to have been involved in Africa and with African partners throughout my adult life, first as an academic, then as a mission appointee of the Episcopal Church in Kenya, and now as Executive Director of The Washington Office on Africa, an ecumenical advocacy organization that embraces a broad spectrum of national church bodies and traces its origins to the struggle for liberation in Southern Africa.

With this experience, I am naturally grateful to this Subcommittee and its Chairman, Congressman Bereuter, for the opportunity to testify today.

What I bring to these issues and to this hearing is a deep conviction that we are called to speak to the common good. This is an ethical and faith-based perspective, and I acknowledge it is one that economists and some political leaders have found convenient to dismiss as naive. But it is not naive to suggest that the international financial institutions have no right to insist upon economic structures within African nations that diminish public initiatives to address the common good.

I readily acknowledge economic mismanagement and misjudgment in many African countries which provide temptations to pre-

scribe for Africa. But it is frankly disturbing to me that there continues to be a presumption that free market reforms are the prescription for sustained economic progress in Africa. Education, health care, employment training and opportunities, access to safe water and housing and so on—the list is substantial—are essential for economic development, and they require community-based rather than free market initiatives.

Moreover, the notion that fledgling African businesses can compete with multinationals, that somehow the playing field in the global economy is level, is one that should not be seriously entertained.

It is not my intent to disparage economic structures that may empower individual Africans in their business pursuits, but I do assert that an unfettered free market economy divorced from societal considerations of human need and human hope is not a moral imperative, and it is not the role of the World Bank and IMF to suggest that it is.

This is for me foundational as we turn to the three issues this Subcommittee has rightly targeted:

First, debt. As a member of the Steering Committee of Jubilee 2000/USA, I was very encouraged by the U.S.'s 100 percent bilateral debt cancelation for HIPC nations. And yet 22 countries that have been through the HIPC process will still be paying more on debt service than on health in the coming 5 years, principally because the World Bank and IMF remain the biggest creditors to poor countries.

It is my firm recommendation that the U.S. should use its influence to secure 100 percent cancelation of debts owed by African nations to the IMF and World Bank from within their own resources and without attaching further economic reform or structural adjustment measures.

Second, poverty eradication. It's my firm recommendation here that the U.S. should use its influence to ensure that debt service payments to the IMF and World Bank including the accumulation of interest, be suspended as long as good faith efforts to develop poverty eradication programs continue.

It is my view further that the U.S. must use its influence to vote against the continuation of user fees where people living in poverty must pay for primary education and primary health care. Congress has rightly recognized that this has been a tragic aspect of structural adjustment. The Bush Administration's request that this provision in law be struck keeps this issue alive. Our nation should not be party to such an injustice.

Finally, the U.S. should use its influence to ensure that the continued denial of full opportunity by African civil society to engage in the PRSP process end.

Third, HIV/AIDS. During my years as a missionary in Kenya, I had a friend, a Kenyan nurse who established a community center and clinic in Kibera, one of Nairobi's slums. Among other services, she offered women who were HIV-positive food, shelter and care. Most had been driven from their homes, rejected by their family and community. It was clear to her then and clearer now to African governments and civil society that the combination of education

and prevention and of widely accessible treatment and culturally sensitive care are all essential elements to confront this pandemic.

What is needed now are funds, large doses, thoughtfully provided, appropriately used. The Abuja Declaration signed by African leaders late last month included a target of allocating no less than 15 percent of African national budgets to health. International efforts need to complement such a commitment.

The U.S. has taken an important lead among the industrialized nations in providing funds, but they are insufficient. It is my firm recommendation that the U.S. help to establish a Global AIDS Trust Fund that offers a participatory and transparent process capable of mobilizing resources quickly.

The Fund needs to provide for bulk drug procurement and distribution, including medicines for both AIDS and opportunistic infections, not excluding any sources that are in accord with intellectual property rights provisions that permit compulsory licensing and parallel imports. It is not as crucial where the Fund is housed as it is that there not be competing funds and that the Fund be adequate to the task.

It is further my view that the U.S. needs to provide significant unrestricted funds consistent with our economic standing among nations, accepting the estimates of up to $10 billion required annually to address the pandemic. Two hundred million dollars is not adequate, though as a step toward a goal of at least $1 billion annually from U.S. sources to confront the global AIDS pandemic with more to follow, as President Bush said, it is useful.

The U.S. should use its influence with international financial institutions to secure grants, not loans, for AIDS programs.

Finally, in contributing to a Global AIDS Trust Fund, the U.S. should remain attentive to the interrelatedness of AIDS-specific funding, development aid for Africa as broadly conceived, and development assistance for global health issues. One should not gain at the expense of the others.

This Congress has an opportunity to do something meaningful and just for and with Africa. I pray that you will continue in your efforts, and I thank you for including me in this hearing.

[The prepared statement of Revd. Dr. Leon P. Spencer can be found on page 106 in the appendix.]

Chairman BEREUTER. Thank you, Dr. Spencer. Thank you very much. We would have been poorer without the testimony of each of you in our deliberations.

I'd like to begin the questioning under the 5-minute rule. There are so many things to pursue. I'll begin with Dr. Westin. I wondered first of all if GAO has conducted any analysis of recent proposals for 100 percent reduction of multilateral debt, particularly those calling for financing that additional debt relief under the IMF or the World Bank. Have you been requested to do anything? Have you completed such analysis?

Dr. WESTIN. No, we haven't. We have looked at that suggestion and realized that there would be a cost to doing that under the current financial structure of both the IMF and the World Bank. And the cost comes about in not having the debt repayment flows to finance new loans.

But we haven't looked at the proposals that talk about changing the financial structure of the institutions.

Chairman BEREUTER. On page 9 of your testimony, you discuss some of the difficulties the HIPC countries are facing in developing a country owned poverty reduction strategy that incorporates meaningful input from civil society. To what extent have the IMF or the World Bank provided the technical assistance to these countries so that they can develop that kind of a model, that framework? Any forthcoming at this point?

Dr. WESTIN. There has been continual interaction between the IMF and the countries in the development of these country strategies. But the poverty reduction strategy papers are really to be developed within the country by the government with inclusion of civil society, which includes business associations, trade unions, NGOs, community groups, and so forth.

Chairman BEREUTER. They are complex, though.

Dr. WESTIN. They are complex.

Chairman BEREUTER. And I'm wondering if they have the technical ability to do that, to gain the input from civil society.

Dr. WESTIN. It is a difficulty. It's difficult to put together a macroeconomic framework for any country. It's difficult to know what's the best way for including members of civil society, how do you decide who should be included, how do you take their input into account, and how do you structure it so that they are really stakeholders in this process?

But there have been some recent World Bank studies that show that it's likely that the frameworks and the implementation of the frameworks will be more successful if you do include civil society participation.

Chairman BEREUTER. Thank you.

Dr. Tenkorang makes a number of interesting points. But one of them she makes is that low property placed on investment in hospital facilities and by implication on the curative care. I'd like to see if any of you would comment on this comment from her. Dr. Birdsall?

Dr. BIRDSALL. Yes. You know, I'd like to comment on that point and on the user fee point in general.

Chairman BEREUTER. This is an interest of Ms. Lee also.

Dr. BIRDSALL. Yes. You know, I think the World Bank and the IMF are getting a bad rap on the user fee issue. It certainly is the case that there was a time when the Bank and the Fund favored modest user fees from people who could pay.

I mean, this is what we do in the U.S. The idea was to ensure that public money went to the poor. Now it maybe was a bad idea in terms of its implementation, and for that reason, both of the institutions are really rather agnostic or even against user fees.

The example of Uganda is interesting. President Musevine a few years ago said we will abolish user fees. I think he said for the first four children in any household. In any event, the World Bank has provided substantial support to Uganda. There was no resistance to the idea that user fees would be dropped. It provided a lot of assistance. I mention it in my written testimony. It helped Uganda figure out a method to send the money straight to the schools, post at school entrances so the community would know.

Chairman BEREUTER. Dr. Birdsall, where does this concept come from?

Dr. BIRDSALL. The concept comes from the notion that you want to spend your public money in a way that is directed to the needs of the poor and to, as has been mentioned, largely preventive care.

Chairman BEREUTER. And I guess I should have said, who's pushing the concept of the imposition of user fees?

Dr. BIRDSALL. I think unfortunately, it's not something that by abolishing we're going to make any change, because I don't think that it's being pushed anymore. So I don't think it would make any difference.

Chairman BEREUTER. Rights.

Dr. BIRDSALL. It's a little bit of a strawman in that respect.

Chairman BEREUTER. Does anybody else wish to comment on the first comment about the inadequate focus on facilities in the remainder of my nonexistent time here? Does anybody have a quick comment about that point that is made by Dr. Tenkorang? Yes, Dr. Sherry.

Dr. SHERRY. Just two very quick points. First, we have to keep in mind that the poor pay a disproportionate amount of their income out to health care services already. And the poorer the community, the higher that is. And most studies would suggest it's in excess of 10 percent, and in the family affect by AIDS, it is much more.

So there is already a very substantially imposed user fee. The issue is, do they get any value for what very considerable sum they're spending on health care? And the answer in most cases, unfortunately, is no.

On the issue of infrastructure, before one gets into bricks and mortar, one needs to really look at what is the human resource and what's the commodity line within the existing facilities? So additional bricks and mortar, additional centers, additional outreach when the existing ones are just simply not functional in many cases. I think we have to sort out the prioritization process there.

Chairman BEREUTER. Thank you. My time has expired.

The gentleman from Vermont is recognized.

Mr. SANDERS. Thank you, Mr. Chairman. Last month when we held a subcommittee hearing on the African Development Bank, I asked all of the witnesses at the hearing if they supported the cancelation of the debts that the poorest countries owe to the World Bank and the IMF. So I would like to pose that question to you. Very simply, do you support the cancellation of the debts that the poorest countries owe to the World Bank and the IMF?

Dr. Westin, and we can just go down the line.

Dr. WESTIN. OK. We certainly support that relief effort.

Mr. SANDERS. All right. But you don't support cancellation?

Dr. WESTIN. By that you are meaning total cancellation of all the debts?

Mr. SANDERS. Yes.

Dr. WESTIN. As I briefly said before, Mr. Sanders, we haven't looked at how that is possible to do under the current financial structure and we have not assessed the proposal——

Mr. SANDERS. I'm going to have to interrupt you. I apologize. Please forgive me.

Dr. Birdsall.

Dr. BIRDSALL. Even if it is affordable, I wouldn't support full cancellation.

Mr. SANDERS. You would not support full cancellation?

Dr. BIRDSALL. No. I would not support full cancellation of all the debt to the multilaterals.

Mr. SANDERS. Thank you.

Dr. Sherry.

Dr. SHERRY. I can't share an institutional position on this. But certainly my personal sense is would be in favor, although that view is slightly affected by looking at where the resources from the last cancellation actually went.

Mr. SANDERS. Thank you.

Dr. Arhin.

Dr. ARHIN-TENKORANG. I would certainly support that, based on the fact that this burden is intolerable. It doesn't make any sense. It will never be actually recovered from these countries. It just continues to be an unnecessary burden which is existing for no practical end.

Mr. SANDERS. OK.

Dr. Spencer.

Dr. SPENCER. Yes. The Washington Office on Africa certainly does, and I think across the breadth of the Africa advocacy community here in the United States, the answer is yes.

Mr. SANDERS. Thank you. My next question may be briefly responded to—and I apologize for the time limits for your response. The issue of the pharmaceutical industry and drugs have come up. And I would like to pose this question to you.

Year after year, the pharmaceutical industry is the most profitable industry in this country, last year earning over $27 billion in profits. Meanwhile, 5,000 people per day are dying of AIDS in Africa, and the initial price that the pharmaceutical industry was proposing to charge people is beyond their wildest dreams of ever being able to afford.

Given the pandemic that exists and the huge loss of life, do you support the ability of companies to come into Africa to supply drugs at the lowest possible price so that lives can be saved? Dr. Westin?

Dr. WESTIN. Mr. Sanders, I have to admit, I don't know if GAO has taken a position on that.

Mr. SANDERS. OK.

Dr. Birdsall.

Dr. BIRDSALL. Well, I'm not sure I actually understood the premises behind your question.

Mr. SANDERS. The question is, are intellectual property rights more important than the lives of millions of people who are dying?

Dr. BIRDSALL. No. Intellectual property rights are not more important. I think it's a problem of what is the best tactic to ensure that drugs are affordable in Africa. My own view—I'd be happy to send you, in fact with pleasure I'd send you a copy of a letter I sent to the Financial Times on this issue which did arouse the ire of the pharmaceutical industry.

I think the best tactic, frankly, is to make it possible for the pharmaceutical firms to use competitive pricing. A competitive price in Malawi would be an affordable price. And so we've got to

make it easier for these firms to do that. I don't think that we can pass the moral burden that taxpayers in rich countries should bear to deal with the problem to the pharmaceutical firms. It just won't work.

Mr. SANDERS. Dr. Sherry.

Dr. SHERRY. Well, Congressman, you've asked a very difficult question. I think if the question is put that way, I'm not sure there is an answer. Or very directly. I think it is not putting it in an either/or situation—is it IPR or is drugs to save people's lives—I don't think is the right approach. I genuinely think that we can achieve both. And I think we need to do that by first stepping away and thinking first, let's share the cost with the beneficiaries. And we have to look at who are the broad beneficiaries of the international trade regimes? And that's not just the pharmaceutical companies. That's this entire population, largely the industrial countries.

And so then the issue becomes, how are we going to finance the best available drugs into the developing world? So I would certainly support, we would institutionally certainly support very substantially increased public financing of patent drugs. But I think we're going to run into a real problem if we go wholesale onto pressing into the generic drugs in the situation of those drugs where we're getting very rapid resistance. I think we have a real technical concern there. It's not ideologic.

Mr. SANDERS. Dr. Arhin.

Dr. ARHIN-TENKORANG. Yes. I also believe that it's not one or the other. And if we're talking about the AIDS drugs in particular, I think it's—my sense is at the moment, the drug companies have more or less accepted to provide these drugs under their own names, but almost at cost prices. And therefore, the big issue now is to be able to find the means to purchase these drugs and make them available.

And when it comes to the other drug issues that patients might apply to, I think at the moment, it's not such a crisis to deal with that.

Thank you.

Mr. SANDERS. Dr. Spencer.

Dr. SPENCER. Affordable access to medications in Africa is the priority. And intellectual property rights can be honored not necessarily by purchasing of drugs from pharmaceutical companies under their own terms which they have negotiated and about which we do not have a lot of details. It can also be accessed through compulsory licensing and parallel imports which are absolutely legitimate in terms of the World Trade Organization processes.

And so the question of access is the critical question and the means by which it is done may or may not directly involve relationships with pharmaceutical companies holding patents.

Mr. SANDERS. Thank you.

Chairman BEREUTER. I thank you, Mr. Sanders. We need a response to that.

Now under the Committee rules, we will recognize those Members who were here at the beginning and then as they appeared on the basis of their appearance across the aisle. The gentleman from

Texas was here. The gentleman from Texas, Mr. Bentsen is recognized.

Mr. BENTSEN. Thank you, Mr. Chairman.

Dr. Westin, in your testimony, if I read this correctly, you paint a rather stark picture that even with the debt relief, and I guess even if you went to 100 percent debt relief, that the level of real economic growth over a long-term period is unreachable for most of the Sub-Saharan HIPC countries, and the need to reenter the debt markets, even at the soft loan window, would basically put these countries back in the hole again, which is interesting, because when we went through the HIPC legislation, the sort of pseudo-authorization that we went through in this Committee and then it was folded into the appropriations bill a couple of years ago, we had the discussion about whether or not we should keep HIPC countries away from either the hard window or soft window for a period of time to allow themselves to dig out of debt.

And in fact, last year in the subsequent appropriation, there was some language that would establish a 2-year window I think where countries try and not add any additional debt.

But based upon what I read in your testimony that, because they cannot—it's unlikely that they would achieve sufficient economic growth, they are going to have to go back to the window over and over again and may not ever get out of debt unless we just move in many respects completely to a total concession or really a grant program. Am I reading that correctly?

Dr. WESTIN. The issue of poverty has long been faced, and it is not clear what is going to work for countries. You know in Africa there are many reasons why there hasn't been strong economic growth, and they include governance issues, they include civil internal strive, external conflicts, natural disasters, and a reliance on basic commodities to export.

The issue of why we say that HIPC debt relief is unlikely to provide lasting debt relief is that the idea with HIPC is that if you relieve the debt, it frees up resources for the countries to spend essentially on development and poverty reduction.

But I think the thing you have to realize is that it's not as if the countries had been paying all the debt service before. They had often received assistance from donors to help pay debt service, or they were in arrears. So it's not that you're freeing up resources one to one. If you relieve the debt so they don't have as much debt service to pay, they are still going to have to borrow the resources to put into poverty reduction.

And that's why we say that—looking at those growth rates that are projected for them to graduate from concessional lending—it's a huge change. In the last 15 years, they had a negative growth rate of 1 percent. To be able to graduate from the concessional lending in 15 years, they would have to move to a positive 6 percent annual growth rate per year. We think that's overly optimistic, given the way that they are able to raise revenue with the basic commodities that they export.

Mr. BENTSEN. And Dr. Birdsall, in your testimony, you talk about the need for—I think you talk about the need for continued economic reforms, and I know there is a dispute among the panel over whether free market reforms will have any impact. I think

there is some legitimacy in that debate. But I do think that you have to move in that direction.

But does anyone on the panel believe that those rates of growth can be achieved? Obviously the empirical evidence doesn't indicate that it would, particularly if it's a commodity-driven or export-driven economies, that it's unlikely that they could achieve a 6 percent average growth rate over a 20-year period or even a 10-year period.

Dr. BIRDSALL. Well, it's hard to—you know, I mean it's possible. Uganda and Mozambique and Botswana have all grown at rates above 5 percent a year for, you know, 3 or 4 or 5 years at a time.

I don't think that there's any way in which the initial round of reforms that you—we might call them free market reforms. I would call them just basic good economic management—can alone deliver that rate of growth.

The problem is that relieving the debt of these countries is not going to do that much either. They will, as Dr. Westin said, absolutely have to have access to new lending.

And of course my point is that—and this goes to the issue of relieving everybody's debt completely—that won't solve the problem either. And indeed, it simply rewards governments which are not in a position to deliver the goods to their people.

I think that the new lending should be carefully focused on countries that are doing health and education, that are creating opportunities for the poor, and that are managing the AIDS problem.

So we have to recognize that debt relief is a good thing. It can have benefits. But it is not a panacea. It does not solve the poverty or development problem. It certainly doesn't solve it if countries fail to grow. And for them to grow, they need a lot more than debt relief.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you.

The gentleman from Connecticut, Mr. Shays, and then Ms. Lee.

Mr. SHAYS. I'm happy to wait.

Chairman BEREUTER. Ms. Lee, you're recognized.

Ms. LEE. Thank you, Mr. Chairman. I want to apologize for not being her during the majority of the testimony, but I'm in two hearings at the same time. So I will definitely read your full testimony, and if I ask a question that's redundant, please accept my apologies.

But, I wanted to just mention a couple of things. First of all, I for one understand and know that debt relief or debt cancellation is not a panacea. However, freeing up millions of dollars in a given country that's struggling with HIV and AIDS could help set that country on course in terms of the development of an infrastructure, in terms of HIV prevention, education initiatives. It could just provide the foundation to begin to move forward.

So I want to make sure that we are clear that—I don't think—well, many of us believe that it's a panacea. But I do think that debt cancellation will provide an opportunity for countries given now the enormous crises they are being faced with.

I wanted to ask you about the concept of the bill that Congresswoman Waters and I introduced that links debt cancellation to HIV and AIDS initiatives as it relates to multilateral debt cancellation

by the World Bank and the IMF. What is your take on that? And do you think it's a good idea or not?

Any of you, Dr. Sherry is it, and Dr. Birdsall, I would especially like to hear from you on that

Dr. SHERRY. I'll go first, and let Nancy collect her thoughts.

Well, first some context. In terms of the first round of relief, the book value was around $1.4 billion; the real value was around $800 million or so in terms of what was actually being paid back. So that's the immediate impact that it would have in terms of reprogrammable resource.

And of that, in terms of AIDS direct investments, we probably got about ten percent of the return focused on AIDS direct, and maybe another ten or 15 or maybe even 20 percent focused on other extremely important things, which have a major impact on AIDS, but which aren't thought of as AIDS investments, such as keeping girls in school, you know, advancing access in secondary school.

So just to put in perspective, the total amount of real resource that came out of that is about half of what we would be looking toward the antiretroviral drug cost alone 5 years from now. So just to put it in a little bit of context.

However, the suggestion being let's take the second tranche, let's do the second half and get that debt released, and to get it focused very specifically in these high endemic countries on AIDS, I think we would applaud such a move.

Ms. LEE. Thank you.

Dr. Birdsall.

Dr. BIRDSALL. Yes. Well, I think the concept of some sort of link is a healthy one, a link of either debt relief or new lending, new transfers, new grants, to commitments within countries to address their own problems. That concept is very important.

Of course one of the difficulties that we face is that that doesn't work by bribing countries. It only works when the commitment is already there within each country.

So debt relief for everybody will not necessarily produce linking except in countries that are already committed.

Ms. LEE. And we see more countries now beginning to be more committed to making this a national priority and developing strategies.

Dr. BIRDSALL. Right, that's absolutely key.

Ms. LEE. So I think as long as we make sure that that's the case.

Dr. BIRDSALL. I would also just like to repeat something that Dr. Westin said, which is the other problem we face, those of us who are concerned with ensuring medium-term development in Africa, and concerned to ensure that the development assistance business that is carried on by the United States, by the European donors, and by these multi-lateral institutions, is done well.

My concern, frankly, is that full debt relief will not, in itself, bring us progress in some of the countries of Africa. That will lead to more fatigue on the part of Americans who are fundamentally very generous.

And I believe it will undermine our future ability to garner the new resources that are so badly needed.

So I like the idea of linking, because it can hook into the commitments of countries, but I'm nervous about, you know, a kind of across-the-board linking that ties the hands of the IMF and the World Bank to do certain things no matter what. And not to be measured in the way that they respond to good performance and real commitments in the different countries.

Chairman BEREUTER. The time of the gentlelady has expired. We'll try to get back for another round.

Ms. LEE. OK. Thank you, Mr. Chairman.

Chairman BEREUTER. The gentleman from Connecticut, Mr. Shays, is recognized.

Mr. SHAYS. I thank you all for being here. We've had two people that have returned recently from Africa congressional trips, and the Members who have gone on those trips have described an Africa that I can't even comprehend.

I'd like to know what country has the ability to pay its debt of any African country? I'm mystified in some ways by the dialogue, because I don't know any country that seems to have it's head above water in Africa.

What country should I focus in on with its head above water?

I'm asking the question. You can respond. I'm asking any one of you.

Dr. ARHIN-TENKORANG. I think you're right in saying truly there are no countries which would meet the kind of criteria that Dr. Birdsall suggested we should use for selectivity.

And when she says you reward countries, you penalize countries who have been performing well, I would like to say, you're not, by refusing to cancel the debts, you are penalizing people who have not had any involvement in real practical terms in their current debts that exist.

Those debts have come about through the actions of their leaders in conjunction with the international leaders, such as the advice given by the World Bank. So I think to say that you're rewarding governments by allowing——

Mr. SHAYS. You're away somewhere where I'm not. I am so basic, I'm not even up to your level.

Dr. ARHIN-TENKORANG. No, I'm sorry, I apologize. It is not in response to your question.

Mr. SHAYS. You don't need to apologize.

Dr. ARHIN-TENKORANG. It's a response to the number of comments the doctor has made. I'm sorry.

Mr. SHAYS. Let's start over again. Tell me one country that has an economy that has the ability to pay back its debt in Africa?

VOICE. Botswana.

Dr. BIRDSALL. I think with the enhanced HIPC initiative, there are countries. Botswana is an obvious one. But there are other countries where, with the enhanced HIPC initiative, and continued support from the World Bank, the IMF, the European donors, the U.S., Uganda's doing reasonably well, Senegal is doing reasonably well.

These countries are growing.

Mr. SHAYS. Describe to me Uganda and how it's doing reasonably well. That's news to me.

Dr. BIRDSALL. Well, primary school enrollment has doubled in the last several years in Uganda.

Mr. SHAYS. So how many people, so it's doubled, doubled on what base?

Dr. BIRDSALL. The poverty rate has been reduced from about 60 percent of the population to an estimated 30 percent of the population. It's still outrageously high. But it has been reduced dramatically.

That's a rate of reduction in one small country in Africa that is as fast as was accomplished in the miracle economies of East Asia.

Mr. SHAYS. And this is over the last how many years?

Dr. BIRDSALL. Five, six, seven years in the 1990s.

Mr. SHAYS. What would be another country?

Dr. BIRDSALL. Mozambique has been growing at 7 percent a year for the last few years. I mean, we have to recognize that these countries that are so poor——

Mr. SHAYS. Ma'am, Nancy, I mean, excuse me, Dr. Birdsall, just answer the questions. I just want to know. Tell me, we've got two countries that are doing reasonably well. Who else?

I find this an astounding dialogue, because I find my mind must be somewhere totally different than where everyone else's is. We have two countries.

Name me another country?

Dr. BIRDSALL. Senegal.

Mr. SHAYS. OK.

Dr. BIRDSALL. Mr. Davis, you're right. The problems are deep seated.

Mr. SHAYS. Just keep going. Tell me another. We've got three. We've got a lot of countries in Africa.

Dr. BIRDSALL. I'm sorry, I'm not enough of an expert on the growth rates.

Mr. SHAYS. Now that we've got three, I just, I just, it strikes me that the condition——

Dr. BIRDSALL. Ghana.

Mr. SHAYS. ——of our African countries are in a pathetic state, and so we are just kind of moving along and somehow we're trying to imply someday they're going to be able to pay off their debt.

Dr. BIRDSALL. I think that my concern, and if you don't mind my having a dialogue with my colleague on the panel indirectly through you, my concern is that debt relief can help, but we cannot assume that it will solve the problem.

Mr. SHAYS. I am not even at the point of solving the problem. I'm just, I just see people who can't swim drowning and where we loaded them down with debt, their governments took it. I see——

Tell me a model government, tell me a government I can respect in Africa?

Dr. BIRDSALL. In terms of——

Mr. SHAYS. I'm not saying there aren't, I'm just asking for the answer to the question. And there's such hesitation in responding to the question. You should be able to go one, two, three, four. You should be able to tell me who these are.

Dr. BIRDSALL. Well, but I can't, we can't, because it's not a simple, there is no simple answer.

Mr. SHAYS. Why?

Dr. BIRDSALL. Could I go back to——

Mr. SHAYS. No. You can't go back.

[Laughter.]

Dr. BIRDSALL. I'd like——

Mr. SHAYS. I've got three questions.

Dr. BIRDSALL. I'd like to make the point——

Mr. SHAYS. No, I'm sorry, you can just wait. We've got three so far that you've been able to name.

Dr. BIRDSALL. OK, I'm sorry.

Mr. SHAYS. I would like to know of a country in Africa that I can turn to, a government that I can turn to, a government I can respect.

Dr. ARHIN-TENKORANG. Ghana.

Mr. SHAYS. Ghana will be one.

Dr. WESTIN. Mr. Shays, can I say, can I add one thing about Uganda?

Mr. SHAYS. Yes.

Dr. WESTIN. Uganda has instituted, in the last several years, a plan to involve citizens. Uganda was one of the first countries to have participatory poverty assessments, which in some sense is considered the model for the poverty reduction strategy papers, which are now part of the new concessional lending facility.

And I know in my testimony, I talked about how that is difficult to do, but Uganda has made the effort and it seems to be paying off there.

Mr. SHAYS. I know some countries are making the effort. I'm just wondering where they end up. And I understand that a few countries are making the effort so we can say, if we forgive the ones who aren't, we are punishing the ones who are.

I just really wonder if we have to take a very drastic look at Africa and acknowledge that we have too much AIDS, we have too much poverty, we have governments that simply don't know how to run themselves, and so my problem is, I feel this is an academic conversation. I feel in the end they're not going to pay their debt anyway.

Chairman BEREUTER. Mr. Shays, we need to move on, but Dr. Sherry's been trying to give you some response, if you want to take it?

Dr. SHERRY. I just wouldn't be able to not respond to the question or give the implication, somehow by not responding, that there aren't a large number of governments in Africa whom you can respect.

I think there are a large number of governments in Africa who are wrestling with enormous problems. I think the answer to your first question, who can repay these things?

Well, it's a shrinking number. And even if we look at some of the non-HIPC countries, Botswana, Zimbabwe, South Africa, and we factor in what's happening in AIDS, we're going to be in a different situation. We're going to, if we continue like this, we're going to actually grow down those economies as we start to get the full implication of the AIDS epidemic with a 30 percent prevalence rate.

Mr. SHAYS. That's my point.

Chairman BEREUTER. Thank you.

We need to move on to Mr. Watt. The gentleman is recognized.

Mr. WATT. Thank you, Mr. Chairman.

I want to ask a pretty basic question too that I'm not clear on. Which is, we're engaged in a debate in the Congress about the provision of financial assistance to other countries for family planning, and that debate has gotten tied up into heavy political rhetorical discussion about contraception and abortion and so forth.

The question I want to ask is, what impact is that having on the ability to confront and deal with the prevention of HIV and AIDS, if any?

I don't want to presume this having any impact, but if it is having some, then I think we need to know that, because we're operating again in one of these Shays situations. We may be operating in a never, never land here where we think we're engaging in some intellectual discussion, yet we're having some real practical impact.

Can anybody address that for me?

Yes, Dr. Sherry.

Dr. SHERRY. I can take a shot at one part of it, and give you a couple of examples.

For instance, if we look at the number of condoms that are currently distributed in Sub-Saharan Africa per sexually active male, it's about three per year.

So in terms of not even a full range of family planning options, but just a condom which I think just about everybody agrees is essential to have out there in terms our HIV objectives, we're actually talking a lot about it but we're just not doing it.

And if we look at even what the basic services are out there in terms of basic anti-natal care, and I mean extremely basic anti-natal care, we're talking about perhaps 40 percent access.

So we are still faced with a situation where half the population of the continent doesn't have access to even the most basic of services.

And so the debate does become a little bit theoretical. I mean the bottom line, sir, is that we're just not moving the money that's required to deal with the problem.

We didn't make these numbers up. We've got a $10 billion problem.

Mr. WATT. But with the money we are moving is the conflict we're having here in Congress about contraception and abortion. Is it having an impact on the money that is out there to be moved?

Dr. BIRDSALL. You know, I think, if I can comment on that, probably in financial terms, not much of an impact but I think it's a great shame—I would say this as an American—that we're coping with the policy which restricts information to people about sexual relations, that restricts the capacity of women in particular to get information about the full range of options. And then in the end is restricting the capacity of America's very many excellent civil society non-profit groups to engage in partnerships with comparable groups in the countries of Africa to bring family planning services to more Africans.

So it's impossible to pin down the amounts, the cost in financial terms, but I think frankly that it's a shame that we have to be in this position where we seem in a world where information is key to improving public health in Africa, that we're in effect on the side of restricting information.

Mr. WATT. Well, maybe I should ask this question before I run out—well, the light came on, but let me ask the question anyway, Mr. Chairman.

And maybe if we don't have time to answer it, we can come back to it.

How do we get ourselves out of this box? I mean, if this debate, if this conflict within ourselves about abortion and family planning and all of this is having an impact on our ability worldwide to deal with the AIDS pandemic, how do we get ourselves out of this box?

Chairman BEREUTER. Mr. Watt, may I regard that as a rhetorical question that we've all struggled with?

[Laughter.]

Mr. WATT. Well, I want to hear the experts, at some point, tell me how to get out of it.

Chairman BEREUTER. I have a dilemma here in that I need to adjourn the hearing in about 6 minutes.

Mr. WATT. OK, I'll yield back.

Chairman BEREUTER. What I'm going to suggest is I'll let Mr. Sanders share the remaining six time among his three Members there, including himself, and 2 minutes for Mr. Shay.

Mr. WATT. I'll yield back and get my answer——

Chairman BEREUTER. It's your option.

Mr. SANDERS. OK, I'll split it.

Mr. WATT. Ms. Lee says she'll tell me the answer to it.

Mr. SANDERS. And I'll give it to my colleagues.

Mr. Chairman, put me down for two.

I think Chris Shays, as he often does, put his finger on the issue here. And that is you have a crisis of unimaginable degrees, which is consuming the lives of millions and millions of people.

And I think after all is said and done today, the question is, do we continue to do business as usual and worry about whether children will die depending upon the price of coffee or not?

Or do we say that there is a moral obligation, not only for the United States, but for the rest of the industrialized world to move and move quickly to cancel the debts so that African resources can be used for AIDS prevention and treatment, for health care, for other basic needs.

Do we move aggressively so that the United States and other wealthy countries fill the huge gap in trying to save a continent which is, in many ways, dying.

And I think that the moral imperative is that we have got to see the enormity of this problem and go forward in a bold way.

Chairman BEREUTER. Mr. Sanders, would you yield for an announcement.

Mr. SANDERS. Sure.

Chairman BEREUTER. Mr. Shays is willing to take the Chair, and so we'll go to the normal 5-minute rule for another round, and so if you wish to continue, you may for another 3 minutes or so, Mr. Sanders.

Mr. SANDERS. You've ruined my whole style here. That was a speech and now I——

[Laughter.]

Chairman BEREUTER. And I thank the panel, since I need to leave, and I thank you very much for your testimony. We would

like to follow up, but of course we can't ask you to, to our written questions, but if you're willing to, I'm certain we have a few more, I'm sure.

Mr. SHAYS. [Presiding]. Thank you.

Mr. Sanders.

Mr. SANDERS. Let me take a few more minutes and my colleagues will have their 5 minutes.

There was some discussion and perhaps difference of opinion a few moments ago on the issue of user fees.

And I think, as I understood, Dr. Birdsall seemed to think that was a straw man case, that that really wasn't going on in Africa now.

Dr. Arhin, or Dr. Spencer, are you in agreement with her that it is not an issue?

Dr. SPENCER. It is an issue. It is an issue, yes.

Dr. BIRDSALL. Sorry. Just can I clarify. I don't think that the IMF and the World Bank are pushing, insisting, or even encouraging user fees in Africa.

Mr. SANDERS. OK.

Dr. Spencer.

Dr. SPENCER. I'd simply say that as recently as 2 weeks ago here in Washington at a meeting dealing with structural adjustment, seven persons from the World Bank Staff came and defended user fees for health. They do concede over education, but continue to advocate the value of user fees for health.

So this is not an issue that it set aside, there's still an issue with user fees. So it's an issue that remains.

Mr. SANDERS. Dr. Arhin.

Dr. ARHIN-TENKORANG. Yes. I also agree that it is an issue, and I think there's the current draft policy of the World Bank actually refers to user fees in health, and suggests that we should try to excuse or extend it. But it means that it is still in favor of it, but it's an option for exemption.

And I'm saying that everybody in that situation is poor, so there's no point in having it in the first place.

Mr. SANDERS. Dr. Birdsall, there appears to be a difference of opinion with your assertion that it is a straw man regarding the IMF.

Do you want to respond to that?

Dr. BIRDSALL. Yes—no. I mean, if I'm wrong terrific, then let's press it. I don't believe—my view frankly is that if the World Bank, in specific cases, is talking about user fees, it is to ensure that there are transfers from the rich to the poor, not to soak the poor.

Mr. SANDERS. Dr. Arhin was suggesting that there may not be too many rich in Africa to transfer money.

Dr. BIRDSALL. Then we could talk about that too, I suppose.

Mr. SANDERS. OK, Mr. Chairman, thank you. I think my 5 minutes are up.

Dr. BIRDSALL. Mr. Chairman, could I make one comment in response to just Mr. Sanders point?

I think, on the issue of AIDS in Africa, I would hope that this subcommittee would strongly recommend that the U.S. make an important contribution to the Global Fund for AIDS. To follow up the initial indication with a very strong contribution.

That, to me, is what is the moral challenge we face. I'd just like to repeat that unfortunately, canceling the debt of all the countries in Africa will not help us meet that moral challenge, and it is simply passing on to other poor countries the cost of dealing with HIV in Africa. It's passing it on them, rather than taking it on by U.S. taxpayers.

Mr. SANDERS. Thank you.

Mr. SHAYS. I thank you.

Ms. Lee, you have the floor for 5 minutes.

Ms. LEE. Thank you, Mr. Chairman.

Let me just say, I think we should cancel the debt in addition to a significant contribution to the Global AIDS Fund in addition to providing for a development assistance in countries which deserve this development assistance, primarily because of what our previous witness mentioned.

And that is that people in these countries did not incur these debts and it makes no sense that they have to pay for them. Because in fact, they were not parties to these and now they're suffering from malaria, tuberculosis, HIV and AIDS, and I think we should allow the countries to get on a decent footing by canceling the debt.

The International Global AIDS Funds, as I mentioned earlier, we passed the World Bank AIDS Trust Fund last year, and a measly $20 million was appropriated, which was that was last I think December, which was unbelievably low, if you ask me, and I think most of us would agree to that.

And I hope that this year, we can move forward and complete the negotiations of the World Bank AIDS Trust Fund and at least step up to the plate with a billion dollars. And a billion dollars is again nothing given the surplus we have in this country, and the fact that we should take the lead, the moral leadership for one, and the financial leadership in the world to be able to leverage this money, because it's my understanding that through the World Bank Trust Fund, we could leverage one to nine.

So if we did a billion dollars, hopefully we'd be able to leverage at least $8 or $9 billion. And I think that's an excellent first start.

So let me finally answer my colleague's question with regard to the whole family planning issue. The way we address that is by not taking out of the Foreign Assistance Authorization Act, the State Department Authorization Act, the family planning amendment that we put in last year, which would allow family planning services to be provided, while at the same time, sticking to our U.S. law with regard to abortions.

No U.S. taxpayer money has been allowed for abortion since 1973, so hopefully tomorrow, we'll be able to keep that amendment in the State Department Authorization Act.

Let me just ask any of you, probably Dr. Birdsall, because you kept mentioning new lending. And I'm concerned about new lending in Africa especially.

Aren't there ways to provide African countries and developing countries financial assistance without forcing them to go into additional debt in the future, given what they're dealing with, because this could be a vicious cycle if we talk about canceling debt and providing for new lending.

Dr. BIRDSALL. Yes, I think it's a very important question.

You know, the first thing to bear in mind is that most World Bank lending in Africa, and even IMF lending now, is equivalent, 80 percent of the size of the loan is, in effect, a grant.

Why? Because countries have 40 years to pay back and they don't start repaying the debt for 10 years. So the first thing to understand it that it's kind of already grants.

On the other hand, it does generate reflows in the future which can be used for poor countries in the future.

So my concern, as I noted before, is that if all the debt is canceled, the reflows are gone, and then the countries in the future won't have the new lending that they need.

I'm not sure I answered your question. I apologize.

Ms. LEE. So you think new lending, though, is a strategy that would help rather than hurt?

Dr. BIRDSALL. Absolutely. New lending is absolutely critical. And we also have to recognize that in the past, most of the debt service, indeed in most countries, all of the debt service was financed by new lending.

Ms. LEE. New lending with conditions or new lending based on new terms?

Dr. BIRDSALL. New lending that should go to countries that are addressing the needs of their people, including dealing with the HIV/AIDS problem, that are directing more of their public expenditures to education and health that are clearly committed to poverty reduction; that are not wasting money. That don't have corrupt leadership and so on

New lending for those countries. That's what will be better, in my view, for the poor in Africa than anything else we can provide.

The problem with new lending, if there's debt cancellation is that this subcommittee would have to recommend to this Congress very large increases in foreign aid.

Ms. LEE. Which is what we should do.

Dr. BIRDSALL. Which is what you should do. But as my long experience leads me to worry, that there might not be the equivalent new appropriations that would cover the needs in a continent like Africa as adequately as some reflows from some countries over the next 20 years.

Ms. LEE. Thank you, Mr. Chairman.

Chairman BEREUTER. Thank the gentlelady.

The Chair intends to ask Mr. Bentsen and myself, Mr. Sherman and Mr. Watt. Mr. Bentsen, do you have a question?

Mr. BENTSEN. Thank you, Mr. Chairman. I want to back to the issue here that you're talking about. Because again, we went through this a couple of years ago and I raised this issue and I didn't want to be the hard-hearted one on the panel. But it just seemed to me that all we were doing was forestalling the inevitable when we say, well, we're going to forgive your debt—which I am in favor of—but we're going to let you go back to the window and borrow again.

And you're right. If you're borrowing at a concessional rate of .5 percent over 40 years, a 40-year amortization that, you know, you're getting in effect a negative interest rate, but still paying back a portion of the principle, and still becomes a liability.

And it seems to me that we are almost doing more damage, or the world lending organizations are doing more damage, the Fund, the Bank and the banking community, when we are allowing lending for debt service payment purposes on a regular basis. It's like opening the day loan window to poor countries and really only making them poorer.

And I concur with what you're saying that if we moved away from that we would have to greatly enhance our level of foreign aid, which arguably would be politically difficult. But I think that probably is the only thing that works, and I think ultimately we would patch that together.

But I also have to say I concur that—and I'd like to get the viewpoint of the other members of the panel on this—and I appreciate the fact that a lot of this debt was incurred by prior governments without involvement of either NGOs or civil society or anyone else, and that the people are being forced to pick up the tab for this. And I think that is a legitimate argument.

But I think there is also a legitimate case to be made that if we are just—that if we have no—and I don't know if it's "we", but if there is no real long-term economic development strategy; that all it's going to be is either through forgiven debt, grants, loans, whatever, that this is a problem that will go on for another 50 years or another 100 years. And there has to be some strategy tied to grants, to loans. And since there is no real marketplace that would determine the price of loans or grants, then we have to develop an arbitrary means by which to do that to ensure that mechanisms are made.

Because I do think, Dr. Birdsall, you are correct that ultimately if you do not create the economic environment, you're never going to create the growth.

At the same time, you can't have strong worker productivity if you don't have a trained workforce and you don't have adequate health care and health delivery services.

And the other thing I would just say is in the naive amount of knowledge that I have on the subject, that it would seem to me in countries with the per capita income that it's highly unlikely—or it's highly likely that most the people that access the public health facilities are at or below the poverty level. And the idea that they would be charged anything when we don't really do that in the United States since we generally don't charge people at or below the poverty level for health care service if they're enrolled in the Medicaid program, the same would be there.

I understand the idea of wanting to transfer wealth. But I think Mr. Sanders is right. There's not a lot of wealth to transfer.

But I'd be interested in your comments. What do we do? We can't just shower money. There needs to be some strategy, and how do we develop that strategy? From anyone.

Dr. ARHIN-TENKORANG. I feel strongly that you've described a vicious cycle which I mentioned in my testimony. I believe that the Bank and the IMF and other donors have been trying for many years to break the cycle.

I think to me the problem is they just do not have that in-depth knowledge of the social-economic situation of African countries to be able to come up with that strategy. And I strongly believe at

this present time there is the possibility to get together strong teams of people who have in-depth knowledge of African situations who if you'll give them the time and the resources can come up with these strategies.

And I think we should separate the AIDS crisis from the continuing problems that we've had with development assistance. Those ones Africa could limp with for a long time to come, moving forward and slowing coming back a couple of steps and going forward. But the AIDS crisis must be solved today. Otherwise in 20 years, there will not be any poor countries that will need to have access to the inflows that Dr. Nancy is talking about.

Mr. BENTSEN. And I know my time is up. But would you think it is fair that the, whether it's the Fund or the Bank or whoever, that part of that strategy should be the implementation of some fundamental economic principles that would foster growth?

Dr. ARHIN-TENKORANG. They have attempted to do this. And, because of lack of real understanding of what the issues are, they are not the same as what are in the U.S. or what you learn in your economics classes at Harvard or anywhere else.

And, because of that lack of understanding and real appreciation of the practicalities, they have failed to make that impact. And so I say today there are African talents all over this world who if are brought together and allowed to have that freedom will help to come up with a strategy.

I really believe that the problem is there has to be a new approach. And where it is not the same old policies which are used to underpin strategies that development assistance is allowed to support.

Thank you.

Dr. SHERRY. I think we're mixing sometimes objective with mechanism. I think absolutely clearly that if a poor family was given the choice between paying nothing and getting a good service as option one, paying nothing and not getting a service at all, or paying something and getting a service, they would choose option one. I mean, they would obviously like to get the service, the essential health service without paying it out of pocket if that option is available.

And of course in many cases, that option isn't available. And so you only get into this next issue of choosing between a user fee with a service or no fee and no service, you get into that situation only when there isn't the first option that we would all like to have.

Now it's the same thing at the country level. I think if we go up to the country level and say would a government like to get increased development assistant grants without any conditionality, I think the answer is absolutely they would prefer that.

But I think that's not a real possibility. If there's another possibility that they can get grant assistance with conditionality or loan assistance with conditionality, I'm certain that most would choose the grant assistance with conditionality. So it's just a question of being practical. If there is much more resource made available through a conditional grant window, I think countries will line up there instead of at a conditional loan window. But the issue is, does that window exist? And I think currently it doesn't.

Mr. SHAYS. The gentleman's time has expired but we can keep going for a bit. I appreciate the patience of the panel. And I didn't get out of the wrong side of the bed.

But what I'm frustrated by, and I use that word very infrequently, is the people who have traveled to Africa described to me conditions that are beyond my comprehension. Peace Corps volunteers that have gone back to visit the countries they used to serve in come back and weep. And I was thinking that this is, in some way it's almost an inherently dishonest conversation.

Because we're trying to I think justify a system that is totally broken down, but we don't want to look each other in the eye and say it's broken down.

I believe that if you tell Members of Congress the blatant, outright truth that ultimately they do the right thing. Because when we tell the American people the truth, they ultimately want us to do the right thing.

If I were where you are, I think my testimony would be the following. I'd like to know how you would disagree. I would basically say that most of Africa's governments have fallen apart; that they don't sustain economic growth. That they are frankly inherently corrupt. That they are weighted down by extraordinary debt. And that the only way they survive is that they get additional money by suggesting that they can pay back something, and they get further in debt. And that there is a big day reckoning; that the middle class has been decimated by AIDS. That there are schools with no teachers, and there are kids with no parents. And that the culture of the tribes have broken down.

And that we better face up to this, recognize the system is just going to collapse, and decide to do something different. Tell me which one of you would disagree with what I've said and tell me why. Yes, sir?

Dr. SPENCER. Yes, sir. I do disagree with what you said. I think that we can itemize any number of problems and crises, and I can match those with you easily. But I think we are looking at a situation in which there are a complex range of factors that have led to these crises, and there are pieces we can address.

Debt cancelation is a recognition that one aspect of the realities of Africa's relationship with the rest of the world.

Mr. SHAYS. I didn't even mention debt cancelation. I didn't even mention it. That wasn't my testimony. What I said was that the system is just collapsing.

Dr. SPENCER. And I'm saying that part of the system involved overburdening debt that African nations could not address. And until that is addressed, they will be unable to have the resources to address health care and education and any range of numbers of—safe water, and the list goes on—that would provide a framework by which economic development and political stability can emerge and can be sustained.

I also do not share your view that we can look at an entire continent with corrupt leaders and incompetent government and people who do not have the resources and drive and hope to address their own needs. That is happening all over the continent. And I think you're seriously mistaken in that analysis.

Mr. SHAYS. OK. Anyone else? I'd like you to come back, Dr. Spencer, and give me ten countries that you can give—and I'm going to give you a chance—that you can tell me the governments aren't corrupt, that they aren't losing, their economies are growing, and that they aren't ravished by AIDS. Give me ten countries, if you would.

Dr. SHERRY. I would just state it just a little bit different. I think that it is a continent for which there are a large number of fledgling democracies struggling without the benefit of long democratic traditions. That many of those governments are populated by brave and noble people who are working against relatively insurmountable odds to try to make a process which is often inherently corrupted by poverty work.

And in spite of all of that, their infrastructure, in particular their health and their social service infrastructure, is collapsing under the weight of the AIDS epidemic. And that in order to be able to respond in a meaningful way to that, the international community has got to reach into their pockets and come up with some very significant resources, through whichever mechanism they're prepared to get it there, to put stiff conditionalities, if that's what's required in terms of how that money is used transparently, how it's used effectively, how the waste, fraud and abuse are drawn out of it.

But it does very little good for us to stand back and to look at people in their misery doing the absolute best that they can under the situation.

Mr. SHAYS. That's another issue, though. You said it very eloquently, but it's another issue. You said there are good people who are trying their hardest to survive. And you say it doesn't do any good to look at it and say what I said. But the fact is, that's the reality. And they're good people in a country where their government systems literally hardly exist; where they have a hard time getting food from day to day.

So, you know, I'm in a whole different world.

Dr. BIRDSALL. OK. I have a list of nine countries.

Mr. SHAYS. Good.

Dr. BIRDSALL. These nine countries—I talked to a colleague who is the Regional Chief Economist at the World Bank, asking him what are the countries where it's worth ratcheting up assistance, because performance has been adequate.

Mr. SHAYS. No. Define "adequate" for me.

Dr. BIRDSALL. It means that their governments are not wholly corrupt. That they are managing——

Mr. SHAYS. "Wholly corrupt" is an interesting term.

Dr. BIRDSALL. That in some—exactly. I mean——

Mr. SHAYS. So payoffs aren't required.

Dr. BIRDSALL. Well, I can't—I shouldn't try to interpret what was their analysis. It means that in the performance ratings that World Bank staff do, they rated these countries as reasonably able to manage.

Mr. SHAYS. No. But I'm just trying to—see, my frustration is, your word "reasonable." Maybe you worked so long that your level of expectation is so low that "reasonable"—is there a government where you don't have to have payoffs? Is there a government when

they grant that the grant actually goes to where it's supposed to and doesn't go into someone's pocket?

Dr. BIRDSALL. Yes. I'm sure there are.

Mr. SHAYS. OK. Why don't you give me those nine countries?

Dr. BIRDSALL. The nine countries are Senegal, Uganda, Tanzania, Mozambique, Madagascar, Ghana, Burkina Faso, Mali. There is a tenth country, Zambia, which has been having a lot of difficulty. But in the last year or two, they finally undertook an extremely difficult——

Mr. SHAYS. Now of those ten countries, how many of their economies are growing?

Dr. BIRDSALL. Senegal, Uganda, Tanzania, Mozambique—I'm sorry, I don't—and Ghana, Burkina, all of them.

Mr. SHERMAN. Mr. Chair.

Mr. SHAYS. All of them are growing?

Yes, Mr. Sherman, you can have the floor if you'd like.

Mr. SHERMAN. OK. I'll try to stay within 5 minutes.

Mr. SHAYS. No, you can have the floor.

Mr. SHERMAN. Two issues seems to have emerged. The first is whether we should simply forgive all debt. And forgiving debt or making new loans or giving money is something we should do only to good governments that are doing a good job. And we can differ on which governments deserve that kind of help.

But the idea that every time you have poor, honest people in a country who have suffered, that that means you should make a gift to their government assumes that helping their government helps the people. Living in this country, we tend to think that that's the way things work. I would hope that we don't look at these loans as a way to help the United States. That is to say, the loans that are repaid, I don't think that money is coming back to the U.S. Treasury.

Money that is paid back to the World Bank, the IMF, and so forth, is available to loan to the most needy and to the most worthy countries.

You're preaching to the choir here. I mean, the only people who are going to show up for a Subcommittee meeting like this are people who are very concerned about AIDS in Africa and very supportive of foreign aid in general. One of my proudest moments this year is when our Secretary of State praised my amendment which passed last year increasing U.S.-authorized, or actually appropriated funds, for fighting AIDS in Africa.

Now the other part. It took the money away from the World Bank and gave it to USAID to be used to fight AIDS in Africa.

And that's really the question before us. It's not whether we support doing more and even more beyond that to fight AIDS in Africa. The question is, do we do it through USAID or do we do it through these multinational institutions? I have come to Congress to fight for more foreign aid. But our participation in some of these international institutions is dramatically undermining my ability to do that and I think risks whether we'll have foreign aid at all 4 or 5 years from now.

I'll give you an example. Just last year, over American opposition, the World Bank loaned money to Iran. Now they're considering doing $750 million to Iran. I know it's a different window.

But you would think that maybe if foreign aid is going to be safe from the political backlash, we had better pull much of our money out of institutions that are giving money to the Islamic Republic of Iran. Is there anyone who would like to raise their hands who could be certain that if we provide money to the World Bank or to the U.N. Fund that you can guarantee that not a penny will go to the government of Khartoum?

[No response.]

Mr. SHERMAN. I don't see anybody able to make that guarantee. So you ask us to come to the floor——

Dr. BIRDSALL. There is a peculiar technicality which in fact might allow us to make that guarantee, which is that the resources used to lend to Iran are not generated by annual or every 3 years——

Mr. SHERMAN. The request was about Sudan. Can you guarantee——

Dr. BIRDSALL. I'm sorry? Sudan?

Mr. SHERMAN. Sudan. I talked about my disappointments about Iran, my fears about Iran in the future, and then I shifted to Sudan. I was a little fast on that.

Dr. BIRDSALL. I don't know if Sudan would be a beneficiary of a debt, of a complete debt writeoff either.

Mr. SHERMAN. Well, can you guarantee that efforts to have the World Bank fight AIDS in Africa will not provide a penny of money or debt relief to the government in Khartoum? So what you're asking us to do—there are two ways we can go.

We can fight AIDS in Africa by appropriating money, authorizing money for USAID. We can't do it here in this Subcommittee, but we can do it in the International Relations Committee and in the Appropriations Committee. And then we can go back to our constituents and say that the money was under the control of the United States, that it did not go—and that we didn't have the kind of situation where we're kicked off the Human Rights Panel and the government of Sudan is installed in our stead.

Or you can instead tell us that we ought to put the money in the U.N., put the money in the World Bank, and then go back to our constituents and say, oh, yes, your tax dollars are being used for foreign aid. And, oh, by the way, just a little bit of it is going to the government in Teheran and just a little bit of it is going to the government in Khartoum.

I think that the World Bank has disqualified itself as a politically viable avenue at this time for U.S. foreign aid, because it puts us in a situation where we not only have to defend the idea of giving our money to poor countries who will use it well. We have to defend the idea of giving it to a slave-trading regime.

I know you folks have never faced a town hall talking about foreign aid. It is not an easy thing to do. Can you provide a reason—I know you can talk about leveraging, but of course USAID is leveraged since we shamed the Europeans or they shame us into doing more. If we put $1 million into USAID, I would expect the Europeans to do the equivalent one way or another.

Other than the leverage issue, is there any reason why we should imperil the tenuous support for U.S. foreign aid by going

through these organizations that could hijack our money to Teheran or Khartoum? Sir?

Dr. SPENCER. Sir, I think the real question for the Sudan, which is a country for which I would certainly not want the U.S. to be supporting, the real question is whether or not we are supporting a U.N. AIDS Trust Fund that was dealing with those funds responsibly in confronting AIDS anywhere in the world. And the question therefore is, if we are saving the lives of ordinary Sudanese who are suffering from AIDS, that is not a support for the Sudanese government.

Mr. SHERMAN. I couldn't agree with you more except for one thing. Once you give the money to the U.N., they can do something as obscene as kicking us off the U.N. Human Rights Panel and installing Sudan in effect in our seat. And if they can do something that obscene now, couldn't—is there any—that's why I asked the question. Is there any absolute legal guarantee that the money would be used to help people in Sudan and that not a penny would go to the government of Sudan?

Dr. SPENCER. There are some very detailed proposals floating around with regard to the independence of a potential trust fund, and I think that we look at those criteria and how we can apply those. This does not become a U.N. agency. This becomes a trust fund that can be administered by criteria that are established by all parties to it.

Mr. SHERMAN. But trust funds are administered by human beings. Human beings are selected by votes, and we can get outvoted. And I haven't seen a trust fund that couldn't be used to in effect funnel the money to the government of Sudan if only the trustees wanted to do that. You can, even if you prohibit money from going to that government, trustees who wish to have that money go to the government. By the way, they wanted them to sit on the U.N. Human Rights Board, so it's quite possible this could certainly happen.

I think my time has more than expired, and I thank the Chairman for his indulgence.

Mr. SHAYS. Dr. Sherry, did you want to say something?

Dr. SHERRY. Just a couple of quick points of clarification. The U.N. did not kick the United States off of the Human Rights Commission. It was a set of member states of free-standing governments including your Western European allies who voted their representation in terms of who would represent whom in that Commission. And unfortunately, some people didn't do their homework in the lobbies in terms of negotiating that. So it was Austria that was elected to the Commission and not the U.S.

But there's a lesson there in terms of doing your homework.

The second point is is that I don't think that there is anyone in the U.N. system organizations, including the Bretton Woods organizations, who would make the argument that a country should put its money into a multilateral system instead of a bilateral system. I think one has to be a clever investor. When it suits—when you get best value for your resource in Channel A, you do best value, Channel B you do, but very often, you try to work the synergies between those two. There is a fundamental synergy, but it's not automatic. It's investor decision, and you're one of the investors.

And then just finally, you do raise a profound dilemma for all of us. And the profound dilemma relates to, there is the adage that in democracies, people generally get the type of leadership that they deserve. But in extraordinarily poor countries, that's not the case. And so I think one has to step back and look at the difference between—on two points. One, is there a way in terms of basic humanitarian needs that one can find a way to service the needs of the people of Sudan, the people of Cuba, the people of Iraq, without those humanitarian resources going to their governments? Number one. And number two, one has to ask the question, can you tackle an infectious disease like AIDS in East Africa without doing it throughout East Africa? Does the virus respect the border? Do the people who don't see the borders respect the border?

Mr. SHERMAN. Sir, I have to leave. I just want to say that if you think that it wasn't the U.N. that voted who would be on that board but the member states, it's obvious that the U.N. is its member states. U.N. decisionmaking was exemplified for us. But you're right. We have to decide between multilateral and bilateral organizations. But defending the multilateral has become untenable. And I thank the Chairman for his time.

Mr. SHAYS. Thank the gentleman. I'd like all of you to be able to make whatever comments you would like to make. But Rev. Spencer, would your list of nine basically be what Dr. Birdsall's was?

Dr. SPENCER. Not exactly, no. I'd list Botswana, South Africa, Mozambique, Namibia, Zambia, Uganda, Tanzania, Ghana, Nigeria and Senegal.

Mr. SHAYS. OK.

Dr. SPENCER. And I would think that by your analysis you could look at various places where they were weaker in one of your criteria and stronger on the others.

Mr. SHAYS. Rev. Spencer, you realize you gave those names so quickly that I couldn't keep up with you. But you were trying to make the point that you had your list, and it's on the record and I can go back and read it. And I appreciate that.

I'm not uncomfortable asking you for the list. I didn't hear that list come quickly when I asked the first time. I heard three in the course of my 5 minutes of asking the question. So if Africa has some defenders in both of you in those ten communities, I think that's good. And it's on the record and we can see about it.

What I wrestle with are basic issues. I have a, like some, I have an equity loan on my house, and it proves useful when I'm sending my daughter to college. The funny thing for me is I get a statement every week and it says I can send, you know, I have to send them on $15,000 of debt, I have to send them $120 or something that month to service the loan. I do that, and then I write out a $2,000 check to my daughter's college, and I made the loan deeper. And it's just a puzzling process for me.

So it proves—I guess they want to know I haven't forgotten that I owe them money, but in a way, I'm struck with the fact that we want to help countries because we want to help the people in those countries. So we are extending more loans. And we are doing it by saying if you pay off some of the loan, you will get a larger amount. And I'm just asking if this just doesn't ultimately just slap us in

the face? And maybe you all won't be before us at this table, but someone 5 years from now will take a look at your list and they'll say that was a list, but it was a superficial list.

There are too many other things that we weren't taking note of. We weren't taking note of the fact that they're losing their middle class. We're not taking note of the fact that too many are dying of AIDS and so on. And I just wanted just an outright picture of what we're faced with, that's all. And what you're telling me is—and you're saying it because you believe it, and I'm happy that you do, and you may be right. But it flies in the face of everything else I'm being told.

So let's get some more good stories out. What else do you want me to know that is contrary to what I read in U.S. News & World Report, what I hear my colleagues say, what I read in other magazines? What are these good stories out there that I'm missing?

Dr. BIRDSALL. Could I extend your metaphor a little to try and answer your question?

Mr. SHAYS. Sure.

Dr. BIRDSALL. Suppose that you live in a bad neighborhood. You're paying your $120 a month and you're keeping up your house.

Mr. SHAYS. Right.

Dr. BIRDSALL. But you live in a neighborhood in which several of the other homeowners are trashing their house.

Mr. SHAYS. Right.

Dr. BIRDSALL. Somebody has been sending them the $120 a month so that they could pay the bank, and the bank hasn't figured out what the problem is, and that goes on for 10 years.

Mr. SHAYS. Right.

Dr. BIRDSALL. But now the situation has changed. Now your bank is coming around and seeing what's going on in each house. And they're deciding that in the case of the homeowners who are trashing their house, they're going to slow down. They're not going to send them new money. They're gong to forgive some of the debt so that they don't owe $120 every month, they only owe $40 every month, in the hope that some of those additional resources will be used by these homeowners to maintain their house. But they're not going to do it all, because if they do it all, there's a chance that the homeowners will simply take whatever is left, they'll carve it up and walk away.

Should we punish you also if you're—let's ensure that if you're in trouble with your $120 a month, you can have access to increasing your home equity loan if you need the resources to invest in education of your daughter or your son, let's ensure that we can provide them to you, while ensuring at the same time that we don't keep providing additional resources to your neighbors, who will simply strip their home of its value and walk away.

We can at the same time, if the neighbor has children who are sick, let us find other ways, including through the Global Fund for AIDS, to directly help those children without mucking around in the debt of their parents. Let's keep their parents accountable for the debt on the house that they're trashing. But let's find a way to directly ensure that those children can have access to schooling, to health care.

That's the way I see this problem in Africa. There's a role for the World Bank and the IMF, and it should be to deal with the homeowners that are taking care of their homes. And there's a role for more money from the U.S. to a Global Fund for AIDS to ensure that children, whether they're in a good home or a bad home, can be helped.

Mr. SHAYS. The only change in the analogy I'd make is that we keep giving them loans to expand their house. And that's where I have my problem.

Dr. BIRDSALL. Well, if you're a good homeowner, you ought to——

Mr. SHAYS. We're not just carrying the loan, and they're not just paying it. We are putting new money in. And I'm not sure how that new money is being used.

Dr. BIRDSALL. Right.

Mr. SHAYS. Do you want to say something, Dr. Westin?

Dr. WESTIN. Yes.

Dr. WESTIN. Yes. I just wanted to go back to the point of what is the new emphasis in the concessional lending facility, the poverty reduction and growth facility. The new emphasis in there, Mr. Shays, is that countries have to develop a country-owned poverty reduction strategy.

And as we said, this involves civil society. There are challenges to doing this. Both the World Bank and the IMF have suggested that bilateral donors may wish to help with assistance in creating these strategies.

But the point is that there needs to be buy-in from all segments of the society, not just the government.

And my further point is that debt relief is a first step, the HIPC initiative is a first step, but I think it's important to not have unrealistic expectations that freeing up countries from paying debt service is automatically going to lead to higher growth rates.

The point is that they are going to need assistance, they are going to need access to further borrowing in order to invest in the poverty reduction strategies that these papers lay out, and that really is their only hope for growing.

We don't know yet really if this is going to work. I think there are 22 countries that are projected to finish their poverty reduction strategy papers by the end of this year, and in fact that is something that we propose to look at to see, once they have been completed, to do an assessment of them, and what we think the outcome will be.

But the point remains that debt relief is not going to solve the problem, because they haven't been paying their debt service with their own resources as much as they have with bilateral assistance and from other borrowings.

Mr. SHAYS. I never thought that really solves the problem. I just don't know how people pay their debt. That's my problem.

And making an assumption they pay their debt, because they basically take what we give them and use some of it to pay their debt, I mean it seems like a strange game. They get more than they pay, but in actual fact, they are in a sense taking what we gave them and giving us a little of what we gave them, and giving us the impression they're paying their debt.

And that's the way it strikes me.

Yes, ma'am, doctor, do you want to say something?

Dr. ARHIN-TENKORANG. Yes. I would like to say that what you have described, you're doing this because you have hope that your total life cycle of earnings and borrowing that at point you will come out of school and you will be able to repay the debt. It's over a whole life cycle.

I think you should also accept that the countries have a very long life cycle. It's not the life cycle of the current administrations, and therefore if they are getting into bigger debt, that shouldn't be a reason to say not to give them more assistance.

What I would say that debt cancellation, true, it is true that it's not sufficient to help solve all the economic crises that African countries have. But certainly, that is not a reason not to do it. It is rather a reason to do it, and then to do something in addition. But when you don't do it, it makes it even harder for these people to, in the end, come to the end of the life cycle business of borrowing and lending, and then come out of debt.

Mr. SHAYS. I'm finally getting a sense of why you've reacted to the way I've reacted.

Because I had heard you use the word, Dr. Birdsall, "punish." We're not going to punish anyone. And you've talked about not giving them something. And I've never suggested that we shouldn't. That's the irony to this whole conversation.

That's why I say, I'm not even at that level you're at. I just want to know what reality is, and then from reality, of course we have to do so much.

I mean, my shame is that, as a former Peace Corps volunteer, I think of what we've done with foreign aid, and feel like we have just done nothing. That's my shame.

And my kind of desire is to say, well what do we do now? I don't know what we do. I just don't—I do know this; we don't know, we don't do what we've been doing. That's the one thing I know.

And so, when I ask about corrupt governments, it's not because I say, well therefore we're not going to provide assistance. But I then wonder if it has to go through the private sector, and just totally bypass government.

Dr. ARHIN-TENKORANG. It has to go through the mission, faith-related groups in Africa who've been looking after poor patients for many, many decades—well, not many, many decades, but at least two or three decades, and who, since the AIDS crisis started, have continued to do their best under very difficult circumstances.

They represent a lot of the people of these countries. The people of these countries have faith in them that they are not going to, that they are not tarnished by corruption, and they are part, they work with the governments and if they were given the assistance, they could actually make a big difference in making sure these governments do things which are not corrupt.

And I think we have to look at these options as well as other options.

Thank you.

Mr. SHAYS. Thank you.

Dr. Sherry.

Dr. SHERRY. Well, you wanted a little good news. I'll try to give you some good news. I think the good news is, is that where the

international community has made investments in AIDS in Africa, that there's been significant substantial reductions.

That there was a 50 percent reduction in HIV in girls from 15 to 19 years old in Uganda in a period of less than 5 years. And combining that with a 2-year average increase in the age of first sexual intercourse, most people could not have predicted that to be possible, and it happened.

Now if we were to go back and try to say exactly how that happened and precisely how that happened, it would be a little bit difficult. Our objective, of course, is to try to be able to repeat that in other places, and each time to do it a little more efficiently, a little more effectively, to try to move that forward.

So we've got two challenges here. One to get some more Ugandans, to get some more resources into countries to address this terrible problem to get the successes that we need, so we get out of this downward spiral.

The other challenge we have is to try to do it efficiently, to try to do it effectively, to try to do it without dealing with corruption, but also try to get a broad group of people to do it.

Because the amount of resources that are required to deal with this task need to be American resources and European resources and Japanese resources and most importantly, it needs to be African resources.

And how should those resources flow? There are even more channels than that.

There's a variety of options which are U.S.-based NGOs, there are faith-based organizations, there are multi-lateral organizations, each which has a different comparative advantage.

You wouldn't use UNICEF to move resources the same way you would use the bank to move resources. And sometimes it makes very good sense to use UNICEF, and sometimes it makes good sense to use the bank.

Now, when people aren't discerning, that's when we get a problem. I mean, if you UNICEF to do what the bank was set up to do, it's going to do a miserable job.

Similarly, if you try to use the bank to do what UNICEF was set up to do, it's going to do a miserable job.

If you add it all up, there is no question that parts of it don't work well. There has to be on-going reform as a part of this process. There's no question about it.

And you are completely right to do it, because unless there are strong pressure for reform and efficiency in these organizations, they will lose support, they will atrophy, and there will be a loss as a consequence.

But we've got to accept some inefficiencies in the short run. We can't possibly do the scale up on the magnitude that's required to try to get out ahead of this problem. And at the same time, optimize all of the efficiencies, which we would only get after relatively profound institutional reform processes.

So in some ways, it's a bit of an act of faith. It's let's move the money and let's increase the oversight process, and let's try to do that simultaneously.

Mr. SHAYS. Reverend Spencer, did you want to say something?

Dr. SPENCER. I certainly would endorse Dr. Sherry's comments a moment ago, that we do recognize that this is a process with some incredible challenges that are not merely African-based.

You had raised the question of where you see hope, and I would just—I think perhaps one of our hesitancies with your initial question was that these impressions, and the evidence more than just impressions, are very nuanced in various settings, and where we see very encouraging signs and very discouraging aspects of a heritage, it is difficult to confront all of these criteria at the same time.

I would see in AIDS not only the international concern that Dr. Sherry just spoke about, but I think we are seeing now in this last year even, but certainly in the last couple of years, a political will within Africa to speak about and to confront AIDS that simply was not present a few years ago. We can certainly turn around and say well, that should have been something spoken about some time ago. The fact was that it wasn't. It was not spoken about.

And now we are seeing that, we are seeing the will on the part of faith-based communities to address AIDS. Uganda is an excellent example of that.

We're seeing the community well beyond the faith communities, while recognizing that my colleague next to me is quite right, that the religious structures in Africa are pervasive and they are crucial avenues for effective education, prevention, treatment, and care. We're seeing strong NGO communities, and even in places that are as difficult these days as Kenya, we are seeing an extraordinarily strong grass roots, women-based, NGO structures that are confronting a variety of issues in local settings.

We're seeing much stronger planning throughout the continent with regard to poverty reduction and human development. Some of that has been imposed under World Bank and IMF strictures, and some of those pieces we might be critical of. But nevertheless, they have stimulated a more long-range view of poverty reduction and human development that is going to allow us to confront some of the systems of which you are talking about that have been so negative in the past, and make some meaningful changes.

We've seen some meaningful transitions in democracy. I'm still encouraged by what has been happening in Nigeria. It has a long way to go, certainly in the area of corruption, but they are a major actor for good at this stage in the West African scene.

We've seen some moves very hesitant, very tentative, with regard to Congo. I'm surprised that that is true, but it is true, and that we may be bringing them from a regional war and moving on to a community-based confrontation of that past that will lead them to a meaningful society and government.

We are confronting child soldiers, by African initiatives, around the continent. And if we address conflict diamonds, including this Congress addressing it, then we will perhaps be moving forward on the tenacious tragedy of Sierra Leone.

These are some positive features that I think we can hold up.

Mr. SHAYS. Thank you. Anybody else before we adjourn? Anybody else that would like to make a comment?

Dr. BIRDSALL. I would just like to say how pleased I am, both at the eloquence of Dr. Sherry on the need for multiple channels, and

the eloquence of Reverend Spencer on the fact that there is potential to do a lot of good, to build on progress in Africa despite the problems that are there.

The basic line I think that you're hearing from all the members of the panel is the need for substantial ratcheting up of U.S. leadership in the multilateral institutions and U.S. willingness to provide financial support.

Dr. ARHIN-TENKORANG. I would like to focus again on the AIDS crisis, as opposed to the general development problems that we are facing.

I really think that there should be a separation of the functions and modalities that the Global Trust Fund for AIDS operates. It should be separated from that and the multilateral policies and conditionalities, and so forth.

And whatever funds are made available, some of that funds should initially be invested in coming up with a very sound, well thought out relevant plan that will work in Africa.

I think that is the first step that must be taken, because if we have this trust fund and it's going to work in exactly the same way, using the same principles and policies that the multilaterals have been doing for the last 20 years, is not going to be effective.

And I think what Africa needs today, it needs to solve this AIDS crisis, and then it will be in a position to look at generally the other crises and problems we have been dealing with for many years.

But if we don't solve this AIDS crisis first, there'll not be that opportunity.

Thank you.

Mr. SHAYS. Thank you very much.

Anybody else before we adjourn?

[No response.]

Mr. SHAYS. Well, you've all been very patient. I thank you for being here and this hearing is—oh, excuse me, I just need to put in the record, at the request of the Chairman, a chart entitled "How Poor Countries Would Benefit With 100 Percent Cancellation From the World Bank and IMF", and I'll put that in the record.

[The information referred to can be found on page 55 in the appendix.]

Mr. SHAYS. Yes, sir?

Dr. SPENCER. Mr. Chairman, I would also request that you put in the record a brief letter from Jubilee USA Network, which is addressing precisely these issues. Your Staff already has the copies.

Mr. SHAYS. OK, without objection, we'll do that.

[The material referred to can be found on page 63 in the appendix.]

Mr. SHAYS. Is there anything else that we need to put in the record?

[No response.]

Mr. SHAYS. Thank you. The hearing is adjourned.

[Whereupon, at 4:54 p.m., the hearing was adjourned.]

A P P E N D I X

May 15, 2001

Opening Statement
May 15, 2001
The Honorable Doug Bereuter
Chairman
Subcommittee on International Monetary Policy and Trade
World Bank and International Monetary Fund Activities in Africa

The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony and to conduct oversight of World Bank and International Monetary Fund (IMF) activities in Africa. In particular, we are going to focus on poverty alleviation, HIV/AIDS, and debt relief in Africa. Today's distinguished panel should provide an objective view on the activities of the World Bank and the IMF in Africa.

This is the second Subcommittee hearing on the subject of Africa. On April 25, 2001, the House International Monetary Policy and Trade Subcommittee conducted a hearing on the African Development Bank and Fund, the region's multilateral development bank.

With respect to today's hearing, as is well known, the United States was the leading founder and continues to be the largest contributor to both the World Bank and the IMF. The Secretary of Treasury and his representatives are responsible for implementing U.S. policy towards these institutions. As required by the FY1999 Omnibus Appropriations Act, Secretary of the Treasury, Paul O'Neill, will testify before the House Financial Services Committee on efforts to reform international financial system and the international financial institutions, on Tuesday, May 22. Today's hearing should provide valuable information on the activities of the World Bank and the IMF in preparation for this upcoming full committee hearing.

The United States, with the urging and support of the U.S. Congress, has been a key supporter of reform efforts at the international financial institutions. Our goals have included increasing transparency of the financial institutions, and promoting greater financial disclosure by member countries. The U.S. has urged that the Bank and the Fund focus on crisis prevention and on the importance of developing strong, open financial systems with better debt management policies. Most relevant to this hearing's topic, we have urged the international financial institutions to focus their resources for the world's poorest countries on key priorities, such as education, health care and economic and government reform, insisting that poverty reduction and economic growth be the central goals of these countries' economic programs.

Moreover, this hearing on World Bank/IMF activities in Africa is very timely for at least two different reasons. First, the joint World Bank/IMF spring meetings were just completed in Washington, DC during the weekend of April 28. At these spring meetings, members of the World Bank and the IMF emphasized ways to coordinate their activities, effectively focus their resources on helping the poorest countries, and combat the HIV/AIDS pandemic. Second, last Friday, May 11, President George Bush pledged an

initial $200 million for FY2002 for a new global fund to fight the HIV/AIDS pandemic, which I will discuss later.

Before introducing our very distinguished panel of witnesses, I am going to briefly discuss the following items, which among other things, are important to today's Subcommittee hearing: current World Bank and IMF Activities in Africa, the Highly Indebted Poor Countries (HIPC) Initiative, and HIV/AIDS.

First, with regard to activities in Africa, the World Bank's primary mission is economic development and poverty alleviation. This mission supports the international community's commitment to reduce the proportion of people living in extreme poverty by at least ½ between 1990 and 2015. In order to accomplish this goal, the World Bank's current Africa portfolio is just over $13 billion, with the new commitments in FY2000 of $2.2 billion.

With respect to the IMF, the mission of this organization is to promote exchange rate stability and to provide loans (conditioned on economic reforms) to countries that are facing economic problems. The IMF provides concessional lending through its Poverty Reduction and Growth Facility (PRGF). The IMF's PRGF program supports economic policy programs in some 20 Sub-Saharan countries, which is roughly half of the countries in the region. I am interested in hearing from our witnesses, particularly from Dr. Westin, regarding the impact of the PRGF's activities in Africa.

Second, the Highly Indebted Poor Countries (HIPC) Initiative has provided both bilateral and multilateral debt relief to 18 countries in Sub-Saharan Africa. The U.S. and other donor countries have pledged to provide 100% bilateral debt relief to the HIPC countries. Furthermore, this initiative also includes World Bank and IMF multilateral debt relief to the HIPC countries.

It is important to note that Congress has already fully authorized and appropriated funding for U.S. bilateral debt relief. However, further authorization and appropriation for the World Bank/IMF multilateral debt is still needed to complete the U.S. pledge of $600 million to the HIPC trust fund. The Administration has requested that $224 million be appropriated for FY2002, with $165 million required to be authorized for FY2002. Since this Subcommittee has jurisdiction over multilateral financial institutions, we need to authorize this additional $165 million figure.

Third, with regard to HIV/AIDS, the World Bank has recently become more active in the fight against this deadly plague. However, obviously much more remains to be done. For example, UNAIDS, who is providing testimony today, has estimated that 36 million people are now living with HIV/AIDS. Seventy percent of these people are in Sub-Saharan Africa.

Last Friday, May 11, President Bush pledged an initial $200 million to a global trust fund to combat HIV/AIDS. In addition to the President, the United Nations Secretary General and the President of the World Bank have called for the creation of this

international fund. This fund will focus on prevention and treatment of HIV/AIDS. The Administration has said it will work with our allies in the G-8, and different private foundations, corporations, faith-based groups to increase support for this global fund.

To assist the Subcommittee in examining these issues, I am pleased that we will have the opportunity to hear from our distinguished panel of witnesses. First, Dr. Susan Westin will testify. Dr. Westin is the Managing Director for International Affairs and Trade for the General Accounting Office (GAO). In May 2001, GAO published a report titled, "International Monetary Fund: Few Changes Evident in Design of New Lending Program for Poor Countries." In addition, GAO has issued a number of reports on the HIPC debt relief initiative.

Next, Dr. Nancy Birdsall, of the Carnegie Endowment for International Peace, will testify. Dr. Birdsall is the Senior Associate and Director of the Economic Reform Project at Carnegie. Dr. Birdsall has extensive experience with a wide array of multilateral financial institutions. She held various management positions at the World Bank, including the Director of Policy Research Department, where her focus included African poverty. Dr. Birdsall received her doctorate from Yale University.

Our third distinguished panelist is Dr. James Sherry, M.D. Ph.D of the Joint United Nations Programme on HIV/AIDS called UNAIDS. In particular, Dr. Sherry, who is the Director of Programme Development and Coordination of UNAIDS, also testified before the former House Banking Committee in March of 2000. It is important to note that the World Bank is a founding cosponsor of UNAIDS.

Subsequently, Dr. Dyna Arhin-Tenkorang (Die-na R–heen Ten-kor-ang) , a citizen of Ghana, will testify. She works at both the Harvard Kennedy School's Center for International Development (CID), and the World Health Organization's Commission on Macroeconomics and Health. She advises on issues of developing country public health systems. She is a graduate of the University of Ghana Medical School and she received her Ph.D in Health Economics from the London School of Economics.

Lastly, the Reverend Dr. Leon Spencer, the Executive Director of the Washington Office on Africa, will testify. Dr. Spencer is an Episcopal priest with extensive experience in Africa. As the Executive Director, Dr. Spencer has given considerable attention to debt cancellations he was a member of Jubilee 2000 USA's steering committee.

We welcome the distinguished panel to our hearing. Without objection, your written statements will be included in their entirety in the Record.

How Poor Countries Would Benefit with 100% Debt Cancellation from the World Bank and IMF

Country	Savings in annual debt service ($millions)
Benin	17
Bolivia	22
Burkina Faso	13
Cameroon	48
Gambia	2
Guinea-Bis.	0
Guyana	9
Honduras	38
Malawi	19
Mali	25
Mauritania	9
Mozambique	4
Nicaragua	11
Niger	7
SaoTome&Pr	0
Senegal	42
Tanzania	23
Uganda	25
Zambia	72

Source: Tom Hart, Director of Government Relations, The Episcopal Church, Office of Government Relations.

OPENING STATEMENT BY REP. JULIA CARSON (D-IN)

SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE HEARING ON WORLD BANK AND IMF ACTIVITIES IN AFRICA

MAY 15, 2001

- Thank you very much, Mr. Chairman. I would also like to thank today's witnesses for coming to speak on this important issue.

- I want to thank you, Mr. Chairman, for the focus you have given to Africa so far in this Congress. Clearly, the crises facing Africa are screaming for attention and as Members of this subcommittee, we have an enormous responsibility to do whatever we can to address the situation.

Question HIPC (Heavily Indebted Poor Countries) Intiative

- Countries in sub-Saharan Africa are the poorest and most heavily indebted countries in the world, and they are getting even poorer.

- Even though many African countries have participated in the HIPC initiative, many African governments continue to spend more on debt repayment than they spend on healthcare for their people.

- Clearly, we must challenge the HIPC Initiative for debt reduction as a model program for providing debt relief to poor countries.

- Furthermore, even though the U.S. has pledged to provide full bilateral debt relief to HIPCs, the IMF and the World Bank have agreed only to reduce the debts owed to them by about half.

- We should call on the World Bank and the IMF to write off the debts of Africa's and the world's most impoverished nations.

- Some will question whether the IMF and the World Bank can afford to write off these crippling debts. I believe they can.

- The correlation between high debt burdens and high rates of HIV/AIDS is a real one. Until countries in Sub-Saharan Africa are granted full bilateral and multilateral debt relief, they will continue to be drained of the very resources they need to respond to the AIDS crisis.

WORLD BANK REFORM

- As we seek to find solutions to the global AIDS crisis, we must face the reality that certain policies of the World Bank and the IMF undermine our chances of winning this battle.

- One of the reasons many poor countries in Africa and elsewhere lack an adequate public health infrastructure to address AIDS, TB and other health crises is the legacy of twenty years of austerity measures by the International Monetary Fund and the World Bank that has devastated the public health sector.

- In particular, the World Bank continues to support the imposition of "user fees" for basic health care and education, despite the fact that this policy has been associated with decreased access to primary health care.

- Furthermore, the World Bank's support of user fees continues despite the fact that last year Congress passed legislation calling on the United States to oppose the imposition of "user fees" on primary health care by the World Bank.

- User fees and structural adjustment policies do not go hand and hand with HIV/AIDS treatment or poverty reduction in Africa. This subcommittee must ensure that this discrepancy does not continue to exist.

WORLD BANK &WATER PRIVATIZ'N

- Last year, the World Bank supported the privatization of public water in Bolivia. Following this provision, there was an uprising.

- Why? Because the privatization of basic services in developing countries results in poor people having their access to water cut off.

- Yet, the World Bank continues to aggressively promote water privatization and "full cost recovery" for water supply in many African countries such as Ghana.

- As a subcommittee, we must examine ways to curtail the World Bank's aggressive promotion of full cost-recovery for water services and water privatization, especially when it leads to poor people being cut off from access to water.

- This is especially urgent because the lack of access to clean water is a major cause of cholera and other diseases.

PUBLIC ACCESS TO BANK AND FUND INFORMATION

- Furthermore, we should all be concerned about the lack of access to IMF and World Bank meetings for the media and civil society.

- Members of the public have the right to know if the United States supported or opposed a particular loan, and what particular conditions were attached to a loan?

- This is a serious issue: U.S. taxpayers have the right to know what policies and programs their tax monies are supporting. That is at the heart of democracy.

- I look forward to hearing from our witnesses regarding the role of the World Bank and the IMF in poverty reduction, debt relief and the battle to respond to the HIV/AIDS crisis in Sub-Saharan Africa.

- Thank you, Mr. Chairman, for holding this important hearing.

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on International Monetary Policy and Trade

May 15, 2001

"World Bank and IMF Activities in Africa: Poverty Alleviation, Debt Relief, and HIV/AIDS"

Mr. Chairman, the Subcommittee's hearing today on the challenges of HIV/AIDS, debt relief, and poverty reduction in Africa could not be more timely. With the President's announcement last Friday that the Administration plans to contribute $200 million to an international AIDS trust fund, the U.S. is taking the lead in expanding global financial support to combat this devastating pandemic.

The Administration is also moving forward on debt relief for many of the same countries that are hardest hit by AIDS, and is requesting full funding in FY 2002 for the remaining portion of our $600 million pledge to the HIPC trust fund.

Both of these issues – HIV/AIDS and the burden of debt – are but a part of the broader picture of poverty in Africa today. Despite decades of assistance from multilateral institutions like the World Bank and the IMF, relatively little progress has been made in alleviating absolute poverty in sub-Saharan Africa.

The hearing today provides an opportunity to analyze the reasons for the relative failure of multilateral assistance, and to consider ways in which U.S. policy can promote results-oriented changes in the future. We have a duty to address this issue not only for the welfare of the intended beneficiaries, but to ensure that American taxpayer dollars are used effectively.

The hearing today will also help the Subcommittee frame the kinds of policy questions that need to be posed to Administration witnesses when they appear at a future hearing to discuss U.S. policy in these areas.

I commend the Chairman, Mr. Bereuter, for undertaking this series of hearings and look forward to hearing the testimony of our distinguished witnesses.

Thank you.

OPENING STATEMENT BY REP. BERNARD SANDERS (I-VT)
RANKING MEMBER
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
HEARING ON WORLD BANK AND IMF ACTIVITIES IN AFRICA

MAY 15, 2001

Thank you very much, Mr. Chairman. And welcome to today's witnesses.

I want to thank you, Mr. Chairman, for the attention you are focusing on the crises in Africa -- and for the bi-partisan spirit in which you are chairing this sub-committee.

Africa is today facing many crises, from extreme poverty to an HIV/AIDS pandemic that threatens the very future of the continent.

Concentrated in sub-Saharan Africa, the poorest and most heavily indebted countries in the world are getting even poorer. Twenty years ago, the average, per-person real income in sub-Saharan Africa was a meager $400 a year. Today, it is barely $300 a year. Africa is rich in natural resources and human potential. Still, half the people of the sub-continent struggle to survive on less than a dollar a day.

Poverty in Africa has been compounded by the HIV/AIDS pandemic that is ravaging the continent. Twenty-five million people in Africa are living with HIV/AIDS. The disease has orphaned 13 million children in Africa.

Yet, of the 25 million people in Africa who live with the HIV/AIDS virus, and the three to four million who are dying from AIDS, only about 10,000 have access to the antiretroviral drugs they need to fight the disease. We must demand that the pharmaceutical industry, composed of some of the most profitable companies in the world, accept its moral responsibility to help alleviate this crisis.

I am pleased that the pharmaceutical industry recently dropped it's three-year lawsuit against a South African law to allow that government to import affordable medicines and increase the use of generic drugs in its fight against the deadly HIV/AIDS virus. And recently, several foreign drug manufacturers have begun marketing generic versions of lifesaving AIDS drugs at fractions of the normal cost.

For example, a year's supply of GloxoSmithKline's Combivir, a drug used to treat HIV/AIDS, costs about $7,000 in the United States. Cipla Ltd., an Indian company that manufactures generic drugs, however, is selling a generic version of the drug at $275 for a year's supply. While Glaxo and a couple of other makers of popular AIDS drugs have cut their prices in Africa, the discounted prices are still significantly higher than the cost of generic drugs. At their lowest, discounted prices from the drug companies are still at least three times more expensive than generically produced medicines. Mr. Chairman, I would respectfully suggest that we invite some of these generic drug manufacturers to this

Subcommittee to get their views on this issue, and to see how we might be able to work with them.

The United States Congress, as well as the rest of the world, must work as hard as we can to address the HIV/AIDS crisis in Africa and elsewhere. President Bush last Friday committed to providing $200 million for the fight against global HIV/AIDS. That is a step in the right direction. But public health experts have said Africa alone needs $10 billion a year to effectively address the HIV/AIDS pandemic.

Africa needs more resources to have any hope of containing and defeating HIV/AIDS. And that is something that we -- as a Subcommittee -- can do to significantly improve the ability of the African people to win the fight against poverty and HIV/AIDS. We should call on the World Bank and the International Monetary Fund (the IMF) to cancel the debts they are owed by the impoverished countries of the world.

It is unacceptable that many African governments are forced to spend more on debt repayment than they spend on healthcare for their people. Zambia, one of the world's poorest countries, will send $89 million in debt servicing to the IMF and the World Bank this year, while it spends only $76 million on its healthcare budget. Meanwhile, 14% of Zambia's children have been orphaned by AIDS.

And Zambia, Mr. Chairman, is a country that is currently participating in the World Bank and IMF debt relief program known as the Heavily Indebted Poor Countries (HIPC) initiative. Clearly, the HIPC program of debt reduction has not lived up to its promise. According to a recently-released report by the U.S. General Accounting Office, which we will hear about today, the current IMF and World Bank debt reduction program is likely to leave the HIPC countries just as highly indebted as when they started the program.

We need to change that. We should call on the World Bank and the IMF to write off the debts of Africa's and the world's impoverished nations.

Some will question whether the IMF and the World Bank can afford to write off these crippling debts. I believe they can.

The United States and the world's most developed countries (the G7 countries) have promised to completely cancel virtually all debts owed to them by the most heavily indebted poor countries in Africa and around the world. But the IMF and the World Bank have agreed only to reduce the debts owed to them by about half.

Experts who have considered proposals to cancel the debts that the world's poorest countries owe to the IMF and the World Bank have concluded that the resources for such debt cancellation already exist at the World Bank and the IMF. Adam Lerrick (formerly with Credit Suisse First Boston and the International Financial Institution Advisory Commission -- known as the Meltzer Commission), has said that the IMF, the World Bank, and the Regional Development Banks have $633 billion in effective capital and $60 billion in provisions for loan losses and reserves.

That is more than enough to cover the cost of writing off the entire $32 billion of effective debt that the poorest countries owe to these institutions. According to Lerrick, the

cost of writing off the effective debt held by the IMF, the World Bank and the two largest regional development banks is just 5% of their effective capital, and about half of their provisions for losses and reserves.

Canceling the debts owed by impoverished countries to the World Bank and the IMF would free significant resources to fight poverty and disease in Africa, and it would allow African governments to provide for the health care, education, clean water and other basic needs of their people.

I believe the World Bank and the IMF have the resources to remove the burden of crippling debt from the world's poorest nations -- they only lack the vision, and the will. I look forward to hearing from our witnesses about the role of the IMF and the World Bank in addressing the crises of poverty, debt and HIV/AIDS in Africa. And thank you, Mr. Chairman, for holding this important hearing.

Jubilee USA Network

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April 26, 2001

Dear Member of Congress:

The world's attention in the last several years has been focused on the unbearable burden imposed on impoverished countries by international debt. We have been heartened by the progress made in turning this attention into real solutions. We have been grateful for the dedication to this problem shown by the U.S. Congress.

Yet much more needs to be done. Many countries still spend more on debt servicing than on healthcare and education. The result is needless suffering -- for example, the diversion of funds to well-endowed institutions like the World Bank and IMF that could instead be devoted to combating AIDS and other health crises in Africa.

Until more definitive steps are taken to end the debt crisis in the most impoverished countries, Congress, along with other governments and financial institutions, will be grappling with the problems caused by debt. Already G-7 governments, including the U.S., have committed to canceling 100% of bilateral debt. We believe it is time that the international financial institutions match this critical and necessary step towards resolving the debt crisis.

As Congress again considers the problem of international debt in 2001, we urge you to adopt the following as U.S. policy:

* The IMF and World Bank should immediately cancel 100 percent of the debts owed to them by impoverished countries;

* The debt cancellation must not be conditioned on countries agreeing to undergo structural adjustment measures, which have failed by every economic gauge and have resulted in reduced standards of living around the world;

* This debt cancellation should come from the existing resources of the IMF and World Bank, without threatening development aid, meaning that it will involve zero cost to U.S. taxpayers beyond the current U.S. commitment of $240 million for FY 2002 for multilateral debt relief.

* Civil society in impoverished countries should be integrated into the process of determining the allocation of the savings resulting from debt cancellation; and

The IMF and World Bank, from their own resources, must commit to canceling the debts of deeply indebted, impoverished countries beyond those on the list of 41 highly indebted poor countries, and should include countries such as Nigeria, Haiti, and Bangladesh.

The U.S. Congress is uniquely positioned to put in motion the simple and cost-free changes in policy that could make the essential difference in whether millions of people in Africa, Asia, the Caribbean, and Latin America live and thrive or continue to see their hard work wasted and livelihoods threatened by the tyranny of debt. We thank you for your past support, and look forward to working with you in the coming weeks and months to achieve these goals.

Sincerely,

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Hearing on "World Bank and IMF Activities in Africa:
Poverty Alleviation, Debt Relief and HIV/AIDS"
Subcommittee on International Monetary Policy and Trade
Statement by Rep. Maxine Waters
May 15, 2001

I would like to thank Chairman Doug Bereuter and Congressman Bernard Sanders for organizing this hearing on the activities of the World Bank and the International Monetary Fund (IMF) in Africa. I am grateful to both of them for their interest in the people of Africa

I am deeply concerned by the failure of the IMF and the World Bank to provide adequate debt relief to the heavily indebted poor countries in sub-Saharan Africa. The HIPC (Heavily Indebted Poor Countries) Initiative was developed by creditor countries, the IMF and the World Bank in 1999 to provide debt relief to the world's poorest countries and require these countries to invest the savings from debt relief in HIV/AIDS treatment and prevention, health care, education and poverty reduction programs. Pursuant to the HIPC Initiative, the United States agreed to cancel 100 percent of the debts of these impoverished countries.

Unfortunately, the IMF and the World Bank have not done their share, and many impoverished countries continue to struggle under the weight of international debts. Only twenty-two countries have begun to receive debt relief under the HIPC Initiative, and their debt service payments have been reduced by an average of only one third. Sixteen of these twenty-two countries are still spending more money on debt service payments than they are on health care.

Zambia provides an excellent illustration of what is wrong with the approach of the IMF and the World Bank. Zambia is a deeply impoverished country with a per capita income of only $330. The infant mortality rate exceeds one percent of live births, and 27 percent of Zambian children under five are malnourished. Zambia has also been ravaged by the HIV/AIDS pandemic. Almost 10 percent of the population is infected with the AIDS virus, and 650,000 children have been orphaned by AIDS. AIDS has also ravaged the educational system by causing a shortage of trained teachers.

Yet Zambia's debt payments have actually increased following the receipt of debt relief. Moreover, Zambia spends more than twice as much money on debt payments as it does on health care. How can the IMF tell countries like Zambia to use the savings from debt relief for poverty reduction when the IMF knows there is no savings?

On April 26, 2001, I introduced H.R. 1642, The Debt Cancellation for the New Millennium Act. This bill would require the IMF and the World Bank to provide complete cancellation of 100 percent of the debts that poor countries owe them. The bill would also eliminate the devastating structural adjustment programs that have been imposed by the IMF as a condition for debt relief. H.R. 1642 already has over forty cosponsors.

The IMF and the World Bank have sufficient resources to wipe away poor countries' debts. It is time for the IMF and the World Bank to allow these countries to invest their resources in health, education and the elimination of poverty. It is time for the IMF and the World Bank to cancel the debts of impoverished countries once and for all.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on International Monetary Policy and Trade, Committee on Financial Services, House of Representatives

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DEVELOPING COUNTRIES

Challenges Confronting Debt Relief and IMF Lending to Poor Countries

Statement of Susan S. Westin, Managing Director
International Affairs and Trade

GAO/GAO-01-745T

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity today to discuss our assessments of two important programs that are intended to help increase economic growth and reduce poverty in low-income countries, most notably countries in sub-Saharan Africa. These multilateral programs are the Heavily Indebted Poor Countries (HIPC) Initiative and the International Monetary Fund's (IMF) concessional (below-market terms) lending facility—the Poverty Reduction and Growth Facility. The HIPC Initiative, the first comprehensive debt relief effort to include all creditors (multilateral as well as bilateral), is projected to provide about $29 billion in debt relief to 32 potential recipients, 24 of which are in sub-Saharan Africa. The initiative is intended to provide recipients with sufficient debt relief to resolve their debt problems and free up resources that will be spent for poverty reduction. The purpose of the IMF's concessional lending facility is to strengthen countries' balance-of-payments positions and foster lasting economic growth, leading to higher living standards and a reduction in poverty. Both programs require recipient countries to prepare "country-owned" poverty reduction strategies. These strategies are to be developed with the participation of civil society, are to address a broad array of policies aimed at reducing poverty, and are to reflect each country's unique circumstances.

Today I will highlight challenges confronting these programs as discussed in two reports we prepared.[1] We reported that, even with debt relief and continued concesssional lending, many low-income countries (1) need to achieve strong, sustained economic growth in excess of historical growth rates to resolve their debt problems and to graduate from eligibility for concessional lending; and (2) face challenges in preparing comprehensive, country-owned poverty reduction strategies, including macroeconomic

[1]See *Developing Countries: Debt Relief Initiative for Poor Countries Faces Challenges* (GAO/NSIAD-00-161, June 29, 2000) and *International Monetary Fund: Few Changes Evident in Design of New Lending Program for Poor Countries* (GAO-01-581, May 8, 2001).

policies, within the programs' timeframes. Before I get into the specifics of these topics, let me provide a brief summary of our assessments.

SUMMARY

In our review of the HIPC Initiative, we found that the initiative provides significant debt relief. However, it is not likely to provide a lasting exit from debt problems unless countries achieve strong, sustained growth far greater than what they have achieved in the past. For example, exports for most of the seven countries we analyzed are projected by the World Bank and the IMF to grow at rates significantly in excess of historical averages.[2] We believe such growth rates are overly optimistic, since these countries rely on primary commodities, such as coffee, for much of their export revenue. Past experience has shown that the prices of these commodities tend to fluctuate over time and, in fact, decline in certain years. Failure to achieve the projected levels of economic growth could lead, once again, to these countries having difficulty repaying their debt. Similarly, we found that most of the current recipients of the IMF's concessional assistance will require high, continuous economic growth to reach the point of graduation from concessional IMF assistance. To reach this point within 15 years, the 32 countries that borrowed from the IMF's concessional facility in 2000 must average a real per capita income growth in excess of 6 percent annually during the entire period. This growth rate significantly exceeds the countries' average growth rate of negative 1 percent over the last 15 years.

In both reports that we prepared, we found that governments face challenges in preparing "country-owned" poverty reduction strategies. According to our analysis, by linking debt relief and poverty reduction, the HIPC Initiative has created tension between the desire for countries to receive quick debt relief and the time required to create such comprehensive strategies. Preparing the strategies is complicated and can tax already limited government resources by seeking to address the high incidence and diverse

[2]Our analysis focused on seven of the eight countries in which a debt sustainability analysis from the World Bank and the IMF was available at the time of our study. These seven countries are Bolivia, Honduras, Mauritania, Mozambique, Nicaragua, Tanzania, and Uganda.

causes of poverty. For this and other reasons, country ownership of the strategy can be difficult to achieve. In particular, the development of a country-owned macroeconomic framework—which is included in a country's poverty reduction strategy—is hard to accomplish. Many recipient governments have limited technical capacity to independently analyze and effectively negotiate macroeconomic policies. Also, the challenges to effectively engaging civil society in a dialogue on these very complex matters are significant. Furthermore, even if these challenges were overcome, a national dialogue on the choice of effective policies is constrained by the limited knowledge within the economics profession about how different policies actually affect elements of the macroeconomic framework.

BACKGROUND

In 1996, at the urging of the Group of Seven (G-7) industrialized countries, the World Bank and the IMF agreed to undertake a comprehensive approach, called the Heavily Indebted Poor Countries Initiative, for providing debt relief to the poorest and most indebted countries in the world. In 1999, in response to the G-7's concerns about the continuing vulnerability of these countries, the creditors agreed to enhance the initiative by providing increased debt relief more quickly to more eligible countries. Under the enhanced initiative, the debt levels of eligible countries are expected to be lowered to a point that is considered sustainable; that is, countries will continue to be able to meet their future debt obligations on time without the need for further debt relief. The Bank and Fund staffs assume that donor assistance will be an important source of external flows for these countries and may help finance any future gaps that countries experience in meeting their debt obligations. Creditors also called for a strong link between debt relief and poverty alleviation and said that debt relief should free resources for spending on priority poverty reduction areas.

In order to strengthen countries' balance-of-payments positions, support their reform programs, and foster their economic growth, the IMF has provided loans on concessional

terms to eligible low-income members.[3] In order to receive loans, countries agree to implement macroeconomic and structural reforms. Eligibility for these concessional loans has been based mainly on a country's per capita income and eligibility for World Bank concessional lending.[4] The IMF provides advice on macroeconomic issues such as achieving and maintaining stability. At the same time, the IMF seeks to integrate social policies into its programs and advice, with the World Bank taking the lead on these issues. As part of a concerted international effort in 1999 to reduce poverty, the IMF expanded the goals of its concessional lending program to include an explicit focus on poverty reduction. To emphasize this focus, the IMF renamed its lending program from the Enhanced Structural Adjustment Facility to the Poverty Reduction and Growth Facility. As of May 4, 2001, 38 of the 77 countries eligible for the Poverty Reduction and Growth Facility had current loan commitments totaling about $4.5 billion. Twenty-four of the 38 countries are in sub-Saharan Africa.

Countries eligible for HIPC debt relief and IMF concessional loans are among the poorest in the world, with many classified by the United Nations as being in its lowest category of human development, based on life expectancy, literacy, and annual per capita income. Many depend on development assistance from governments, multilateral organizations, and nongovernmental organizations and have significant development needs.

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[3]The lending terms include a 5-½ year grace period, 10-year maturity, and annual interest rate of 0.5 percent. A country's balance-of-payments accounts summarize its financial dealings with the outside world.

[4]This threshold was based on a 1998 per capita income of $895 or less. The World Bank provides concessional lending through the International Development Association.

OPTIMISTIC ECONOMIC GROWTH REQUIRED TO ACHIEVE A LASTING EXIT FROM DEBT PROBLEMS OR GRADUATE FROM CONCESSIONAL BORROWING

Countries' Ability to Repay Debt Requires Strong Economic Growth

Last June, we reported that the HIPC Initiative will provide significant debt relief to recipient countries.[5] Our analysis showed that for the seven countries we analyzed the total amount of debt was expected to initially fall by more than a third in most cases, with debt service also expected to decline considerably. However, our analysis showed that the debt levels of the seven countries will resume rising following the receipt of debt relief under the initiative. This will occur because in order to have the funds that are expected to be spent on poverty reduction—the so called "freed-up resources" from debt relief—these countries must continue to borrow at the same level as in the years prior to qualifying for debt relief. Countries previously borrowed for several reasons, including debt payments, and they will need to continue borrowing after receiving debt relief in order to meet their remaining debt payments and increase spending on poverty reduction. Thus, these countries cannot both increase their spending on poverty reduction and reduce their annual borrowing by the amount their debt service was lowered.

Countries' ability to repay their future debt depends on the assumption that countries will achieve strong, sustained economic growth. Most recipient countries that we analyzed are projected by World Bank and Fund staffs to have robust growth in income and export earnings, with the projected export growth of four of these countries—Honduras, Nicaragua, Tanzania, and Uganda–expected to average at least 9.1 percent a year over 20 years. These growth levels are presumed to contribute considerably to these countries' ability to meet their future debt obligations. Sustaining such levels over a 20-year period will be difficult. These countries rely on a small number of primary commodities, such as coffee, for a majority of their export earnings, and the price of these commodities tend to fluctuate over time, with export earnings in fact declining in

[5]See *Developing Countries: Debt Relief Initiative for Poor Countries Faces Challenges.*

certain years. At an April 11, 2001, IMF Executive Board meeting, several Directors expressed concern that some countries' debt might not be sustainable if the projected output and export growth rates do not materialize.

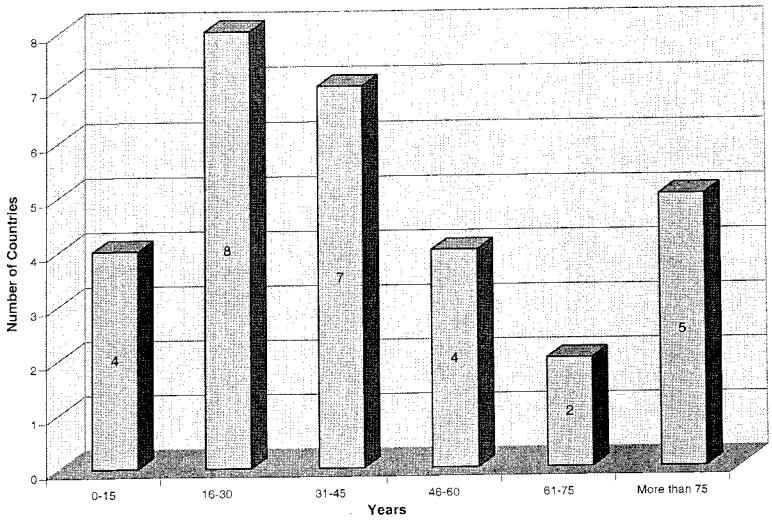
Shortfalls in these growth projections will lower the amount of revenue these countries will be able to contribute toward their future debt service. If these countries are to remain debt sustainable (that is, be able to make their debt payments on time without the need for future debt relief), this shortfall will need to be made up through increased donor assistance. Without such assistance, countries will no longer be debt sustainable and will require additional debt relief, or they will accumulate arrears. For example, in the case of Tanzania, if actual export growth is 20 percent less than projected, Tanzania will not be able to repay its debt obligations unless donor flows (both loans and grants) increase by more than 30 percent. Such an increase in lending could more than double Tanzania's total debt over what was originally forecast for the projection period.

Strong, Sustained Economic Growth Essential to Reach Consideration for Graduation

As we reported last week, most of the 32 countries that borrowed concessional resources from the IMF in 2000 will need to achieve strong, sustained economic growth to reach eligibility for graduation within the next 15 years.[6] These countries would have to achieve an annual average growth rate of 6 percent, which is substantially greater than the negative 1 percent growth rate the countries averaged over the previous 15 years. Standard & Poor's DRI projected the countries to have an average of 2.5 percent growth over the next 15 years.[7] Based on these projected growth rates, as shown in figure 1, most countries need considerably more than 15 years to reach the graduation threshold.

[6]See *International Monetary Fund: Few Changes Evident in Design of New Lending Program for Poor Countries.*

[7]DRI is a unit of Standard & Poor's, which is a division of The McGraw Hill Companies. It is a leading provider of industry and economic data, forecasting, and consulting services. Its World Forecast Database includes historical and forecast data for 170 countries.



Note: The median number of years to reach the graduation income level is 34 years; the average is 59 years. These values include two countries (Bolivia and Macedonia) whose income levels already exceed the eligibility threshold.

Source: GAO analysis using data from the World Bank and Standard & Poor's DRI.

Given that the current annual per capita income levels of these countries is generally quite low (an average of $427), the median length of time required for these countries to reach the graduation threshold at their projected per-capita income growth rates is 34 years, with five countries requiring more than 75 years.

If the changes announced by the IMF for its lending program to its poorest members, particularly country ownership of the macroeconomic framework, improve the overall effectiveness of a country's development program, the likelihood of earlier graduation from the IMF's program could increase. However, the actual impact of these changes on

economic growth is unknown at this time. Moreover, as discussed below, there are many challenges and obstacles to establishing country ownership.

COUNTRIES FACE CHALLENGES IN PREPARING POVERTY REDUCTION STRATEGIES

Linking Debt Relief and Poverty Reduction Creates Tension Between Quick Debt Relief and Comprehensive Strategies

Last year we reported that linking HIPC debt relief and poverty reduction creates tension between quick debt relief and comprehensive strategies.[8] Preparing a comprehensive, "country-owned" poverty reduction strategy can be complicated and resource intensive, with success dependent on countries reaching widespread agreement on sensitive and complex issues. Given the high incidence and the numerous and diverse causes of poverty, the donors have called for a multifaceted approach to reduce poverty. This approach is to include rapid economic growth, civil society participation, good governance, and measures targeted at the specific causes of poverty. However, coordinating so many actions can tax already limited government resources. Moreover, while the World Bank and the IMF call on governments to describe how their actions will reduce poverty, there is limited evidence showing which actions have the greatest impact on reducing poverty. Moreover, weaknesses in recipient countries' capacity to collect and analyze data on the nature, extent, and major causes of poverty may limit efforts to develop baseline data against which future progress can be measured.

Finally, country ownership and donor support of the poverty reduction strategy can be difficult to achieve. While having countries (government and civil society) take ownership of their strategies is increasingly seen as important for greater effectiveness, operational issues take time to resolve. For example, it is not clear how to define ownership at the country level or determine who will represent civil society. Nongovernmental organizations and some donor governments raised the concern that in

[8]See *Developing Countries: Debt Relief Initiative for Poor Countries Faces Challenges*.

order to receive HIPC debt relief quickly and irrevocably, recipients may "shortcut the quality" of their strategies and limit the extent of civil society participation. They therefore suggested separating the link between the timing of debt relief and the preparation of poverty reduction strategies, recognizing that recipient countries are likely to be monitored under World Bank and IMF programs for many years. However, the World Bank, the IMF, and the U.S. Treasury argued that the link should remain, since some countries do not have to prepare a full poverty reduction strategy in order to begin receiving debt relief, and the link is needed to ensure that governments undertake reforms and use resources effectively.

Developing a Country-owned Macroeconomic Framework Is Difficult

Last week we reported that there are few differences between the IMF's new lending program for poor countries and its previous program.[9] The one major design change, getting countries to take ownership of their macroeconomic policies—which are to be included in their poverty reduction strategies—is difficult to achieve. This is true for three reasons. First, many recipient governments have limited technical capacity relative to the substantial complexities inherent in establishing macroeconomic policies and targets. Governments' limited ability to independently analyze and effectively negotiate the macroeconomic framework reduces the opportunity for country-specific elements to be addressed. Second, the challenges to effectively engaging civil society in a dialogue on these very complex matters are significant. For example, while the government of Benin has begun a dialogue with civil society, many people told us that they were unsure how to use this dialogue to address the country's complex macroeconomic policies and targets, other than the composition and level of spending. Moreover, although there is ample donor assistance in Benin, we were not told of any research organizations that are assisting Benin in the development of its macroeconomic framework. Finally, a national dialogue on the choice of effective policies is hampered by the limited knowledge of all parties about how different policies actually affect elements of the macroeconomic framework. Even if country ownership increases, given the need for poor countries to

maintain macroeconomic stability, which is essential for economic growth and poverty reduction, the actual policies and targets within the macroeconomic framework are not likely to be altered substantially from the past.

OBSERVATIONS

Last year we made the following observations on the HIPC Initiative. We believe they still hold true. The HIPC Initiative represents a step forward in the international community's efforts to relieve poor countries of their heavy debt burdens, and it does so by seeking to include all creditors and providing significant debt relief to recipient countries. However, unless strong, sustained economic growth is achieved, the initiative will not likely provide recipient countries with a lasting exit from their debt problems. Furthermore, as long as the initiative links debt relief to poverty reduction strategies, the tension between quick debt relief and comprehensive country-owned strategies is likely to continue. These issues should not be seen, however, as a reason to abandon efforts to provide debt relief to eligible countries. Heavily indebted poor countries continue to carry unsustainable debt burdens that are unlikely to be lessened without debt relief, but participants and observers need to have a more realistic expectation of what the initiative may ultimately achieve.

While countries face difficulties in achieving ownership of their macroeconomic frameworks, efforts to involve civil society have potential benefit. Although civil society may not be able to influence the macroeconomic framework through the initial poverty reduction strategy, civil society may help improve the allocation of resources and increase the amount of resources donors are willing to provide by helping establish priorities for poverty reduction.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be happy to answer any questions you or other Members may have.

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[8]See *International Monetary Fund: Few Changes Evident in Design of New Lending Program for Poor Countries.*

CARNEGIE ENDOWMENT
for International Peace

Nancy Birdsall*, Senior Associate,
Carnegie Endowment for International Peace

Testimony before the House Financial Services Committee,
Subcommittee on International Monetary and Trade

Hearing on "World Bank and IMF Activities in Africa: Poverty Alleviation, Debt Relief and HIV/AIDS"

May 14, 2001

Mr. Chairman: The record of the IMF and the World Bank in Africa is far from perfect. However I want to speak today in favor of continued strong United States financial and other support for the activities of these two institutions in that region. The United States is the largest single shareholder in both these institutions, and has an impressive record of benign and constructive influence on their policies and practices. Continued U.S. support for their programs in Africa should be linked to a strong commitment from the other shareholder governments and from managements of the World Bank and the IMF to be highly *selective* in their own future lending. Selectivity means focussing their large lending programs only on countries clearly able to use new resources well. The two institutions should also be pushed to take leadership in encouraging the other large donors, including in Europe, to be more selective in new lending and grant-making to African governments. A focus on selectivity is all the more important if the benefits of the HIPC program of debt relief are to be fully realized.

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* nbirdsall@ceip.org; www.ceip.org. Nancy Birdsall was the Executive Vice President of the Inter-American Development Bank from 1993 until 1998. She holds a doctorate in economics from Yale University and was previously the Director of the Policy Research Department of the World Bank. Dr. Birdsall has written extensively about development issues, and most recently was lead author of a report of a blue-ribbon commission chaired by Paul Volcker and José Angel Gurria entitled "The Role of the Multilateral Development Banks in Emerging Market Economies: New Policies for a Changing Global Environment."

The development challenge in Africa – including reducing poverty and dealing with debt and the AIDS pandemic -- will only be met when and where African governments sustain the policies and institutions that attract the local private investment that creates jobs and drives growth. Over the last decade, the World Bank and the IMF have provided only about 10 percent of all the transfers (in the form of loans and grants) that the countries of sub-Saharan Africa have received. Most of the transfers have come from grants of the European Union and the governments of Western Europe. However, the two international institutions, because of their combined involvement across the full range of macroeconomic, infrastructure, social and other programs with governments, are looked to by the other official donors for analysis of governments' policy and institutional readiness to benefit from donor transfers. In particular, the development community looks to these two institutions on issues of economic management and financial accountability to signal when and which countries in Africa will benefit. Their work is key to our understanding of whether not only donor but local tax revenues and other resources are being used well in the fight for improved lives in Africa.

To complement the activities of the financial institutions, the U.S. as well as other donor governments should directly increase funding for global programs such as tropical agricultural research and the recently announced Global AIDS Fund. These global programs hold great promise for directly helping the poor in Africa improve their own lives, including in countries where conflict, corruption and weak institutions make effective implementation of many development programs impossible. They are critical complements to the lending and policy dialogue with African governments which are the principal business of the World Bank and the IMF and which they are so well placed to do.

In the rest of my remarks I first explain why despite well-known problems, there is good reason to expect development progress in at least some African countries. I then summarize briefly the evidence regarding the past effectiveness of World Bank and IMF support in Africa. I emphasize the need for selectivity across countries in lending by these institutions, i.e. the need to confine large lending programs to countries able to use the resources well. Finally I discuss the benefits of the current debt relief (HIPC) program, the problems with faster or deeper relief, and comment briefly on the AIDS/HIV issue.

Development assistance can make a difference in Africa.

Over the last 50 years, the foreign aid and development programs of the U.S., including through the multilateral institutions, have been a success story in many countries. Though there are still millions of people in the developing world living in poverty, the fact is that in Latin America, Asia and much of Africa, infant mortality has been reduced, primary school enrollment is much closer to universal, and knowledge of and access to health care, clean water, new agricultural and other technologies have dramatically improved people's daily lives. Where countries have opened their markets, encouraged private initiative, and established reasonably good economic management, household income has grown rapidly. Of course development programs have not worked

well where there has been conflict and corruption – but they have and do work in the right circumstances. Africa's problems with high debt and with the HIV/AIDS pandemic should not obscure the general point that development progress is possible.

Despite its problems, there is a sound logic for continuing efforts to assist Africa get onto a sustained development path. Many countries in the region have taken firm steps in the last decade in the direction of sensible economic management. Governments have established greater fiscal discipline, opened their markets, and reduced the role of the state through privatization of mining, banking and agricultural marketing boards. This first round of reforms has not been without its own shortcomings and problems of implementation, and has not produced the kind of healthy growth Africa needs to reduce poverty. (In South Africa good economic management has not in itself been sufficient to ensure aggressive handling of the AIDS problem, though in other countries, such as Uganda and Senegal, it has certainly helped). However, the fact is that due to the first round of reforms, growth did rise in reforming countries in the early 1990s. It has slowed in the last few years primarily due to the intensifying problems of conflict (in and around Angola, Sierra Leone and Liberia, Sudan and the Horn, and the Congo – all affecting many neighboring countries in loss of trade and investment opportunities) and the continuing deterioration in the prices of most of Africa's export commodities except oil. (New transfers to Africa's non-oil exporters in the last three decades are only slightly greater in value terms than the losses associated with the large declines in the terms of trade for those countries' exports.)

In the medium term, achieving more growth and reducing poverty faster requires a second round of reforms. These reforms include establishing and enforcing clear property rights, improving tax administration, developing incorruptible judicial systems and contract enforcement, and institutionalizing adequate public services, especially in health, education and transportation for the largely poor rural populations. But the first steps have been taken in many countries and are a sound start. Without them and the macroeconomic stability and predictable economic management they bring, future growth would be even less likely.

Lending should be even more focussed on countries that are performing well.

Much past development assistance has not been well spent, especially in Africa. The build-up of official debt (i.e. debt owed to donor governments and to the international institutions) of countries in Africa is sad testament to the problem. New projects and new lending went on in some countries for years despite poor results. However, our understanding of what makes for effective aid to poor countries has improved, and in the last decade the World Bank and the IMF have shown increasing willingness and ability, in their own lending programs, to exploit that improved understanding. That trend has to be reinforced and strengthened.

It is now amply documented that large infusions of development assistance only work, i.e. only help generate healthy growth and poverty reduction, when economic policies are sensible and public institutions function reasonably well in the recipient

countries. This is equivalent to saying that financial assistance only works when reasonably good government is already in place. (In fact many reforming countries, including Uganda, Ghana, and Viet Nam, received relatively little aid in the early years of their reforms). The assumption that World Bank and IMF loans could induce recalcitrant or incompetent governments to institute and sustain economic reforms has proven wrong. Indeed recent evidence suggests that when governments are not prepared themselves to undertake reforms, lending and donor-financed grants simply finance inaction and delay of necessary reforms – as shown by experience in Kenya and Zambia.

On the other hand, once reasonably competent government is in place, lending and other foreign assistance – for roads, schools, improved judicial and banking systems -- can make a huge difference in helping governments finance the programs that directly improve peoples' opportunities and well-being, and reinforce the political support they need to sustain sound economic management. Uganda, despite recent problems during its presidential election, is an example. In the last several years, the World Bank has supported major reform and new investments in its education system. Bank-sponsored household and community surveys showed that less than one-third of non-salary government spending was reaching the classroom. The government switched to a system of direct transfers to schools (with the amounts posted for the public at school entrances), eliminated school fees, and with financial support from the Bank increased substantially public spending on primary schooling. Bank support was tied to the improvements in the budgeting process. Primary school enrollment has doubled.

On the whole the evidence is that the World Bank, through its International Development Agency (IDA) concessional window lending, and the IMF have been reasonably selective in lending to countries in Africa, i.e. they have tended to do more lending (net of debt service, as a percent of country GNP) to countries with better policies and institutional capacity and higher levels of poverty. Over the last decade, they have been more responsive to changes in the countries' policy environment than the bilateral government donors (who until the 1990s were often driven by political considerations and by historical colonial ties). The effort to be selective intensified in the 1990s with the institution of a system in the World Bank of scoring countries in terms of their capability, and tying the proposed lending program to those scores. The record for the IMF and for other donors in general is less good in the case of those African countries that accumulated high levels of debt to the World Bank and the IMF. Those countries got continued inflows of donor money independent of their policies and management, an issue I return to below.

However even in the context of relatively good behavior, especially by the multilateral creditors, it is clear there is room for greater discipline in halting lending when countries' performance or policy environment deteriorates, such as today appears to be the case in Zimbabwe, the Central African Republic, and possibly Cote d'Ivoire, and more room for increasing support, especially for medium-term programs in education and infrastructure, to countries that have established a good record over several years, the case now in Uganda, Senegal and probably Mozambique. In the past mistakes were made in both directions. In the mid-1990s countries with mixed records of reform such

as Cote d'Ivoire and Zambia were getting the highest levels of aid per capita (from all donors), at twice the levels received by Uganda and Ghana with their good records over the prior decade. In the latter two countries, transfers were tapering off in the mid-1990s though their capacity to manage more programs was probably increasing.

The United States can take a clear position on the selectivity issue, both in the context of the follow-up to the HIPC debt relief program and during the discussions of the next IDA replenishment. The U.S. can press for improvement in the country performance rating system, for making the methods and the ratings more transparent and available, at the least to the research community, and for more public disclosure and monitoring of the use of the performance-based system. In addition, the United States could press for more explicit incorporation into the performance criteria of governments' efforts to meet the needs of the poor in such areas as health and education, as reflected in their public expenditures; and of governments' performance in reducing the corruption that erodes economic and democratic institutions, as reflected in financial management and commitment to the rule of law.

The HIPC program of debt relief: more now is no panacea

Of the 33 countries in sub-Saharan Africa eligible for the HIPC program of debt relief, 19 have reached the initial decision point. The debate about debt relief has focussed largely on the timing and size of the program, with proponents of more debt relief arguing that faster and greater relief would free up resources for countries to spend more on social and other poverty reducing programs. Unfortunately the facts do not square with that idea. The HIPC-eligible countries in Africa have received in the last two decades annual inflows from donors consistently greater than the debt service they were paying out. They were not, in effect, "taxed" but on the contrary were "rewarded" for the debt they were accumulating. Higher levels of debt and debt service led to higher inflows of new resources. Indeed recent studies indicate that once countries in Africa had accumulated a level of debt to the IMF and the World Bank exceeding about 50 percent of their GNP, the donors as a group abandoned any pretense to selectivity and simply made transfers, largely in grant form, sufficient to ensure those countries would not fall into arrears with the multilateral creditors. (Arrears to the multilaterals are particularly feared because they lead to loss of trade credits and sudden cut-off from all other borrowing.) In that sense, the donors as a group as well as the debtor countries had fallen into what might be called a high multilateral debt trap.

For that reason, it is difficult to argue that the "burden" of debt service in the countries with high debt and high multilateral debt has been in itself the fundamental cause of insufficient public spending on health and education. The fundamental cause has been the poverty and lack of growth that led to the debt accumulation in the first place. Nor is it clear that simply eliminating all the debt would in itself guarantee higher spending on these social programs or in itself deliver more growth and poverty reduction.

In the last decade there were repeated rounds of partial debt relief. But since the donors as a group were financing the debt service of the debtor countries, debt relief often

led to no net increase in transfers. Donors, from relatively fixed aid budgets, financed the costs of debt relief by reducing new transfers. To use a crude example, a country like Malawi was receiving about $20 per person per year for donor-managed health, schooling, road and other projects in the 1990s, and paying back about $10 per person per year in debt service. In the past, debt serviced reduction programs that reduced Malawi's debt service to $5 per year would also lead to a reduction in the value of new donor projects to, say, $16 per year, for at best a small net gain in annual net donor inflows from $10 ($20 minus $10) to $11 ($16 minus $5) per person per year.

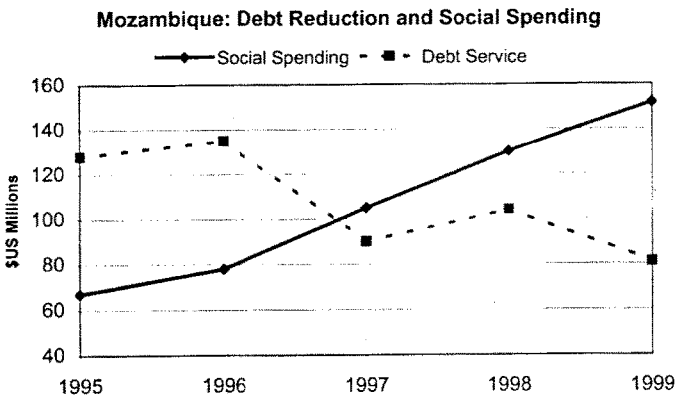
The benefits of the HIPC program as currently designed will thus come not in the widely expected form of "relief" from burdensome debt service liberating governments to spend more on their people. The benefits instead will come in one or both of two other forms.

- One is if the larger and more visible HIPC program of debt relief leads to *additional* net transfers from donors (so that in the example above a country like Malawi ends up after debt relief still receiving close to $20 in new inflows per person per year, while paying in debt service $5 instead of $10), at least for countries that are performing well.

In the short run this seems possible, with some additional commitments from donors (the U.S. appropriation of some $400 million last year is an example), especially if limited donor funds are better focussed on those countries best able to use them. This sort of country *selectivity* would ensure better use of aid and should encourage higher total commitments of aid in the future, especially from the United States (which spends much less given the size of its economy than the European donors). In fact a poorly understood benefit of the HIPC program is that it helps the donors escape the multilateral debt trap described above, in effect liberating them to reintroduce selectivity in their lending and grant-making.

- The second benefit will come because the countries' economic policymakers and political leadership will have returned to them the management of their own resources.

Instead of receiving from literally dozens of different donors dozens of different forms of in-kind resources, often tied (to use of Italian consultants, or textbooks printed in the U.S., or construction materials from the European Union), countries will be able to take greater charge of their own destiny. In the above example it is worth noting that a country receiving $20 of in-kind assistance still had to generate $10 in tax revenue to finance its debt service. With more of its assistance in the form of debt relief instead of hundreds of discrete projects, it can make its own spending more predictable and manageable, using a lower proportion of its own revenues for debt service and a higher proportion of aid for own-managed programs. The graph illustrates the relationship between reduced debt service and higher social spending, including financed by new aid, in Mozambique.



Source: World Bank; Mozambique authorities and staff estimates. Data on debt service reflect actual debt service for 1995-1999.

Because of their broad knowledge of the economies and the sectoral issues and public expenditure patterns within every country, the IMF and the World Bank are particularly well placed to provide leadership in signaling when and which countries in the region are in a position to use new donor resources effectively. This requires of course that they become not only more selective, but more transparent in their choices.

In short, I would now put more emphasis on post-HIPC country selectivity as a key to making aid effective, rather than on a complete write-off of the debt of all countries. In some countries, deeper debt relief might well help somewhat more, and is morally compelling if the debt was taken on by prior kleptocratic or military governments. But donors, including the two multilaterals, can anyway "reward" countries that are burdened by bad histories and are now managing well in the form of new transfers. This can be done better than in the past, through broad budget support for social and other medium-term development programs (rather than uncoordinated in-kind projects tied to donor-specific procurement). A complete debt write-off would constitute the worst form of moral hazard, seeming to punish countries that had accumulated less debt, and reducing the repayments to the IMF and the World Bank, which are important sources of future lending. Ironically the main beneficiaries would be the World Bank and the IMF, whose balance sheets would be cleansed and accountability for past errors made less visible, at the cost of future transfers to worthy country recipients.

New U.S. appropriations for the HIV/AIDS global fund should be much larger.

I hope others on this panel will speak directly to the logic of much more generosity by the United States in this area. A global fund can accelerate the time when a

vaccine or other control methods such as microbicides can bring prevention. A global initiative can bring the kind of international cooperation that would reduce the fears of pharmaceutical firms of parallel imports of generic drugs undermining their patent rights in rich country markets. That would encourage competitive differential pricing and open the door for use of generics in poor country markets without undermining the property rights of firms in rich country markets. Brazil's example shows that rising to the terrible challenge of caring for people with AIDS can catalyze broader and deeper initiatives to reform public health care systems. The World Bank can play an important role within countries, in supporting the infrastructure, training and service delivery needed. At the same time, much can be done to relieve the terrible human costs of the epidemic in Africa short of the kinds of structural economic reforms and sustained competence in economic management discussed above. The United States should be prepared to provide much greater financial and moral leadership than its initial commitment to the global fund signals.

The 1998 global financial crisis was a healthy reminder that we live in an increasingly interdependent world. Development assistance is in the interests not only of the millions of people in the developing world, but of all Americans. As I am sure the members of this committee know, polls show that Americans favor higher levels of such assistance than the United States now spends. That reflects not only their generosity but their intuition that development assistance is a critical input to a future world that is less divided in material terms and thus a more stable and safe global neighborhood for our children and grandchildren.

The IMF and the World Bank are central to the promotion of growth and stability across the globe, and to the reduction of poverty. In recent years, they have promised greater emphasis on poverty, the environment, and support for anti-corruption measures; reduction of their own administrative overhead (in the case of the World Bank); and greater openness and accountability. The United States has played the key role in promoting and monitoring these changes, and must continue to do so.

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Statement to the U.S. House of Representatives Subcommittee on International Monetary Policy and Trade of the Committee on Financial Services

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Director
Programme Development and Coordination
Joint United Nations Programme on HIV/AIDS (UNAIDS)

Washington, DC
15 May 2001

--- Check against Delivery ---

UNAIDS Testimony to the U.S. House of Representatives Subcommittee on International Monetary Policy and Trade of the Committee on Financial Services

Thank you, Mr. Chairman, Distinguished Members, for the opportunity to address the Subcommittee on International Monetary Policy and Trade of the Committee on Financial Services on behalf of UNAIDS.

In the time you have graciously provided, I would like to briefly address three sets of issues related to the work before the Committee:

- **First**, a 5 point update on the epidemic and our collective response;
- **Second**, 5 essential elements missing from the multilateral response to the HIV/AIDS epidemic in Africa; and
- **Third**, why we need a Global AIDS Fund, and 5 key areas it needs to focus investments on together with the multilateral organisations.

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Mr. Chairman, With respect to the staus of the epidemic and the global response, I would draw your attention to the two page statement on the epidemic prepared just a week ago by a group of top experts from around the world in the areas of public health, development, law, finance, medicine and community mobilization. This group was convened as part of our preparation for the Special Session of the United Nations General Assembly Special Session on HIV/AIDS, which will take place at the end of next month in New York.

The statement speaks for itself with respect to the current cost of the epidemic in human terms, the continuing need and opportunity for the global community to act, and the order of magnitude increase in investments required for an effective response.

I would like to expand on 5 key points of potential relevance to the work of the Committee.

First, we are still very early in the natural course of this epidemic. It has not "maxed out" by any means. The rate of new HIV infections continues to exceed the number of HIV deaths. This is particularly the case for countries in Asia – especially South Asia – and for the countries in Eastern Europe and the former Soviet Union where we see the most rapid rise in new infections. But it is also true for Africa. Despite our observing for the first time this past year the number of new infections in Africa holding steady with respect to the previous year, the current death rate – our best overall indicator of the indicator's impact – is still behind the rate of new infections. Consequently, the overall number of infected individuals continues to increase. I would not want to give the impression that the natural course of the epidemic cannot be changed. In fact, we have very clear "proof of principle" in an increasing number of countries – Uganda, Senegal and now Zambia – where efforts are having a dramatic effect. Clearly, significant investments early in the course are much more effective than much larger investments later in the course.

Second, in most places – including in Africa – we are still at the very beginning of the response. Investments in Africa were estimated at around USD 165 million for 1997, were probably around USD 400 million last year and could make it to USD 600 million

this year. This should be compared with the roughly USD 4 billion that is now generally agreed to be the minimum investment required in Africa for a credible response. It is a generality – but unfortunately one that applies – that we have barely scratched the surface of the epidemic in Africa.

Third, there is now general acceptance of the principle, learned through both positive experience and neglect, that investing in youth remains our most effective strategy in altering the course of the epidemic. This is true regardless of country and regardless of the state of the epidemic in those countries. Even in highly endemic areas, such as eastern and southern Africa, a new cohort of young people present themselves every year – every day actually – that require our assistance in preventing HIV infection.

Fourth, it is now more generally appreciated that our prevention and care objectives are inextricably linked. AIDS care and support can no longer be viewed as a "private good" in contrast to HIV prevention being viewed as a "public good". We have learned that to slow the epidemic, we must do two things everywhere.

- make the epidemic visible in communities, and
- reduce the stigma associated with HIV/AIDS

Even if we were not motivated by our humanitarian concerns, we would be compelled to address AIDS care for and support if we hope to be successful in achieving our prevention objectives. The availability of care in and of itself reduces the stigma associated with HIV/AIDS, and engages families and communities, religious institutions and local governments in daily action on the epidemic. It creates the incentives for knowing one's HIV status critical to prevention efforts – and increases demand for voluntary counseling and testing which is the common gateway to both care and prevention services – such as the interruption of HIV transmission from mothers to their infants.

My **fifth point** is that anti-retroviral drugs are an important part of the solution. We have learned that:

- we need to use them in all countries;
- where we use them, we need to use them appropriately according to rigorous guidelines; and that
- even under the best of circumstances, resistance is inevitable – probably more rapidly than we have been thinking.

Consequently, we will require an ongoing stream of new HIV/AIDS drugs that only the research and development focussed pharmaceutical companies – working in closer partnership with our public and private sector financed research institutions – can provide us. There are individuals more knowledgeable and capable than I to address the pharmaceutical industry's profit margins and their intellectual property rights, and how they relate to their basic business model. However, I would simply caution that if we continue a confrontational approach to their engagement in the response, we risk driving them out of this partnership, and we will pay dearly for that in Africa and elsewhere in the developing world with a high toll in human lives.

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Mr. Chairman, I would like to suggest to the Committee that as you continue your review and oversight of the multilateral institutions in Africa, that attention be given to 5 essential elements currently missing from the response to the HIVAIDS epidemic.

First, a focus on accountability for HIV/AIDS related results. Twenty years into this still expanding epidemic, it is past time to begin holding ourselves accountable for what we are doing – and what we are not doing – in the response. As a start, our economic modeling and policy advise must take HIV/AIDS fully into account. While there is certainly room for debate on what extent a 7% or a 15% inflation rate effects economic growth, we should be past the stage where we can pretend that a 30% HIV prevalence does not. HIV is not currently being factored into the macro-economic models we are using in any meaningful way – nor have we seriously looked at how our macro-economic frameworks are impacting on the epidemic. For major investments in Africa – including short run stabilization programmes – an "AIDS Impact Assessment" should be included as the World Bank has begun to do.

Second, we need to get beyond the summary tables, and ensure that our sectoral investment strategies are appropriately and effectively addressing HIVAIDS. Currently, it is the exception when they do, either in the:

- productive sectors, notably in agriculture, the services sector including tourism, and the manufacturing sector, where AIDS has become a disincentive to international investments;
- "protective sectors", especially the health, education and social services sectors where the very institutions that are required to serve as societies' front line in the epidemic are themselves reeling under its impact; and finally those areas that could be termed
- "propagating sectors", in particular the informal commercial sex sector, but also including those sectors where employment entails the separation of men and women from their families for prolonged periods of time such as in the uniformed services, the transport sector, and the mining industry.

Third, the current response lacks urgency and intensity. Time bound goals for institutions to complete their reorientation to HIV/AIDS and incorporate it within their mainstream work, and specific targets for how much of their resources should be addressing the epidemic, are entirely appropriate in an emergency of this type – and largely absent.

Fourth, the response lacks sufficient leverage from communities and governments in the response in Africa. In the former case, communities affected by AIDS are already spending very considerable sums as a consequence, but the means have not been provided to assist in maximizing the value of those investments. With respect to governments, a good but incomplete start has been made through the HIPC process. For example, in some 13 countries for which we have data, USD 43 million was budgeted for HIV/AIDS this year compared with less that USD 2 million last year, roughly 90 % attributable to new resources provided through debt relief. The downside is that with 2 exceptions – both in relatively low endemic countries – less that 10 % of debt savings were reprogrammed into efforts directly addressing HIV/AIDS. Several non-HIPC countries – notably Botswana, Nigeria, South Africa and Zimbabwe – have substantially increased their HIV/AIDS investments. Be we are far short of the 1 percent of public spending (0.25% of GDP) that would get us to a reasonable $800 million annual investment by African governments.

Fifth, the current response lacks sufficient coordination among the partner organizations. I would not like to suggest that the primary obstacle to a more coordinated response is simply a lack of will within organizations to work effectively with their partners, but rather insufficient investment and internal incentives to do so. Coordination is human resource intensive, and where there is insufficient resource to coordinate, there is little incentive to make the investment of scarce human resources required. Our coordination model also requires review. If you will forgive the analogy, the multilateral organizations would perhaps benefit from more of a "NATO-like" approach – building a platform on which governments and civil society partners can more effectively respond to the epidemic – rather than serving themselves as the prime actors in the response.

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Finally, Mr. Chairman, I would also like to share a few thoughts on why we need to urgently complete the work initiated here over a year ago by Congressman Leach and Congresswoman Lee and many others within this House to establish a Global AIDS Fund to "jump start" our expanded response to the epidemic. This important undertaking came closer to reality with the important and welcomed announcement of President Bush this past week, and the new energies provided by Secretaries Powell and Thompson within his Administration.

In the face of an expanding epidemic and the compelling epidemiological, humanitarian and economic arguments for early action, our first priority must be an effective response – and we should be prepared to sacrifice some efficiencies in the short-run to achieve that.

It would have been an enormous mistake to simply wait for the existing multilateral mechanisms, that should be addressing the epidemic, to work as efficiently as possible before substantially increasing our investments in Africa addressing HIV/AIDS.

But it will be an even larger mistake to undertake this scale-up in a way that duplicates the work of these mechanisms or gives the impression that a Global HIV/AIDS and Health Fund would somehow obviate the need for multilateral and bilateral organizations to do much more, and to do it more effectively.

Our rapid scale up through the global fund mechanism must go hand-in-hand with our directly addressing the organizational issues that have stood in the way of translating awareness into action on the epidemic. We should view the global fund as a critical instrument in a leveraged "structural adjustment and refocusing exercise" to get the best out of the multilateral organizations in the response to the epidemic. Resources – in particular new resources- will help to focus and accelerate the organizational reform. The new commitments to the global fund cannot be seen as an alternative to increasing investments and demanding results from our multilateral organizations in Africa.

Each of the existing multilateral and bilateral mechanism available to us needs to be looked at anew to see where and how we can get the best value from our past and current investments. Where existing mechanisms are working well, the global fund should operate through them. Where they do not work well, some hard-nosed triaging will be required to determine:

- where sufficiently rapid improvements can be achieved,

- where interim bridging mechanisms are required to complement existing mechanisms when necessary improvements will take longer, and
- where existing mechanism simply don't exist, or are occupying space they can't fill, or consuming resource that could be better spent elsewhere.

As this effort continues, there are 5 key areas that we would suggest require focus within the multilateral organizations to more effectively mobilize additional resources to and within Africa, namely:

First, for central governments, in particular to increase their capacities to coordinate a scaled-up, multisectoral response; to strengthen HIV/AIDS related policy and planning in a range of key sectors; and to accelerate decentralization of programme delivery. UNDP and the World Bank mechanisms have obvious comparative strengths in these areas which need to be built upon.

Second, for implementing partners in the NGO and the private sectors at national level. UNICEF and ILO in particular have important mechanisms and capacities to build on, as do UNFPA, UNESCO,WHO and ILO.

Third, for local governments to increase their capacities to respond to the epidemic and its impact, including their capacities to build and finance local partnerships with the private sector and civil society organizations. Here again, UNDP and World Bank mechanisms exist which can be built upon, drawing on the valuable experience of UNICEF, UNFPA and the specialized agencies, in particular WHO and UNESCO.

Fourth, with new international partners in the response, including the foundations; NGOs in OECD countries looking to build links with developing country counterparts; and the private sector, in particular the pharmaceutical industry. The United Nations Foundation has brought new capacities to this area. WHO and UNICEF have effective mechanisms to support drug procurement and distribution, as does UNFPA in the area of reproductive health commodities.

Finally, major new investments are required to support the capacities of regional institutions and technical networks in a full range of policy and programme areas so that they can more effectively reinforce and support national efforts in the response.

Mr. Chairman, Distinguished Members, on behalf of the Joint United Nations Programme on HIV/AIDS and its many partners, we wish to commend you for your leadership on this issue here today and again thank you for the opportunity you have provided UNAIDS to address your Committee.

Attachment

AIDS: the time to act

*A Statement issued by an expert group convened by UNAIDS, The International AIDS Society and the Bill and Melinda Gates Foundation**

AIDS is a crisis of unprecedented proportions. It is the most devastating pandemic in human history. 36 million people around the globe are living with HIV, 22 million men, women and children have died, there are 15,000 new infections every day. If current trends do not change, by 2010, in Africa alone, more than 40 million children will have been orphaned by AIDS.

In the worst affected countries, the epidemic is eroding decades of development gains, undermining economies, threatening security and destabilising societies.

In sub-Saharan Africa, where the epidemic has already had a devastating impact, the worst is yet to come. Overall, the epidemic is in its early and mid stages, particularly Asia where the majority of world's population lives.

But the world is not powerless to respond. We now have an historic opportunity to commit the political will and the billions of dollars required to change the course of the epidemic. Investment now will prevent tens of millions of new infections and extend the lives of millions already living with HIV.

Over two decades of experience we have developed tools of prevention, treatment and support. Their effectiveness has been shown in many communities, and in diverse national contexts including Brazil, Thailand, Uganda and Senegal.

We have learnt that prevention and care are inextricably linked. Prevention, medical treatment and social support are all critical components of effective responses. Their effectiveness is immeasurably increased when they are used together. They must also meet the unique needs of men and women and address the underlying causes that make some people more vulnerable to HIV than others.

Inexpensive and effective drugs to treat and prevent opportunistic infections exist. They are urgently needed and should be made rapidly available, together with broader care and support, including in the poorest countries.

Where it has been available, antiretroviral therapy has reduced mortality and prolonged healthy lives. Recent reductions in prices create an historic opportunity to extend this benefit across the globe. Antiretroviral therapy can and should be made widely available in all countries. The degree to which poor countries are able to extend access to antiretroviral therapy varies, but in every case a beginning can be made. The poorest countries need donor resources to extend this capacity. In all cases, antiretroviral therapy must be used in a careful and monitored manner, to improve adherence and reduce the risk of resistance.

While the changed global environment has increased attention to the treatment side of the equation, the core strategy of all countries must continue to emphasise widespread

and effective prevention, including education, information and condoms. However the scale of this work must be dramatically increased, especially among young people.

Building on existing programmes, many countries, and many of the poorest, have shown political commitment and made detailed preparations and are ready for greatly scaled up treatment and prevention programmes. What they lack are the resources.

In view of the urgent need and opportunity, the recent call to action by Secretary-General and the decision of the UN General Assembly to hold a special session on AIDS, is especially appropriate. We agree the time to act is now.

Based on an analysis of the cost of effective responses, we estimate that global funding for AIDS in middle and low-income countries should rise to not less than $7 billion per year within 5 years. This commitment must be sustained for at least a decade.

At the forthcoming UN General Assembly Special Session on AIDS we call on the world's political leaders to commit the financial resources and the political will to bring this epidemic under control. We call on citizens around the world to lend their support. We will not succeed until leaders in every sector of society come together in a historic global response to this most urgent of crises.

The time to act is now.

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* UNAIDS, including its Cosponsoring agencies UNICEF, UNDP, UNFPA, UNDCP, UNESCO, WHO, and the World Bank, convened a meeting together with the International AIDS Society and the Bill and Melinda Gates Foundation, from May 6th-8th at Mont Pèlerin, Switzerland, with the following individuals, at the meeting in their personal capacity as medical, behavioural and policy experts:

Professor Peter Aggleton, University of London, UK; Professor Roy Anderson, Imperial College, UK; Dr Stefano Bertozzi, Instituto Nacional de Salud Publica, Mexico; Dr Mabel Bianco, Ministry of Health, Argentina; Rev. Gideon Byamugisha, Church of Uganda; Dr Hoosen M. Coovadia, University of Natal, South Africa; Dr Tim Evans, The Rockefeller Foundation; Dr Margaret Gachara, National AIDS Control Council, Kenya; Dr Duff Gillespie, USAID, USA; Dr J. Edward Greene, Assistant Secretary-General, The Caribbean Community & Common Market; Mr Anand Grover, Lawyers Collective, Fort Bombay, India; Mr Moustapha Gueye, African Council of AIDS Service Organisations, Sénégal; Dr Scott M. Hammer, Colombia University, USA; Dr Catherine Hankins, McGill University, Canada; Professor Michel Kazatchkine, Agence Nationale de Recherches sur le SIDA, France; Professor Marie Laga, Institute of Tropical Medicine, Belgium; Ms Marina Mahathir, Malaysian AIDS Council, Malaysia; Dr Purnima Mane, The Population Council; Dr Nancy Padian, University of California San Francisco, USA; Dr Gordon Perkin, Bill & Melinda Gates Foundation; Professor Praphan Phanuphak, Thai Red Cross Society, Thailand; Mr J.V.R. Prasada Rao, Ministry of Health & Family Welfare, India; Professor Jeffrey Sachs, Harvard University, USA; Mr Eric L. Sawyer, HIV/AIDS Human Rights Project, USA; Mr Wojciech Tomczynski, Badz Z Nami, Poland; Ms Sandra Thurman, Washington D.C., USA; Dr Stefano Vella, President, International AIDS Society; Ms Wendy Wertheimer, National Institutes of Health, USA; Dr Alex Wodak, St Vincent's Hospital, Australia.

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World Bank and IMF Activities in Africa: Poverty Alleviation, Debt Relief, and HIV/AIDS

Testimony
before the Subcommittee on International Monetary Policy and Trade,
Committee on Financial Services,
U.S. House of Representatives

May 15, 2001

Submitted by
The Washington Office on Africa
The Revd Dr. Leon P. Spencer,
Executive Director

I am grateful to this Subcommittee and its Chairman, Congressman Bereuter, for the opportunity to testify today on international financial institutions and their appropriate contribution to poverty alleviation, debt relief, and HIV/AIDS prevention, treatment and care in Africa. It has been my great privilege to have been involved in Africa and with African partners all of my adult life. As an academic, I have written about justice in and toward Africa. As a mission appointee of the Episcopal Church to our sister churches in the Anglican communion throughout Africa, I have been able to live and work and serve with African partners in fulfillment of an African-defined agenda. As the Executive Director of the Washington Office on Africa, an ecumenical advocacy organization that embraces a broad spectrum of national church bodies and traces its origins to the struggle for liberation in southern Africa, it is my challenge to be a voice for a just US policy toward Africa, and to encourage individuals, congregations and grassroots organizations throughout our nation to be more deeply engaged in issues affecting Africa. With this experience, it is natural for me to be gratified to this Subcommittee for the opportunity to share some thoughts with you on matters of the greatest importance for Africa, about which I care very deeply, along the lines of the questions the Subcommittee has posed for this hearing.

I wish to highlight for this Subcommittee the specific actions that I consider to be most critical for US policy toward Africa as reflected in the work of the World Bank and International Monetary Fund (IMF). The Subcommittee has already, in its title for this hearing, identified a trilogy of issues, and I affirm that these are indeed the priority issues: Debt, poverty alleviation, and HIV/AIDS initiatives. The question, of course, is what we do and don't do in regard to those issues.

What I bring to these issues, and to this hearing, is a deep conviction that we are called to speak to the common good. This is an ethical and faith-based perspective, and I acknowledge that it is one that economists and some political leaders have found convenient to dismiss as naïve. But it is *not* naïve to speak of community, nor to speak of our relatedness as that which demands priority in public policy – terms that carry with them an agenda far beyond the economic. I readily acknowledge economic mismanagement and misjudgment in many African economies – which can be said for much of the world, including ourselves – but it is, frankly, disturbing to me that there continues to be a presumption that "free market reforms" are directly correlated to "sustained economic progress" in Africa. Education, health care, employment training and opportunities, access to safe water and housing and so on – the list is substantial – are essential for economic development, and they require community-based rather than free market initiatives, for both ethical and pragmatic reasons. Moreover, the notion that fledgling African businesses can compete with multinationals – that somehow the playing field in the global economy is level – is one that should not be seriously entertained. It is not my intent to disparage economic structures that may empower individual Africans in their business pursuits, but rather to suggest that the international financial institutions have no right to insist upon economic structures within African nations that empower individuals and multinational businesses at the expense of the common good. The tragedy of the IMF and World Bank economic agenda is that it presumes – despite stunning historical and contemporary evidence to the contrary – that either there is no such thing as the common good or that an unfettered free market economy, divorced from societal considerations of human need and human hope, will speak to the common good. A free market economy is *not* a "moral imperative;" a broad-based social and economic development approach that seeks to address the rights and needs of human beings, who often live in stunning poverty, and who are confronted by systems largely defined by the West that do not serve their needs, is. Thus when we turn to the three issues this Subcommittee has rightly targeted, we must have some appreciation both of the *capacity* of Africans to define and promote social and economic programs that address their needs, and of the *responsibility* of our nation to encourage and challenge rather than to dictate. By so doing, we respect African understandings of their priorities, as ethically we should.

First, debt. As a member of the steering committee of Jubilee 2000/USA, I was very encouraged by the 100% bilateral debt cancellation for HIPC nations to which the US became committed. The real question before us now is whether we can continue with cancellation to the extent that clear and continuing benefits reach African nations, so that they may direct their resources toward health care, education (especially the needs of girls), and a rich variety of human development and poverty eradication programs; *and* whether we can move beyond the narrowly-defined HIPC countries to include other nations trapped in poverty and in debt.

The international community has committed to halving world poverty, achieving universal primary education, and reducing child mortality by two-thirds, by the year 2015. And yet despite Zambia's progress in the HIPC process, for example, it is expected that it will average $174 million in annual spending on debt service during the next five years, while expending only $76 million on health care; this in a country where one out of five children will not live to the age of five. Consider, too, that the Gambia and Senegal will be spending 15-20% of government revenues on debt this year. Cameroon will be spending more on debt than on health and primary education combined. Twenty-two countries that have been through the HIPC process are still paying more on debt service than on health in the coming five years. And when we look at why, it is because the World Bank and the IMF remain the biggest creditors to poor countries. The 22 HIPC nations that have thus far qualified for debt relief continue to pay roughly $215 million to the World Bank and $287 million to the IMF in debt service annually.

We are able to say that the industrialized world has made real progress in bilateral debt cancellation, but the effect will remain limited in terms of poverty eradication and human development without multilateral debt cancellation as well. Yes, we can talk about Uganda's now placing every child in grade school, and about Mali, Mozambique, Senegal and Cameroon's increasing spending on HIV/AIDS prevention, but by no stretch of the imagination will the issue of the intolerable debt burden be adequately addressed until the IMF and World Bank confront their role in the continuing debt strictures that African nations face. No African nation that is serious about the 2015 goals should be denied the resources to achieve them, and debt cancellation is a key avenue to those resources.

- *It is my firm recommendation, and that of colleagues across the spectrum of Africa advocacy, that the US should use its influence to secure 100% cancellation of debts owed by African nations to the IMF and World Bank from within their own resources and without attaching further economic reform or structural adjustment measures. The argument that they have insufficient resources is, at best, unconvincing. For example, the World Bank posted a $2 billion profit last year.*

Second, poverty eradication. Structural adjustment has been a failure, and it has been an arrogant failure. The evidence that these programs have actually undermined economic development increases, just as has the awareness that it was and is presumptuous of international financial institutions to define the economic agenda of sovereign African nations.

I readily acknowledge the debate among Africa advocates over conditions attached to debt relief. The position of the Washington Office on Africa has been that appropriate participatory structures that ensure that funds secured from debt reduction are directed toward human development and poverty eradication is an acceptable and positive condition. In that sense, the Poverty Reduction Strategy Papers process might be seen as a step forward; as a piece that serves to sustain the original structural adjustment conditions, of course it is not. And in any case, this process has been a slow one.

- *Given the reality of the PRSP process, it is my firm recommendation that the US should use its influence to ensure that debt service payments to the IMF and World Bank be suspended as long as good faith efforts to develop poverty eradication programs continue. By suspension I mean to include the continued accumulation of interest.*

- *It is, further, my view that the US should use its influence to ensure that the continued denial of full opportunity by African civil society to engage in the PRSP process end. While in East Africa, for instance, civil society structures have been welcomed to various workshops, they have not been invited to the crucial discussions about macroeconomic policy.*

- *Finally, it is my firm recommendation that the US must use its influence in the IMF and World Bank to vote against any and all continuation of user fees, where people living in poverty must pay for primary education and primary health care. Congress has rightly recognized that this has been a tragic aspect of structural adjustment, but the Bush administration request that this provision in law be struck keeps this issue alive. Our nation should not be party to such injustice.*

Finally, HIV/AIDS. During my years as a missionary in Kenya, I had a friend, a Kenyan nurse, who established a community center and clinic in Kibera, one of Nairobi's slums. Among other services, she provided women who learned they were HIV-positive with a place to stay. Most had been driven from their homes, rejected by their family and community. My friend could offer some food and shelter and care, nothing more, though of course that was significant in and of itself. It was clear to her then, and clearer now to African governments and civil society, and to the world community, that the combination of education and prevention, and of treatment and care, are all essential elements to confront this pandemic. Political will is present now in a way it was not only a few years ago, and affordable medicines *potentially* are available now in a way they were not only a few months ago. What is needed are funds, large doses, thoughtfully provided, appropriately used. The Abuja Declaration on HIV/AIDS and other infectious diseases signed by African leaders late last month included a target of allocating no less than 15 percent of African national budgets to health, compared to a previous average of about five percent. International efforts need to complement such a commitment. The US has taken an important lead among the industrialized nations in providing funds, but they are insufficient.

Three points are especially relevant to this hearing: First, the US should support a global multilateral effort; second, the structure of the fund needs to be participatory; and third, funds need to be *new* funds, not reallocated from other aid programs.

First, a global fund. The Washington Office on Africa was supportive last year of a World Bank AIDS Trust Fund as a *conduit* for a multilateral effort, not as a program to be administered by the World Bank. It was helpful then to envision a World Bank fund, for it served

to flag a global fund as an important aspect of our response to the pandemic. Events seem to have superseded that vision, and President Bush's commitment of $200 million to a new Global AIDS Trust Fund – as well as other proposals before the world community – indicates that a different structure and home for such a fund is more likely. The record of the World Bank makes many of us uneasy about its hosting the fund, but it is not, to my mind, as crucial where the fund is housed as it is that that there not be competing funds, and that the fund be adequate to the task.

- *It is my firm recommendation that the US support a Global AIDS Trust Fund, preferably not through the World Bank, but regardless of its housing, that the US provide significant funding consistent with our economic standing among nations, accepting estimates of $7-10 billion required annually to address the pandemic. $200 million is not adequate, though as a step toward a goal of at least $1 billion annually from US sources to confront the global AIDS pandemic – with "more to follow," as President Bush said – it is useful.*

- *To be adequate to the task also demands that the US use its influence with international financial institutions to secure grants, not loans, for AIDS programs.*

Depending upon decisions as to the housing of such a fund, details about the nature of the fund may or may not be relevant to this Subcommittee. Given present uncertainties, however, I do want to speak briefly to those details. The structure and processes of such a fund involving international financial institutions need, for example, to be flexible and to mobilize resources quickly, but the fund also needs to engage African civil society, NGOs, and faith-based communities in the entire process and to include women and persons living with AIDS in the entire process. The fund needs to commit to providing treatment as well as prevention, including medicines for both AIDS and opportunistic infections, not excluding any sources that are in accord with intellectual property rights provisions that permit compulsory licensing and parallel imports. There needs to be provision for bulk drug procurement and distribution, coordinated with existing public and private distribution networks. *Sustainable* access to treatment is of critical importance. Donors need to provide unrestricted funds. All of these are touchstones as to whether the US is seeking a meaningful response to AIDS in Africa rather than the appearance that it is responding to AIDS in Africa.

- *I am convinced that the US must use its good offices to ensure a participatory and transparent process in the administration of such a fund, and to establish a fund that balances education and prevention on the one hand, and widely-accessible treatment and culturally-sensitive care on the other.*

Second, new funds. I acknowledge that this is not the forum for appropriations, but I believe it is important to note that US support for a global AIDS fund must not be at the price of development aid that confronts poverty in Africa, nor of health programs that address infrastructure and other diseases. The $200 million offered Friday may well be *additional*

money for AIDS, but it is not *new* money. Rather it is drawn from peacekeeping, domestic health programs, and other sources. This is unacceptable.

> ☙ *In contributing to a Global AIDS Trust Fund, the US should remain attentive to the interrelatedness of AIDS-specific funding, development aid for Africa and development assistance for global health issues. US funding of a global trust fund, therefore, should not be at the expense of other assistance. This is a matter of political will, not insufficient funds.*

Debt cancellation needs to be part of the AIDS strategy. There should be no requirement that funds secured from debt relief be directed solely toward AIDS, but there is similarly no doubt that further debt relief through the IMF and World Bank provides a critical opportunity for African governments to join with multilateral efforts in confronting the pandemic.

> ☙ *The US should use its good offices to encourage African leaders to direct funds secured through debt relief toward AIDS programs.*

Nearby us, at the FDR Memorial, is an inscription from President Roosevelt's second inaugural address. "The test of our progress," he said, "is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little." I submit to this Subcommittee that those words have global as well as national meaning, and they suggest to me that this Congress and this administration have an opportunity to do something meaningful and just, not as testimony to our power in relation to the World Bank and IMF, but as a sign of our sense of our responsibility within the world community to address human need and to speak for justice. This hearing, and the thoughtful formulating of questions, is a constructive step. I pray that you will continue in these efforts, and I thank you for including me in the hearing.

Subcommittee on International Monetary Policy and Trade of the House Committee on Financial Services

Hearing on "World Bank and IMF Activities in Africa: Poverty Alleviation, Debt Relief, and HIV/AIDS"
May 15, 2001

Testimony by Dyna Arhin-Tenkorang
Senior Economist of the WHO Commission on Macroeconomics and Health (CMH)

Mr. Chairman, thank you for the invitation to testify before the Subcommittee on International Monetary Policy and Trade of the House Committee on Financial Services in the course of its examination of World Bank and International Monetary Fund (IMF) activities in Africa. I am honored as an African professional from Ghana to have this opportunity to present my views and recommendations on this subject.

A decade of international public health experience, focusing on Sub-Saharan Africa, has shaped these views. During this period I consulted and researched for, or provided technical assistance to, recipient countries on behalf of donor institutions including the World Bank. Prior to this, as a physician who treated patients in Ghana and Nigeria, and later as a Senior Health Planner in the Ghana Ministry of Health, my interactions with the Bank were from the stance of a recipient country official.

The invitation to testify requested that I address important issues of process such as policy and governance of, and issues of outcome, such as economic and social performance consequent to, Bank and Fund activities in Africa. I would like to focus on issues that relate to the effectiveness of development assistance provided by the World Bank and IMF in alleviating poverty, providing debt relief, and controlling HIV/AIDS. Specifically, I will respond to the following questions posed: 1) what should be the role of the international financial institutions in addressing the economic development challenges related to HIV/AIDS in Africa?; and 2) what are my recommendations regarding the proposal to establish a multilateral global AIDS Trust Fund advocated by U.N. Secretary-General Kofi Annan and World Bank President James Wolfensohn?

In my statement I will draw attention to the following:

1) Health investments profoundly impact on poverty reduction, as is substantiated by the ongoing work of the Commission on Macroeconomics and Health.
2) Low priority placed on investment in hospital facilities and by implication on curative care (i.e. treatment), reluctance to support sector budgets, and advocacy for user fees have characterized World Bank health assistance to Africa.
3) These have contributed to the un-preparedness of African health systems for the HIV/AIDS challenge.

Given the urgency of the situation, I urge that a Global AIDS Trust Fund should be granted autonomy from these institutions and their policies. This will permit the Trust Fund to assemble Rapid AIDS Response Task Forces charged with the responsibility of producing detailed country control plans that are needed for immediate disbursement of committed donor funds. I suggest that the Task Forces be composed of professionals with

in-depth knowledge of Africa as well as proven technical and managerial capacities, who are on sabbatical from their regular positions.

Some of my observations and convictions have been refined by recent analytical work undertaken as Senior Economist of the World Health Organization (WHO) Commission on Macroeconomics and Health (CMH). The Commission is an ad-hoc organization initiated by WHO Director-General Dr. Gro Harlem Brundtland in January 2000. Over a two-year period, it will analyze the impact of health on development and examine the appropriate modalities through which health-related investments could have a positive impact on economic growth and equity in developing countries. The Commission will recommend a set of measures designed to maximize the poverty reduction and economic development benefits of health sector investment. A final report if its findings will be disseminated to the international development community and to Ministers of Health at the 2002 World Health Assembly.

Current analysis of the evidence linking investments in health to macroeconomic growth and poverty reduction, support my view that the components and philosophy of the HIV/AIDS control strategy being advocated by the African community (and recently echoed in statements by the World Bank and the IMF) are those that are crucial for poverty reduction. These components are prevention, care, and treatment and the philosophy is that they must all be pursued simultaneously and rigorously in order to achieve the desired outcome. In the medium and long-term, prevention of ill health in poor societies is the key to increasing health and productivity and reducing poverty. However, in the short term, especially with regards to HIV/AIDS, access to treatment is critical. Without treatment, HIV positive parents are denied the opportunity to make financial and social provision for their children who in the future will be orphaned. Most are prevented from contributing crucial additional years to the economy as teachers, doctors, and nurses.

Until recently, the international donor community – including the World Bank and IMF – has focused its HIV/AIDS efforts on prevention with less emphasis on the decisive role of treatment. This approach ignores the fact that households can frequently accomplish prevention but they are ill-equipped to carry out effective treatment. For many diseases, household activities impacting on nutrition (such as farming) and educational status (such as home instruction) are near substitutes for preventive interventions provided by the formal health sector. To illustrate, a farming mother in a village in Ghana, informed of the role of mosquitoes in causing malaria, can dramatically influence the frequency and prognosis of malaria episodes suffered by her child. Specifically, she can augment her immunity system and that of her child by consuming high protein foods that she grows and by breastfeeding. She can also protect her child from excess mosquito bites by taking actions to repel mosquitoes.

In the case of HIV/AIDS, since aspects of its prevention hinge on products (such as condoms and treatment for STD), households cannot produce substitutes and thus formal prevention programs are necessary. However, in my opinion, to have engaged in prevention intervention almost exclusively for more than a decade, and deploying relatively meager resources for the provision of treatment, was a major flaw in the assistance program advocated by donor institutions, including the World Bank. In the case of treatment of HIV/AIDS, as is the case of most diseases, there are few, if any, effective near substitutes that a household can produce. Therefore, from the very onset of the epidemic, treatment

should have been given appropriate priority in control strategies. High priority was given to treatment in western countries including the United States of America and the result speaks for itself.

Today it is not constructive to dwell on the many reasons for this oversight. Rather, it is invaluable to recognize that prolongation of years of healthy life and average years of survival of African AIDS patients offered by antiretroviral therapy requires that the standards of African health systems be raised to basic minimal levels. Such standards are considered the norm in all middle and rich countries. The World Bank's health assistance during the past two decades almost exclusively focused on primary health care, and by implication relatively neglected the development of secondary and tertiary health infrastructure. This, in part, is responsible for the current situation in which the health systems of all poor African countries will require massive investments in infrastructure and human capacity to permit antiretroviral treatment to be provided safely and effectively. Hence, treatment of African HIV/AIDS patients will require that the World Bank revisit its past position that investment in secondary and tertiary health facilities is a low priority for African countries.

Secondly, treatments must not be offered at fees that will dissipate the scarce financial resources households have for basic consumption needs such as transportation, education, and food. The outcome of unaffordable user fees is the removal of the possibility that households maintain and eventually increase household productivity. In this regard, another change in the World Bank's health assistance strategy to African countries that will have a positive impact on HIV/AIDS and poverty is to address the Bank's long held position on user fees: the payment of out-of-pocket charges *at the time of use* of health care.

As far back as 1987, the World Bank strategy as outlined in the "Agenda for Reform"[i] called for user charges, among other reforms. Clinic and hospital charges associated with sector reforms supported by the World Bank and the IMF became widespread in Africa by the mid-1990s. Typically, in African countries, revenue from user fees recovers less than 10% of health sector expenditures but is a dominant factor in the decline of rates of clinic and hospital attendance despite growing health care needs. In recent years non-governmental organizations (NGOs) and civic societies, including "50 Years is Enough" and "Results" to name a few, concerned about access problems inherent in user fees, have campaigned to prevent institutions such as the World Bank and the IMF from approving projects in the social sector that include user fees[ii]. The campaigns have met with strong opposition, in part because analytical work originating from the World Bank in particular has maintained that the issue is no longer whether user fees should be implemented, but how to implement them[iii,iv]. The basis of this assertion has been the conviction that user fees provide the only viable means to achieve sustainability, and that if the theoretical benefits have not been realized it has been due to implementation inadequacies in these countries[v].

Yet more than a decade has passed since the introduction of user fees, and despite varied implementations, most countries have not achieved the theorized benefits from this adjunct to their health financing strategies. Review of the economic theory points to several weaknesses in the case for user fees, including its neglect of the significant positive spillover effects that are associated with curative care[vi]. The benefit to society when individuals receive treatment for a disease, tuberculosis for example, is far greater than the benefits to the individual patients because others are prevented from contracting the

disease. It is rational, then, for society to facilitate higher consumptions of such treatment by the poor than the poor themselves can afford. The user fees argument is also weakened by the fact that in the absence of evidence of *unjustified* over-utilization, this policy leads to inefficient reductions in utilization. In addition, user fee policies ignore uncertainty – both in the timing and quantity required in the future – which we know is a unique attribute of health care need and consumption.

User fee policies do not take cognizance that out-of-pocket payments are usually the most regressive means to pay for health care, and as a payment method, heavily exposes people to catastrophic financial risks. As such, they place an impossible financial burden on households in low-income countries. The uncertainty about the timing of illness and the cost of health care required for episodes of illness, coupled with the low income levels of individuals, makes it virtually impossible for households to make provision through saving for illness-related expenditures. User fees constitute a major part of such expenses. Furthermore, the majority of households cannot obtain credit from the formal banking system. Thus, in addition to the fact that user fees have been largely unsuccessful in raising significant resources, they have contributed enormously to the deplorable status of health and economic well-being of Africans. User fees hinder effective utilization of formal health services, compel sick individuals to defer visits to the health facilities until their conditions become critical, or lure them to resort to self-medication and other practices that are sometimes injurious to their health. Sadly, when emergency treatments are delayed, it often leads to serious health and financial consequences resulting in further impoverishment of the household. It is therefore of real concern to observe that many of the early Poverty Reduction Strategy Papers developed in partnership with the World Bank included user fees for health care and education.

While recognizing the above problems associated with past health assistance, it is also important to acknowledge the opportunities presented by recent World Bank and IMF statements and actions demonstrating commitment to address the HIV/AIDS pandemic in Africa. Consequently, the people of Africa and their political and religious leaders await indications that appropriate changes in these institutions' policy positions that relate to investments in hospitals and skilled medical staff and user fees will also be forthcoming. It is the hope that these changes will be manifested in granting the freedom to countries to use grant assistance to build their health sector to standards needed to ensure safe and effective HIV/AIDS therapy and remove financial barriers to treatment imposed by user fees.

From a broader perspective, recent initiatives by the Bank (for example, the Multi-sectoral AIDS Program for Africa) and the Fund exemplify the global climate of urgent concern that is now a reality among multilateral and bilateral agencies and civil society. The calls from the UN Secretary-General for a global fund and the statement issued on April 4, 2001 by Harvard faculty members calling for a pilot program to treat 1 million African patients in the first 3 years, are two more examples demonstrating this universal position. Emerging from this attentiveness is the intent and commitment in principle to make resources available to address HIV/AIDS in Africa. The most recent illustration of this is the announcement by President Bush on May 12, 2001 that the United States would contribute $200 million to a global fund to attack HIV/AIDS, malaria and tuberculosis.

Fortunately in this climate of concern amongst wealthy nations and their institutions is the profound comprehension of the enormity of the problem by, and commitment from, Africa's political and professional leaders. These are manifested by the prominence given to the pandemic in the recent African initiatives to "launch Africa on a path of sustained growth and development in this new Century" (Executive Secretary, Economic Commission for Africa [ECA]). Two important examples are the Millennium Partnership for the African Recovery Program (MAP) initiated by Presidents Bouteflika of Algeria, Mbeki of South Africa, and Obasanjo of Nigeria, and the UN ECA-led Compact for African Recovery ("the Compact").

At this moment distinct roles are emerging for the donor community, including the World Bank and IMF, and for the African political leaders. For the former, it is to be joint actors with the African inter-governmental agencies such as the ECA in international resource mobilization. Hence the global trust fund by the UN and the current World Bank AIDS program. For the latter, it is to mobilize domestic resources through their ministries of finance and health. This new role was evidenced at the first-ever AIDS summit of African leaders in Abuja at the end of April 2001 where there was a consensus that 15% of African national budgets should now be devoted to health, including a significant proportion to AIDS.

Despite the commendable manner in which all actors have taken on these roles, one important issue that has yet to be addressed is the dismal record of the effectiveness of past development programs targeted at African problems. In almost all cases a major factor in the failure has been the non-disbursement of committed donor funds and thus non-implementation of programs. In the past, World Bank projects have particularly suffered from this problem. Donors such as the EU have also experienced this constraint (of the 1.7 billion euros [1 euro = $0.92] allocated globally by the EU from 1995 to 2000 in the development and health sectors, only 17 percent has actually been spent). This is evidence of a profound paradox and dilemma now confronting the world. The paradox is that a continent intolerably burdened with HIV/AIDS and debt desires assistance and the international donor community including the Bank and IMF are committed to providing this assistance, but neither parties knows HOW. It is far from evident how available funds can be channeled into concrete and effective programs to immediately address the crisis.

I would like to submit that the fundamental problem is that there are insufficient numbers of **personnel** to engage exclusively in developing rigorous country and/or sub-regional aid response plans. The World Bank's public commitment to ensuring "unlimited" resources for well-designed national HIV/AIDS programs made at its 2000 Spring Meetings underscores the centrality of such plans, and thus the potential role of these plans in a vicious cycle. African countries have few financial and human resources and therefore cannot produce elaborate plans nor demonstrate adequate absorption capacities (i.e. the ability to use the funds accessed). Yet these plans and the absorptive capacities are the prerequisites imposed by donor regulations and conditions in order to secure the needed resources.

To a large extent the capacity problem is due to the migration of qualified talent, a recognized feature of today's globalized economy. The few African professional scientists and managers remaining on the continent and primarily responsible for developing the necessary plans, are fully occupied in the day-to-day business of running national systems

including that of health. Even without the AIDS crisis, these human resources are overstretched and therefore it is unrealistic to expect them to also accomplish extensive strategic thinking, research, and planning that is required to produce detailed country and/or regional HIV/AIDS plans.

The detailed plans that are urgent include those that would render incapacitated health systems functional, and in some cases establishing new infrastructure, in the shortest possible timeframe. This is to ensure adequate health sector infrastructure to treat, monitor, and evaluate patients. Knowledge about clinical management of patients and the control of resistance has been amassed already by rich countries that have provided treatment to their HIV population over the last decade. Planning towards this end would require the use of the knowledge, experience, and skills that are globally available to provide prevention, care, and treatment. Some of the capacities are now frequently referred to as global public goods (GPGs) for health.

While we continue to seek interruption of transmission of the virus, plans must rapidly be elaborated and tailored to the economic realities of African countries to immediately implement the following proven effective interventions.

For prevention:

- condom use as the norm, particularly by all sex workers as well as males who have sex with males (MSM) and their treatment for bacterial sexually transmitted infections,
- short courses of antiretrovirals (ARV) – such as AZT or nevirapine – during pregnancy,
- availability and encouragement of male circumcision,
- availability of voluntary counseling and testing,
- in some cases, availability of Needle Exchange Programs (NEPs).

For treatment:

- Highly Active Antiretroviral Treatment (HAART).

For care:

- health outreach services and social welfare arrangements.

Task Forces must urgently be assembled and deployed to meet this challenge for producing detailed plans and providing implementation support.

The Global AIDS Trust Fund is being formulated partly in recognition that HIV/AIDs intervention for Africa, including treatment, will need to be funded largely from donor assistance. (Particularly, as estimates suggest that HIPC debt relief might save around $700 million per year in actual debt service flows from Africa, and even if this entire sum is directed at the health sector, it will prove an inadequate source of funds.) One hopes that the formulation of this Trust is also to permit the use of a new approach to development assistance for health – an approach that is not hindered by imperfections inherent in past World Bank and IMF health assistance policies. The hindrances include advocacy for user fees, obstacles to budgetary support, exclusive focus on primary levels of health systems, and other fiscal constraints imposed as conditions. The logical role of the World Bank and IMF at this momentous juncture in the fight against the pandemic would be to (1) grant the Trust Fund autonomy to act independently of traditional Bank policies, and (2) permit the

Trust Fund to assemble country or sub-regional Rapid AIDS Response Task Forces on behalf of the African countries.

The Task Forces would ideally be composed of appropriate professionals with in-depth knowledge of African socio-economic contexts, for example, African professionals who have relevant country experience but are now working abroad. A criterion would be a proven track record in technical and managerial positions either in the private or public sector. These professionals, with the consent of their current employers, would take a sabbatical to be stationed and engaged full-time in the relevant country or sub-region. A Task Force would report to a country/regional committee consisting of government officials and civil society. Civil society in this case refers to groups that are already engaged in addressing AIDS, for example, the religious-related health providers. In many African countries, mission health facilities are major providers of health care especially to low-income households and rural areas. As a result of their devotion and convictions, these faith-based health providers have proven to be accountable to the people and are untarnished by corruption.

To be effective, Task Forces must be constituted so as to be able to combine the following:

- technical knowledge about African health problems and the health delivery system;
- knowledge and understanding of existing and emerging international donor mechanisms and politics (WB loans and EU grants) to be able to access the funds and provide donors with assurance of outputs/outcome;
- political clout to be able to take active part in the policy debate surrounding HIV/AIDS control;
- sensitivity and respect for African social values and organizational cultures.

In the long term the Task Forces would work to institutionalize the mechanisms for continued production of global public goods for health tailored specifically to the African context. These include basic medical and operational health research that focuses, for example, on vaccines and new antiretroviral drugs effective against Non-B subtypes of the HIV virus responsible for the African epidemics, and formulation of approximate combination drug therapies from existing active anti-malaria compounds and researching into new compounds.

Finally, the World Bank, IMF, and other donors must commit levels of resources that will be adequate for the phenomenal task of control and treatment of AIDS in Africa. Not least, because it represents a "global public good". No nation or individual in the world will not benefit in some way from the success of this action. Recent studies outside Africa, in Switzerland for instance, report changes in the epidemiology of newly diagnosed HIV-1 infections revealing a predominance of heterosexual transmission and a high frequency of Non-B sub-types. Based on estimates by UNAIDS and others, approximately $10 billion will be required annually if HIV is to be tackled together with malaria and tuberculosis in Africa. Commitment and disbursement of this level of funds must be done with the confidence that the Trust Fund will assemble the most appropriate capacity available and achieve the results that the global community desires, which is to end this tragedy. Estimates indicate that $12 million annually could secure 10 Rapid AIDS Response Task Forces for Africa. There is little time to debate endlessly before taking this bold step. At worse all that may be lost is some fraction of the resource due to inefficiency and

imperfections, a normal occurrence in all human endeavors, and a price that is truly insignificant compared to the benefits. Millions of lives will be saved, and Africa could be given the opportunity to rise from the burden of disease and poverty.

Dyna Arhin-Tenkorang
May 13, 2001.

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[i] World Bank: *Financing Health Services in Developing Countries: An Agenda for Reform.* Washington D.C., 1987.

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