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REAUTHORIZATION REQUESTS ON U.S. PARTICIPATION IN THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND THE AFRICAN DEVELOPMENT BANK

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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REAUTHORIZATION REQUESTS ON U.S. PARTICIPATION IN THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND THE AFRICAN DEVELOPMENT BANK

Friday, July 19, 2002

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

The subcommittee pursuant to notice, at 9:35 a.m. in Room 2128, Rayburn House Office Building, Hon. Doug Bereuter, [chairman of the subcommittee] presiding.

Present: Representatives Bereuter, LaFalce, Frank, Waters, Bentsen, Sherman, and Sanders.

Chairman BEREUTER. The subcommittee will come to order. The Subcommittee on International Monetary Policy and Trade meets today in open session to examine the International Development Association, IDA.

I will divert a little bit from my prepared remarks because I need to convey that yesterday the administration did forward their request for the authorization with draft legislation. And it provides for—and I have seen it about 15 minutes ago—it provides for an authorization appropriation of $2,850,000 for the United States' contribution replenishment. The draft legislation is itself only 16 lines long and it asks for that authorization without fiscal year limitations.

I would like to read briefly from the letter of transmittal to the Speaker, who they asked to lay the draft bill before the House of Representatives. And it is conveyed to us by the general counsel of the Department of Treasury. I quote:

"The U.S. leadership"—"with U.S. leadership, the 13th replenishment will carry two hallmark reforms. The first is the expansion of grants in IDA. For the first time in history, IDA will be given authority to significantly expand its grant program beyond the small post-conflict program it has in place. Consistent with congressional desires, the administration was able to negotiate an IDA agreement where over the next three years roughly one-fifth of IDA's resources will be made available to the poorest countries in grant form for key sectors, such as education, health, water, and sanitation, and HIV/AIDs. In addition, grants will be provided for post-conflict situations, natural disaster recovery for the poorest countries most vulnerable to external shocks.

The second major reform is the establishment of a monitored evaluation system that measures IDA borrowing countries progress against a set of key development indicators. The measurement system serves two important functions to provide development effectiveness and accountability function to better position the institution to receive and demonstrate more precise results from the resources invested and a learning function to improve project design and to direct resources to what works.

In recognition of the importance of this initiative, the U.S. will condition a portion of its assistance, $100 million during the second year, and $200 million during the third year of the replenishment period on satisfactory progress toward select high-development impact objectives in areas such as health, education, and private sector development."

So the hearing today is the second in a series of three hearings on the subject of World Bank IDA. Previously, on May 2, 2002, the subcommittee heard testimony from the General Accounting Office on the subject of converting World Bank IDA loans to grants.

Today we will hear from a distinguished panel of private sector and non-governmental organization witnesses that I will introduce in a few minutes. Subsequently, on July 25th, the subcommittee is expected to hear testimony from Under Secretary John Taylor of the Treasury Department on the pending administration request for the multilateral development institutions. Actually, I am particularly pleased to have this panel first that we can use your comments and suggestions and consider them when we have our question period with the Treasury representative, Mr. Taylor.

I am going to ask unanimous consent to extend my remarks and put the full statement in the record in a few minutes. I would say with respect however to the loan and grants debate, in July 2001, President Bush proposed that the World Bank and other multilateral development banks replace up to 50 percent of future lending to the world's poorest countries with grants. According to the GAO report, which was co-requested by the Honorable Jesse Helms, Ranking Member of the Senate Foreign Relations Committee, and myself, conversion of half of all IDA loans to grants would cost donor countries approximately $15.6 billion in present value terms. The amount could be financed, they go on to say, if donor countries increased their IDA contributions by 1.6 percent for each of the next 40 years. The GAO also found that 50 percent grants would promote debt sustainability better than 100 percent debt forgiveness of old multilateral debt. According to GAO, this is largely because despite any one time full debt forgiveness, poor countries would continue to accrue new debt that would quickly become unsustainable.

The administration's loan to grant proposal has been controversial among some IDA donors in borrowing countries. The British and Germans, for example, are concerned that the loss of loans reflows would hurt the long-term viability of the IDA program without significant new commitments from donors.

Similarly, Europeans more generally fear that the distribution of grants would create an unhealthy dependence on foreign aid and hinder the development of international credit worthiness. And poor countries fear grants would give the World Bank increased

clout, which they could use to extract additional concessions from the borrowers.

But in June of 2002, this month, IDA donors did agree to a complex plan that would ultimately result in converting 18 percent to 21 percent of future IDA loans to grants. Under this plan, IDA-only countries will receive 100 percent of their assistance for HIV/AIDS projects in the form of grants and all IDA assistance for natural disasters reconstruction will be on grant terms.

Further, post-conflict countries and debt vulnerable countries with a per capita income of less than one dollar per day will receive 40 percent of their assistance on grant terms separate from and in addition to the HIV/AIDS or natural disaster fund. All other countries with a per capita income of less than one dollar per day will receive 23 percent of their assistance in the form of grants, again separate from and in addition to the HIV/AIDS and natural disaster funds.

There is general agreement among the donor countries that the grant money will be focused heavily in health, education, water supply, and sanitation projects. And then, of course, there is a substantial focus on performance funds but in order to expedite our consideration today and before I introduce the panel, I would like to recognize the distinguished gentleman from Vermont, the Ranking Minority Member for any comments that he might have in an opening statement.

Mr. Sanders?

[The prepared statement of Hon. Doug Bereuter can be found on page 80 in the appendix.]

Mr. SANDERS. Thank you very much, Mr. Chairman, and thank you for holding this very important hearing. And we thank our guests, distinguished guests for being with us today.

As we all know, the International Development Association, the poor country lending arm of the World Bank, is up for reauthorization this year, and I look forward to working you and the committee on this legislation.

The World Bank was originally set up to end global poverty. Unfortunately, many economists, labor unions, NGOs, religious groups, and others have strong concerns that the policies of the World Bank, which often support unfettered free trade, privatization, and slashing social safety nets of countries in order to balance their budgets, have contributed to increasing global poverty, not lessening it.

Mr. Chairman, it is my view that the United States and the other wealthy nations of this world must radically change their attitude and policies toward the developing countries. It is neither moral nor in the long-term best interest of the United States that millions of poor people around the world lack health care and medicine and die from preventable diseases. It is neither moral nor in the long- term best interest of our country that large sections of humanity are unable to find clean water to drink or schools that can teach children how to read or write.

Ultimately, in my view, a global situation in which a few countries have enormous wealth while a billion people live on less than a dollar day is not sustainable. Public policies that enable huge, multi-national corporations to exploit and control the poor of the

world cannot be allowed to continue. International financial organizations controlled by wealthy nations cannot be allowed to undermine democracy and the interests of indigenous people.

Here are just a few facts. According to the president of the World Bank, James Wolfensohn, "Global poverty is getting worse. Some 1.2 billion people now live in extreme poverty." In 1990, the world's poorest 400 million people lived on an average of just 78 cents a day or less, which represents an actual reduction in living standards from 1990. At the same time, the world's 200 richest people have doubled their wealth in the last four years.

According to former chief World Bank economist Joseph Stiglitz, "Although world income increased 2.5 percent a year in the 1990's, an additional 100 million people fell below the poverty line. A growing divide between the have's and have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day." According to a recent study by the United Nations, more than 100 million people in the world's poorest countries will be dragged below the basic subsistence level of a dollar a day by 2015 due to globalization.

However, the UN study concluded that if countries were allowed to abandon the economic adjustment programs they were forced to adopt in the 1990's by the IMF and the World Bank and instituted other reforms, widespread poverty in the least developed countries could be cut by two-thirds over the next 15 years.

Importantly, even the World Bank has admitted to its failure to reduce poverty in Africa. According to an April 22, 2002 front page story in The Washington Post, "Forty countries south of the Sahara have over the past two decades adopted the free market reforms, structural adjustment programs, and development jargon prescribed by such lenders as the World Bank and International Monetary Fund but in the generation since independence, Sub-Sahara and Africa has never been so poor. Since Zambia's leaders embraced free market policies in the 1990's, the countries manufacturing base has been eviscerated, leaving the government buried in more debt than it can repay and gradually replacing a full-time workforce with a growing and formal economy that offers low wages, no benefits, and no job security. World Bank officials acknowledge the collapse of Zambia's textile industry is an unintended and regrettable consequence of the free market policies promoted by the organization."

According to Foreign Policy in Focus, "The policies dictated by the World Bank and IMF exacerbated poverty, providing fertile ground for the spread of HIV/AIDS and other infectious disease. Cut-backs in health budgets and privatization of health services eroded previous advances in health care and weakened the capacity of African governments to cope with the growing health crisis. Consequently, during the past two decades, the life expectancy of Africans has dropped by 15 years."

It is my strong belief that while the current process involved in the global economy may be working for multi-national corporations, in many instances they are not working for the poorest people around the world and in many instances are not working for the middle class and lower income families in the United States.

Obviously, there are a lot of issues to be talked about. But I think the events, Mr. Chairman, of the last number of months where we have learned about the lying of some major corporations, their concern only about the stock options and the huge compensation packages of the people who head those companies might suggest to us that some of the policies being advocated by these people for the global economy may really not be of value to the poor people of the world or in fact the working people of this country.

There is a lot to be discussed, but I think we have to do a lot of fundamental rethinking about the direction and policies of the World Bank.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Bernard Sanders can be found on page 88 in the appendix.]

Chairman BEREUTER. Thank you, Mr. Sanders. Under the circumstances under which this subcommittee meets today, other members are entitled to up to five minutes. And I would recognize first the distinguished Ranking Member of the full committee, Mr. LaFalce, if he has an opening statement.

Mr. LAFALCE. I thank the Chair. I am very, very pleased by the outstanding panel that you have assembled this morning. Each of the organizations represented has played a critical role in the effort to alleviate poverty and bring prosperity to the developing world. Oxfam through its direct humanitarian education; Bread for the World through grassroots activism to fight global hunger and poverty; the AFL-CIO through their promotion of worker rights in all countries; and Bretton Woods through its advocacy role in support of the World Bank and the other multilateral institutions that serve as our primary tools, as they should be our primary tools for development policy.

Let me just say a personal note. Mr. Orr of Bretton Woods, I remember so fondly when you were a staff assistant on this committee in the 1970's and sorry that I couldn't make that recent speech before the Bretton Woods gathering but there were a few votes, as I recall, I will try to make up for it.

David Beckmann, Bread for the World has just been tremendous under your leadership. And I remember most fondly working in 1999 with Jim Leach, you, and Oxfam in the Year of the Jubilee 2000 in bringing about what I never thought we would be able to bring about, real debt relief. Not that we are finished but we got 10 times more than I ever thought we were going to and it was because of Bread for the World and Oxfam. And so it is great having you with us.

And Thea Lee, if there is any hope for bringing all the people of the world up, I think it is going to be through a much stronger unionization effort. I think that is an imperative. I think that is one of the difficulties we have had in the United States, the number of unionized people has gone down. And as we have a global economy, either we are going to bring the rest of the world up or they are going to bring us down. And our job, working with you, is to bring the rest of the world up.

And I know you emphasize international labor efforts, and I remember so many things we worked on but most especially the time when you and John Sweeney and I met with the Vatican's rep-

resentative in Seattle pushing for a papal encyclical on that very subject. So I could talk so much more. I have got a bill this year with Chris Smith that I think is very, very important but for the sake of brevity—I don't think I can say for the sake of brevity—for the sake of not going too long, I better just submit the rest of my testimony for the record.

Thank you, Mr. Chairman.

[The prepared statement of Hon. John J. LaFalce can be found on page 85 in the appendix.]

Chairman BEREUTER. Without objection, all members' additional statements will be made a part of the record.

Chairman BEREUTER. Mr. Frank, I know you have got a crucial conference beginning this morning, House/Senate conference and you indicated you probably won't be able to stay for all of this, so as I recognize you, you may want to leave a question or two for the panel to address. And I recognize you.

Mr. FRANK. Thank you, Mr. Chairman. The Ranking Member and I both will be going at 10:30 to the conference on corporate accountability. So I appreciate that. And my staff aide, Mr. McGlinchey, will be here to hear the answer. And I will take advantage of that.

First, I want to join in what my colleague from New York has just said. I do not think there is a more important moral question before us and probably not one that is more difficult intellectually than figuring out how to make sure that globalization goes forward in a socially responsible manner.

We are faced internationally with exactly the challenge that this country faced 70 years ago when Franklin Roosevelt was elected president, namely, how do you get the maximum wealth-generating impact of a capitalist system while mitigating its inevitable effects to promote inequality and to give people perverse incentives? We worked that out within in the United States.

The main reason for much of the New Deal was to put on a national level policies that would mean that you did not have states engaging in a race to the bottom in competing with each other to do too little. That is what we have to try to replicate internationally. It is of course much, much harder given the greater disparity by far in real conditions and given the absence of a unified sovereignty but that has to be the goal.

IDA obviously plays a very important role in that. Now one of the questions I would ask is this and that is to a great extent it seems to me the debate over grants versus loans is an artificial one that could easily be resolved, and I would ask this of Secretary of the Treasury O'Neill, who had indicated support earlier, if we the United States would simply pledge that to the extent a policy of going to 100 percent grants generated some shortfalls in what we would otherwise would have had we will make it up.

The numbers, as the chairman and others have produced, have had produced in reports are very small. So I must say the other arguments against loans seem to me to be insubstantial. The notion of ownership, telling poor people that they can show ownership by owing you money is unpersuasive to me that this is a good thing. I think that the case for grants is clearly there. The only problem is the re-flows and we can take care of that.

I would ask the panel in my absence, if we don't get there, to comment. There is a proposal pending, and I have talked to George Soros about it and others, for us to act on I think five year old decision now to increase the SDR allocation at the IMF.

Now this subcommittee has jurisdiction over that. It is not the topic of today's hearing but it is a relevant one. It is poverty alleviation. And I must say it seems to me that a decision to act on that agreement of five years ago and allocate those SDRs, allocate our share, has a lot of good sides and no bad sides. And I would be interested in your opinion as to whether or not that is something we ought to be doing. I think that could be very helpful. And, again, I want to say people tend to say, well, wait a minute new SDRs or debt forgiveness or going to grants, people tend to compare them. I do not understand why we should not be doing all the above. Debt forgiveness is not an alternative to going from grants—from loans to grants. They are additive in my judgment. And all occur at a very low level of money.

One of the things that we ought to remember is that if you talk about debt forgiveness and you accurately score that debt for what it is worth in the market, what you are likely to get from it, debt forgiveness is a pretty cheap way to go and it ought to be added on. But I would think the new SDRs would be a part of it.

Finally, I did note, Mr. Orr, you particularly talked about the private sector, and I am wondering whether you would address, as I said Mr. McGlinchey particularly will be fully briefing me, the question of how might we improve or increase the involvement with the private sector obviously in ways that fully protect people's rights, that don't give rise to an argument of exploitation. But, again, these ought not to be either/or, they ought to be complementary. And what way could we implicate—do other elements of the bank, the IFC or others, have any kind of expertise that might be useful within the appropriate framework?

Thank you very much.

Chairman BEREUTER. You are welcome, Mr. Frank. Mr. Bentsen, do you have an opening statement? The gentleman is recognized.

Mr. BENTSEN. Thank you, Mr. Chairman. And let me thank you for calling this hearing. I want to thank our panel for appearing today. I want to concur with the comments of our colleague from Massachusetts, which in part come off a hearing we had a couple of months ago on this subject.

I am reminded in his comments about debt not being equity that about 20 years ago when I was a young staffer on the Hill, I had a chance to go to a meeting with the Mexican representative to the United Nations at the time of the Latin American debt crisis or the beginning of it, and he made a comment that if, "I owe you $100 and can't pay you, I have got a problem. If I owe you $100 billion and can't pay you, you have got a problem." And I think that is in part where Mr. Frank is going.

I will say that in the midst of all of the short- term crises that we deal with, today it is corporate accountability. A couple of years ago it was the Asian currency crisis or liquidity crisis. The other issues we deal with, financial modernization and trying to meet the marketplace, I continue to believe that our true long-term problem for the developed or industrialized world is how we bring along the

lesser developed world and how we arrest the growing divide between rich and poor in this world because I think that too often a number of our colleagues in this body and too often a number of people in the industrialized world take a distorted view of how we are—of why we need to address the needs of the poor. And I would just, if you cannot appeal to their moral sense, which is good enough to me, then I would appeal to their economic sense that it behooves all of us to try and close that gap and increase industrialization and economic self-determination in the lesser developed parts of the world. And if we don't, we will pay a much steeper price for it in the long run.

So I appreciate the chairman calling this hearing and moving forward on the authorization. I yield back.

Chairman BEREUTER. Thank you, Mr. Bentsen. Ms. Waters will also be a conferee in the House-Senate conference beginning at 10:30. I recognize her for her opening statement.

Ms. WATERS. Thank you very much, Mr. Chairman. I appreciate very much your holding this hearing for the reauthorization of our participation in the World Bank's International Development Association.

Let me just start by saying I have been watching with horror the developing famine in southern Africa. Almost 13 million people in southern Africa are in danger of starvation. The crisis is widespread, affecting the people of Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe.

The World Food Program estimates that 1.2 million metric tons of food assistance will be needed over the next nine months to meet the minimum food consumption requirements of these six countries. People in these countries are already turning to desperate measures, such as eating potentially poisonous wild foods to stay alive. And we saw this graphic depiction on ABC the other night of a man eating dirt and children eating bugs.

Over the last three years, I have been working with members of the Financial Services Committee and supporters of the Worldwide Jubilee 2000 Debt Relief movement to end the crushing burden of poor country debts. Unfortunately, our efforts have only been partially successful and international debts have left several southern African countries unable to respond to crises such as this one.

Zambia provides an excellent illustration of why deeper debt relief is necessary. Even before the current famine began, Zambia was a deeply impoverished country with a per capita income of only $330. The infant mortality rate exceeded 1 percent of live births and 27 percent of Zambian children under five are malnourished.

Almost 10 percent of the population is infected with the AIDS virus and 650,000 children have been orphaned by AIDS. Yet Zambia's debt payments were actually increased after its total debt stock was reduced. Moreover, Zambia still spends more than twice as much money on debt payments as it does on health care.

Now in the case of Malawi, there is some evidence that indicates that the policies of the International Monetary Fund and the World Bank may have contributed to the famine. Malawi enjoyed bountiful harvests in 1999 and 2000. As a result, Malawi's Strategic Grain Reserve was stocked near its full storage capacity. By July of 2000, the Strategic Grain Reserve contained 174,000 metric tons

of grain reserves. The IMF, I am told, argued that storing that much grain was too expensive and risked distorting the market.

The World Bank agreed with the IMF that smaller reserves would be preferable. So the IMF, I am told, urged Malawi to sell some of its reserves to service its debt. Some of the grain was sold domestically in 2000 while domestic supplies were plentiful and prices were depressed. An additional 35,000 tons was exported in 2001 to Kenya and Mozambique. Even in the face of the current food crisis, the IMF continues to view the Strategic Grain Reserve as a drain on Malawi's budget and a source of funds for making debt payments and not as a source of desperately needed food for Malawi's starving citizens.

Last year, 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 owed to them by impoverished countries. Over 80 Members of Congress representing both political parties have co-sponsored the bill.

Earlier this year, H.R. 4525, the Debt Relief Enhancement Act of 2002, was introduced by a bipartisan group of Members of Congress, including Christopher Smith, John LaFalce, Spencer Bachus, and myself. This bill would require the IMF, the World Bank, and other creditors to provide significantly deeper debt relief to impoverished countries. Several members of the Financial Services Committee have co- sponsored the bill.

Mr. Chairman, I am going to have to leave but I look forward to hearing about the testimony of these witnesses. And I am particularly interested in hearing their views on the extent to which the IMF and World Bank policies and international debts contributed to the current famine in southern Africa.

I thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Ms. Waters. Mr. Sherman, do you have an opening statement?

Mr. SHERMAN. Amazingly, I do.

Chairman BEREUTER. You are recognized.

Mr. SHERMAN. I want to associate myself with Mr. Frank's advocacy for the important work of International Development. Ms. Waters has brought to our attention the dire situation in Africa. There is perhaps nothing more important that America can do then lead the world to greater not only political but also economic democracy.

As for debt relief, let us remember that most of the time this debt is not paid except either through—and I am talking about debt to the poorest countries—either as part of a package in which monies lent or given and then comes back to the very people who give it or is paid in anticipation of receiving additional loans. And debt relief may be a very, very good thing to facilitate the credit worthiness of governments that need money for additional development projects.

But we should regard debt relief, as we do any other aid, and that is a transfer to try to help people usually through the host government. And in a few cases, those host governments have no real connection with efforts to help their own people.

Those of us who support more foreign aid, whether it be in the form of aid or in the form of loans, have a special duty to make

sure that we can go to the American people and say that that money is well spent. And there are a few regimes seeking debt relief today so that they can borrow more tomorrow that would not spend those new loan proceeds effectively.

But as we sit here, we have to recognize that the people on this committee favor foreign aid more than the rest of Congress. That is why we got on this subcommittee. And the Congress as a whole has favored foreign aid far more than the American people. And nothing is more dangerous to the inadequate congressional support for foreign aid than the plan of the World Bank to loan $755 million to the Islamic Republic of Iran or I should say the "twin evils," the first evil being that plan and the second being the passive acceptance of this World Bank semi-decision by State Treasury and frankly this Congress.

There are those that think that the Iranian government is somehow captured by moderates. They listen to the occasionally moderate statements of the powerless president, the figurehead. Yet, we all know that Iran is actually run by its supreme leader, hence the title, supreme leader. That is why our State Department has identified Iran as the number one source of state terror, and we should always remember that the government in Iran is working every single day to develop nuclear weapons, smuggle them into American cities, and kill Americans by the millions. The American people I think understand that. I think decision- makers in Washington occasionally forget it.

And that is why it will be almost impossible to maintain over this decade support for foreign aid and international lending institutions if the United States does this year and next year what we did in the year 2000. In the year 2000, the World Bank lent $231 million to Iran. The United States voted no, voted no in a loud voice and then went for tea and crumpets for those who voted against us. I am not sure about the crumpets. But we simply shrugged our shoulders and did business as usual. Financing the nuclear destruction of American cities is not to be regarded as business as usual and yet $755 billion—rather million dollars is the plan of the World Bank over the next two years. Its web site currently identifies a $112 million loan as right in the pipeline right now.

Let us remember that money is fungible. The terrorists who operate the regime in Tehran spend as little as they can on domestic projects in order to hold on to power and everything that is left over is available for terrorism and nuclear weapons development. Everything. And we should not take lightly providing that government with that bit it needs to maintain power so that it has more of its oil and other revenues available for nuclear weapons development.

I will be proposing legislation very soon. I hope to have as cosponsors the most passionate supporters of foreign aid because this is the greatest danger to foreign aid—a bill that would say that the $847 million or such other amount—if I could have one more minute?

Chairman BEREUTER. Without objection, the gentleman is extended an additional minute.

Mr. SHERMAN. Thank you. Or whatever other amount might otherwise be provided to the World Bank will instead be spent on fighting AIDS in Africa if the World Bank authorizes any additional loans to Iran.

And, finally, let us not draw ultra fine distinctions between the IBRD and IDA. I don't have a constituent who knows the difference between those different pockets of the World Bank and the World Bank itself says that those are two organizations run by the same staff, basically money out of a different drawer. That is the World Bank position.

I look forward to safeguarding America's foreign aid program by making sure not one penny goes to a World Bank that would loan money to this government and Iran, and I look forward to a better government in Iran in the future so I don't have to make these comments.

Thank you.

Chairman BEREUTER. Thank you, Mr. Sherman. I appreciate my colleague's comments this morning. They are an important part of our hearing record.

As mentioned previously, we have a distinguished panel with us here today. We are anxious to hear from them. I will first receive testimony from Mr. James Orr, who is co-founder and executive director of the Bretton Woods Committee, a bipartisan, nonprofit group organized to promote sensible reforms and increase public understanding of international financial and development issues in the global economy. And, as mentioned by Mr. LaFalce, from 1975 to 1983, Mr. Orr served as a legislative counsel for this subcommittee's predecessor.

Second, we will hear from the Reverend David Beckmann, who will provide testimony on behalf of Bread for the World, a nationwide Christian citizens movement dedicated to eliminating world hunger. Reverend Beckmann served for several years on the board of directors of Bread for the World before becoming its president in 1991. In the interest of full disclosure, I also served on the Bread for the World board under his predecessor. Prior to his activities with Bread for the World, he spent many years as a World Bank economist where he played a prominent role in the Bank's heightened focus on poverty reduction.

Third, we will hear from Mr. Raymond C. Offenheiser, president of Oxfam America and a member of the board of Oxfam International, a confederation of 12 non-governmental agencies working together in over 80 countries where he works to serve Oxfam International's goal for lasting solutions to poverty, suffering, and injustice. He is a part of Oxfam as a strategic funder of development projects, providing emergency relief in times of crisis, and campaign for social and economic justice.

Finally, the subcommittee will hear from Ms. Thea Lee, assistant director for international economics in the public policy department of the AFL-CIO where she oversees research on international trade and investment policy. Previously Ms. Lee worked as an international trade economist at the Economic Policy Institute in this city and as an editor of Dollars and Cents Magazine in Boston.

So with that kind of introduction, I want to say that we are anxious to hear from you. The House is unexpectedly not in session

today. It means that we have less members here but it also means we have more time to hear from you and ask questions. And so we will extend from five to eight minutes to each member of the panel. And first we would like to hear from Mr. Orr. And I would say finally we will include your entire statements in the record and you may proceed as you wish. Mr. Orr?

STATEMENT OF JAMES ORR, EXECUTIVE DIRECTOR, THE BRETTON WOODS COMMITTEE

Mr. ORR. Thank you very much, Mr. Chairman, Mr. Sanders, and members of the subcommittee, it is a pleasure to be back with you today.

As Mr. Bereuter mentioned, the Bretton Woods Committee is a public interest group with 700 members across the country who share an interest in seeing positive reforms adopted by the multilateral institutions and in increasing public understanding and support for their work. As a number of members have already commented, Mr. Sherman in particular, public support for multilateral institutions is particularly thin in the United States.

I am here today to strongly endorse the replenishment of IDA. IDA is deserving of support from the Congress for many reasons. It is the main program that the United States has for helping the world's poorest countries, people who live, as has been mentioned, on a dollar or two a day. IDA pays for the bulk of infrastructure and social services in about 80 poor countries around the world, guaranteeing a basic level of social welfare that couldn't exist without IDA and paving the way ultimately for these countries self-sustaining growth, at least that is our hope. Moreover, much of the assistance from IDA goes to countries that are very important to us politically and strategically.

Over the years, IDA has been a very effective vehicle for helping these countries. It has done an incredible amount of good. It is working on one of the most difficult problems of our era. Although there is widespread agreement on the kinds of results we want to see from the work of the World Bank and IDA, there is much less agreement on what is the appropriate approach to pursue to achieve these goals. But all of the donor countries to IDA, which include the major countries in the world and many emerging market countries, agreed in their document approving this replenishment of IDA that IDA is the most effective agency for helping poor people of all those in existence, bilateral and multilateral.

One measure of the Bank's and IDA's effectiveness is that over IDA's 50 year history, there have been 32 countries which have graduated out of IDA and are no longer in need of concessional loans. They are able now to borrow either in commercial markets or from IDA's sister institution, the IBRD, which lends at commercial rates of interest.

A second bit of evidence that IDA is very successful is what recipient countries think. I was privileged to accompany a group of eight ambassadors from IDA countries two years ago who went to call on members of the Foreign Operations Subcommittee and it was really moving to hear each of these ambassadors talk about the important work that IDA was doing in their country and how important it was to the welfare and benefit of their population.

Clearly, the IDA and World Bank have made mistakes over the years. We have heard some referred to today. But in general it has learned from its mistakes and it is much more effective today than it has ever been before. There is certainly some skepticism about effectiveness. I think that is a good thing. It makes organizations like IDA constantly try to improve what they do and prove that they are in fact effective. And I think all supporters of IDA, including all of us at this table I think, would want to see the program held to very tough standards.

Another point I would like to make is that IDA is evolving to meet current challenges. It has made great strides recently in a number of areas that have been a concern to this committee in years past. In the area of transparency in particular, there has been a huge change in the World Bank and the other multilateral institutions over the last 10 years. The way is now open for interest groups around the world and people in borrowing countries to closely track what it is the World Bank and IDA do to comment on projects and to involve themselves in shaping and influencing the work of IDA and the World Bank.

I found it quite interesting that the draft agreement approving the new IDA was sent out and made available to NGOs around the world for comment months before the final document was agreed to. And many organizations, including some represented at this table today, took the opportunity to make suggestions for improving IDA and some of those suggestions were adopted in the final agreement.

On the question of transparency, I think the onus now is on countries. There is no greater champion of transparency than the World Bank itself but it is sometimes prevented from moving more aggressively in this area by some borrowing country members who are reluctant to see more transparency. I think it is important to recognize who are the foot- draggers in this.

The World Bank and IDA have made tremendous improvements recently in increasing ownership by borrowing countries. They have done this by mandating the participation of civil society in the preparation of loans, largely through the PRSP, Poverty Reduction Strategy Paper writing process and through other means.

The Bank and IDA have had a huge impact on fighting HIV/AIDS, the greatest problem of our era. The World Bank and IDA are the largest investor in AIDS projects of any institution in the world, over a billion dollars recently. And President Wolfensohn has pledged publicly on many occasions that no worthy project to fight AIDS will go unfunded as long as he is president of the World Bank.

Another recent innovation at the Bank and IDA is the movement to grants, which some members of the subcommittee have already referred to. I think this is a very important innovation, not just because it will help reduce the debt burden that we all understand has been a very significant impediment to development, but it will also open the way to implementation of projects by civil society groups, some of whom are better, frankly, at working at grassroots levels than some huge multilateral institutions.

Finally, I would like to say in the view of most members of the Bretton Woods committee, the new focus on private sector develop-

ment is a very important realization by the Bank that the private sector ultimately will be the engine of growth for most countries that break out of the ranks of the poorest and achieve the status of an emerging market country, at least that has been the history of all of the 32 graduates from IDA in the past.

I would like to plant a few ideas for possible initiatives which Congress might like to consider in advancing legislation for IDA. One of the things that I think would be important is to see if Congress could help devise ways to make the Bank somewhat tougher on borrowers. Despite conditionality, which is applied to all World Bank and IDA loans, I think over the years a certain closeness has developed between project officers at the World Bank and IDA and the officials in the countries that are borrowers from IDA to the point where sometimes the World Bank could be tougher in making demands of countries. Often in my own view they have been too forgiving. And I think that is why we have seen slow movement in many of the areas that we are all concerned about, fighting corruption, improving governance, and some other areas. So I think this is probably a fruitful area to look for innovations.

I would also urge the subcommittee to keep pressure on Treasury to work on the issue of public education on the importance of the multilateral institutions. Treasury does virtually no public education and this is in stark contrast to what happens in many other countries. Every time I travel in Canada and turn the radio on, I hear public service announcements touting what Canadian development assistance through the World Bank means in terms of HIV/AIDS clinics in Southern Africa, for instance. If there were more U.S. public support for the work of IDA and the other multilateral institutions, it would open the way for potentially increasing contributions and doing the kinds of things that members of the subcommittee would like to see happen.

I have reached the end of my time, Mr. Chairman. I look forward to answering your questions. Thank you.

[The prepared statement of James Orr can be found on page 112 in the appendix.]

Chairman BEREUTER. Mr. Orr, thank you very much. In light of Secretary O'Neill's recent visit to Africa, maybe this is the time to pursue the latter point and put it into place in some sort of an institutional basis.

We are pleased now to hear from Reverend Beckmann, president of Bread for the World and a native of Lincoln, Nebraska.

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

Rev. BECKMANN. Mr. Chairman, Mr. Sanders, and members of the committee, I am really honored by the chance to contribute to this hearing. I will focus my oral testimony on four issues related to IDA: my overall assessment of IDA, the issue of debt relief, the specifics of how Treasury is going to implement this reform in the area of monitoring and evaluation, and then the Millennium Challenge Account in relationship to IDA.

The first thing I want to say is that I think IDA on balance is a really good institution. I really appreciated the opening comments and all of the members' emphasis on the importance of re-

ducing poverty in the world. It is a bloody scandal that there is still as much poverty and hunger in the world as there is now. But on balance I think IDA contributes to the reduction in poverty.

I have been involved in working for World Bank reform now for 26 years, for 15 years within the Bank and for the last 11 years as an advocate outside the Bank, contributing to efforts to make the Bank and IDA better. And there is still a long way to go. I am struck that this committee has been a major force for reform for as long as I can remember. Since the early 1980's at least, this committee has been pushing for the Bank to be more poverty focused and more open to democratic participation. And then all over the world a lot of people for the last couple of decades have been working to make the governments of some of the poor countries more democratic and more effective for development purposes. All these efforts have had some impact. The Bank was always a competent institution. And I think it has become more poverty-focused, more open to democracy. It has got a long way to go but, on balance, the bank is a good thing for poor people. And at this point in history, Bread for the World supports the replenishment of IDA. We hope that you pass the authorizing legislation.

Second, with regard to debt relief. The Jubilee movement for debt relief was a huge explosion of popular interest and active interest in an international development initiative. This is the most popular multilateral development initiative in U.S. history.

The data on U.S. public opinion show that in the last few years opinion has become markedly more favorable to effective initiatives to reduce poverty and hunger and help with health problems. And the Jubilee movement was a successful effort to mobilize some of that increasingly favorable public opinion into a political initiative.

So I have three specific suggestions for the committee in terms of moving forward with what debt relief did for IDA and for poor people and for the politics of our own country.

First I would suggest that the committee hold a hearing on debt relief implementation. From what Bread for the World has learned from official channels and from church channels, we think it is working pretty well. And tens of thousands of Americans actively work for debt relief. A committee hearing could help Congress and Americans see that it has worked pretty well, and a hearing would also push so that debt relief would work better. There are a lot of things that could be done to make debt relief and the poverty reduction strategy paper process more effective.

Second, the G-8 Summit just agreed on an additional $1 billion to continue the debt relief initiative that has already been agreed. That is necessary because of the global economic downturn. It is just more expensive to do what was originally planned.

I really hope that Congress and the President will fund the United States' share of that billion dollars in Fiscal 2003 as an addition to what Congress would have otherwise done. Partly because of September 11th, the President has made a number of promises that our country is going to do more to reduce poverty around the world. But so far it is all money in fiscal years 2004 to 2006. This agreement at the G-8 is an opportunity for Congress and the President to increase funding for poverty reduction in Fiscal 2003.

Third, in the area of debt relief, Bread for the World supports the Smith-LaFalce bill, which would modify the criteria by which the international community decides how much debt relief a country needs to get to a sustainable level of debt payments. It modifies it in sensible ways, ways that also take account of the AIDS crisis in many countries.

Mr. Chairman the Senate recently passed their version of the Smith-LaFalce measure in their AIDS bill. The most likely way that this could come to the floor of the House is through the conference on the AIDS bill. So I would urge you and the committee to look favorably on the Smith-LaFalce proposal. It would deepen debt reduction.

Now let me turn to the question of the second major reform, monitoring and evaluation. It is really exciting that Secretary O'Neill is putting so much emphasis on how we know what is really happening in the lives of poor people in the poor countries; How do we monitor that? I don't see how it is possible for Treasury to evaluate whether IDA does a good job next year on the basis of whether poverty or education indicators change over a one year period. That doesn't make sense. But what does make sense is for Treasury to put emphasis on what the World Bank is doing, together with the whole international system, to improve data collection. There is a broader movement underway to focus on the millennium development goals, specific goals, and to develop good indicators. If the Bank can help us get reliable real-time indicators of education, health, poverty and hunger, that would help everybody. Treasury, the Bank, also, local people in poor countries know what is going on and hold the authorities responsible (not only IDA but all the way through the system.) So one focus for monitoring IDA's performance how well it helps in this broader effort to improve indicators of what is happening to poor people.

Another area where I would focus year to year evaluation of IDA is on the question of transparency and democracy-friendliness. The Bank has come a long way, but it has a long way to go. We have learned that the best way to improve the quality of Bank-supported policies and projects is to let local people know what is going on and give them a better chance to have an influence. That is more powerful than any indicator that somebody in Treasury is going to look at. What Treasury can look at is what is the Bank doing to become more democracy-friendly, so that people in rural Tanzania can know what is going on and hold the Bank accountable.

Finally, I would like to talk about the Millennium Challenge Account in relationship to IDA. President Bush and other heads of government have recently promised a major expansion of development assistance to the poorest countries, an additional $5 billion from the U.S. every year and an additional $7 billion a year from Europe. So as you are considering IDA, you should ask how the next replenishment of IDA will play out in what could be a dramatically improved context of overall development assistance.

In particular, when Under Secretary Taylor comes, I hope you will ask him how the administration's is thinking the Millennium Challenge Account, and bilateral assistance generally are going to coordinate with IDA and the poverty reduction strategy process and with what the Europeans are doing with their promised addi-

tional $7 billion. My sense is that there has not been much conversation about how the U.S. $5 billion and the European $7 billion, are going to work together. The MCA will be most effective if it is part of acoordinated international development effort, which means it needs to connect with IDA and the PRSP process.

Bilateral assistance can be more frankly supportive of democracy and human rights than IDA by its charter is likely to be. The MCA can specifically focus on whether a country is respecting human rights, and they can fund things like technical assistance to legislatures, the media or civil society groups. If the MCA does that kind of democracy-focused funding in the context of the multilateral system, that would improve the impact of IDA and the whole development system.

Thank you.

[The prepared statement of David Beckmann can be found on page 93 in the appendix.]

Chairman BEREUTER. Thank you very much, Rev. Beckmann. We are very pleased now to hear from the representative from Oxfam and that is Mr. Raymond C. Offenheiser. You are welcome to proceed as you wish.

STATEMENT OF RAYMOND C. OFFENHEISER, PRESIDENT, OXFAM AMERICA

Mr. OFFENHEISER. Thank you, Mr. Chairman. Chairman Bereuter, Ranking Member Sanders, committee members and guests, it is a distinct honor for me representing Oxfam to testify before the subcommittee today on the World Bank's International Development Association.

By way of introduction and background, I would just like to comment briefly that Oxfam as an organization was founded here in the United States in 1970 and is based in Boston. And for the record, we accept no government or World Bank funding.

The Oxfam network or family, Oxfam International, has broad experience in the developing world supporting some 4,000 non-government partner organizations in some—120 developing countries, many of whom incidentally are IDA recipients.

The replenishment of IDA is an especially opportune moment from our point of view to examine the operations of the World Bank and to push for reforms in its operations. The Congress, and this committee particularly, has been a leader in encouraging the Bank to reform. And it is clear to us as an observer and an advocate within this process, that when you speak, as committee and as Congress, the Bank indeed listens.

By way of prefacing comments on the context in which this broader discussion is taking place, I would like to just simply open with a couple of broad observations about what has taken place over the last 10 years by way of re-framing the approach to development that actually Oxfam feels is very important to the directions that IDA and the general process of development is taking.

First of all, we are heartened by the increasing emphasis on poverty alleviation, and as David has emphasized, real outcomes in people's lives. And the fact that this kind of language and this kind of emphasis is very evident in the way the World Bank and other

international institutions today speak about their work and seek to measure it.

Second, we have been heartened over the last 10 years by the increasing emphasis on citizens' democratic participation in setting agendas and providing citizen accountability for the performance of bank institutions. And we are particularly happy about the increasing use of the PRSP process as a way of focusing that debate and citizen participation.

We also think that the emphasis in the past few years to take perhaps a tougher look at the results of the macro economic policies that have guided Bank and IMF lending over the last many decades has been healthy and salutary and it has led to innovative thinking that has brought forward the kinds of debt relief proposals and HIPC initiatives that have been debated in this committee.

And, finally, we have been pleased by the greater emphasis on donor coordination and by country buy-in, which we think is particularly relevant to the MCA debate that will be emerging in the coming months.

And we also recognize that these—you might call them drivers have led to substantial reforms in the way the World Bank and the IMF perform as members of the multilateral system, and we think those changes and reforms are palpable and visible in many ways. And we would like to open with giving some credit where credit is due to the World Bank leadership, particularly Jim Wolfensohn for his efforts to push these kinds of reforms. While recognizing that everything is not perfect in a real world, real initiatives have been taken, and we recognize that this kind of change on such a large scale is a long-term process. But we think some good first steps have been taken.

Since my written testimony covers a diverse range of topics in some considerable detail, I am only going to review some of the high points of that broader testimony this morning.

First, in the area of overall IDA effectiveness, it is clear to Oxfam that initiating IDA grants is a very, very positive step that we fully endorse. We strongly support the administration's position of providing grants for health and education in the public sector as long as the United States and other donor governments provide sufficient funds to make up for the decrease in loan repayments. This was Congressman Frank's point earlier today, that in fact we want to keep the IDA flows real and we think it won't cost that much money to do so.

We regret in fact that the G-7 rebuffed the President's proposal of a 50 percent grants ratio and is limiting grants to only 18 to 20 percent. Nonetheless, from our point of view, converting some loans to grants will increase the likelihood that the poorest countries will be able to reduce their foreign debts to a substantial level over the long haul.

Donor governments with the United States leading by example must provide sufficient funds for the poorest countries to meet the Millennium Development Goals. This is a major challenge put forward by Kofi Annan. We must also insist that the World Bank, IMF, and credit countries like ourselves provide deeper debt relief to impoverished countries.

As was noted earlier by Congressman LaFalce, we made a great start with the HIPC initiative and the Debt Relief bill of 2000 but we have not finished the job as it were and perhaps that is what lies before us.

Specific to the debt issue, we would like to encourage you, Mr. Chairman, and your subcommittee to demonstrate your commitment to effective development by examining and then supporting the Smith-LaFalce debt reduction bill that is currently before the Congress. If a heavily indebted poor country or HIPC country were to spend no more than 10 percent of its annual revenues, or in the case of a country suffering a severe public crisis, such as HIV/AIDS, not more than 5 percent of its budget, the bill estimates that between $700 million to $1 billion of additional debt relief will be provided.

In addition to grants for basic services and debt relief, this subcommittee should insist also that all elements of the World Bank be dedicated to eradicating poverty or focus heavily on the human development indicators. Currently, the World Bank actively supports investments in oil, natural gas, and mining. These loans, in our view, do little to increase broad-based economic growth and poverty reduction in developing countries.

A recent study commissioned by Oxfam reveals that these sectors may actually worsen poverty by creating little employment or opportunity for the poor and by contributing to corruption, conflict, and increased vulnerability to economic shocks. In our view, Congress should press the World Bank to prioritize investments other than those in extractive industries that might better respect the rights of poor communities and foster more equitable outcomes and diversify the economic base of the world's poorest countries.

On the PRSP process, the Poverty Reduction Strategy Papers of the World Bank, we believe they have real potential for ensuring that all World Bank and other donor actions, including the new Millennium Challenge Account, are consistent with a coherent national poverty plan in each country that can succeed with local leadership and ownership. We believe that the PRSP process has given a coherence and a focus to the civil society debate that currently takes place in many of the countries around the world where these plans are in process.

A developing country in our view should articulate one and only one national strategy that all donors buy into. Admittedly, the current PRSPs are still weak. We are cognizant of that in terms of both donor acceptance and quality of local participation. But we believe these areas can be improved. Almost all share a further weakness, the macroeconomic policies that create the basic architecture for the entire economy are still largely mass produced by the World Bank and its sister institution, the IMF.

And our belief is there needs to be more flexibility in the thinking about the economic logic that underlies the PRSPs. Through the PRSP, the national government, along with its legislature, press, and civil society need to understand and buy into a coherent national approach for ending poverty.

As politicians, you recognize that the PRSP approach will take time and several iterations to get it right. In the meantime, it is important that countries urgent needs for basic services and debt

relief not await a perfect product, we might say. By way of example, we might ask how many of each of us would be willing to hold our six year old sons or daughters out of school for five or six years until the national government designed an education plan that some other folks decided was "good enough."

Oxfam maintains that all people have a right to basic services, such as health care and education. In the area of health, the HIV/AIDs crisis cries out for attention. Five thousand Africans die everyday for the lack of medicine. We and other donors have resources to fund both prevention and treatment programs. IDA provides a mechanism for us to act in concert to halt the 21st century's black plague.

The World Bank developed an excellent assessment of the national education needs of the world's poorest countries. Unfortunately, the G-8 failed to take up the challenge to commit the essential funds to educate all of the world's children and to leave no child behind. It is an opportunity again through IDA and an obligation for this subcommittee to insist that there be full funding so that all the world's children receive a basic education.

A surprising reality about the Bank's work in education and other basic services is the poor quality of data available for monitoring the effectiveness of its programs. It is our belief that the Bank must commit sufficient resources, both intellectual and financial, to ensure that data are collected, not on administrative and bureaucratic infrastructures of health and education ministries and programs, but rather on the number of well babies and healthy mothers and children reading and writing. Such data collection is essential if we are to ensure that IDA funds are well used and that performance-based development genuinely yields the kinds of results for the poor that we are really all after.

My final point touches on the need for full disclosure and on the broader issue of transparency. The U.S. Congress was instrumental in insisting that the World Bank begin the process of letting the public see its decision-making processes. Regrettably, in our view, additional pressure is needed for this process to achieve greater results. Therefore, we would like to recommend that the committee require the Bank to open its board of directors' meetings to the public, disclose transcripts of these meetings, and release all key documents prior to board considerations of lending.

Let me conclude by saying that the IDA replenishment discussions enable us to insist on greater development effectiveness by the World Bank. The United States Congress has a proud record of bringing reform to the Bank as you act on the people's voice—or act as the people's voice. We thank you for your work that you have done in the past and your dedication that you continue to show on these important issues. And I am very grateful for the opportunity to speak to you this morning, and I request permission to have my extended remarks submitted for the record, Mr. Chairman.

Thank you very, very much.

[The prepared statement of Raymond C. Offenheiser can be found on page 103 in the appendix.]

Chairman BEREUTER. That will be the case and thank you very much. In fact, all of your full statements will be made a part of the record.

We are pleased now to hear from Ms. Lee, representing the AFL-CIO. You may proceed as you wish.

STATEMENT OF THEA LEE, ASSISTANT DIRECTOR FOR INTERNATIONAL ECONOMICS, AFL-CIO PUBLIC POLICY DEPARTMENT

Ms. LEE. Thank you so much. Thank you so much, Mr. Chairman, Congressman Sanders, and Congressman Bentsen, for inviting me here today and allowing me to speak on this important issue of the IDA replenishment on behalf of the 13 million working men and women of the AFL-CIO.

This morning I also would like to offer some comments on behalf of a broader coalition of civil society organizations that the AFL-CIO has been working with in recent months and years on this positive reform package. Oxfam America and Bread for the World are also part of this broader coalition and so I think you will see that there is some overlap in some of the reforms and the policies that we have been talking about. The full report that the coalition wrote is called, "Responsible Reform of the World Bank," and it is available on the web site of the Bank information center at www.bicusa.org and I think there are also some copies available here for anybody who is interested.

I wanted to focus today on three things. First, increasing the amount of resources that poor countries can dedicate to development, as I think everybody has said here today, we are all in agreement on this, through the two roots of increased debt relief and the shift from loans to grants. Those are both crucial pieces of the changes in policy that we need to make.

But I think it is also equally important that we emphasize the reforms that we need to see at the World Bank in current policies; We don't think it is appropriate just to give more money and step back; We need to both ensure that the World Bank is more effective and accountable through improved transparency, as Ray Offenheiser said, and through improved assessment mechanisms that really do go to the heart of the concrete benchmarks in development that we are looking for as opposed to kind of vague policy reforms that don't have a very good track record in our view.

And it is crucial for us also that Bank policies and Bank resources are used to make productive investments in human development instead of being used to support policies that in our view in the past have harmed the environment, workers, and the poor. And we believe that this opportunity right now, the IDA replenishment, which, as you all know, comes up once every three years, is a crucial opportunity for the Congress and this subcommittee in particular to push for these meaningful reforms of World Bank policies.

Congress should ensure that the hundreds of millions of taxpayer dollars or billions that are provided to the World Bank this year do not fund more failure at the institution but instead really go to cancelling debt, improving transparency, achieving positive health

and education outcomes, ensuring respect for core worker and gender rights, and protecting the environment.

Tying these essential reforms to congressional funding decisions is in our view the most effective way of ensuring two things. First, that our government convey effectively via the U.S. Treasury Department to the Bank what these concerns are. Second, that the Bank is motivated to comply. We have all had a lot of experience in the past, I know you have, but we in the labor movement too with working with Congress to put in place policy reforms at the international financial institutions, and I would have to say that our experience in that regard has been inconsistent at best and disappointing at worst. Congress has been in some cases very clear with the Treasury Department as to the kinds of policies we want to see and that Treasury in our view applies its own priorities to those concerns that are legislated by the Congress and sometimes drop some of them by the wayside. I will come back to that later in my remarks, but I think it is really important that Congress' role be meaningful in this regard.

There are two kinds of reforms that we are talking about for the World Bank, and one is the positive set of improving transparency, participation as the PRSP program has made some efforts in that direction, and making more resources available.

There are also negative reforms that need to be made. The Bank has in our view put in place policies in the past that have done harm to workers and the environment. The conditions that have been imposed in the name of structural adjustment in our view have yielded disappointing development results, poverty results, equity results, and also have had real adverse consequences on particular groups of people, particularly working people and the poor.

We think it is important that Congress conditions future IDA funding increases on progress in adopting the congressionally-designated reforms, just as the Treasury Department itself has pledged funding increases conditioned on performance indicators. Like everybody else, I have submitted my written testimony, so I am just going to hit a few highlights today.

First in terms of the grants versus loans issues, I think I agree with my co-panelists that this is a crucial reform, that it is important. We did support the move to the 50 percent grants for IDA funding so long as future contributions were not harmed by doing so. We think the move to 21 to 18 percent is a step in the right direction, and we hope that we will be able to build on that and build a successful program and show that the resources will be there to make up for the lost loan repayments in the future. But it is also crucial, as I have said, that the grants are really used for the pro- poor policies and that environmental and social safeguards and proper assessment benchmarks are put into place.

Second and again the point has come up several times, the transparency issue. I just want to say I think that everything we talk about with respect to the World Bank is pivotal on transparency reforms being made. We applaud the progress that has already been made at the World Bank in this area. There has been some real concrete progress made but the reforms that are in the responsible reform report, and that Ray Offenheiser mentioned, are crucial, including the opening the directors' meeting, disclosing the

transcript, and releasing key documents prior to board consideration.

These are the same reforms, of course, that were legislated in H.R. 2604 with respect to the regional development banks, and we think that was an excellent step in the right direction. And particularly for working people and for unions, not having access to the draft documents of bank loans ahead of time really cuts their legs out from under them and makes it hard for them to participate in a meaningful way, whether it is in the PRSP process or in conveying to their governments whether they agree with or disagree with some of the elements of the World Bank policies.

The other thing we would like to ask of Treasury is to set a good example for other countries by posting its own board statements immediately and reporting regularly to Congress on compliance with its mandates. Treasury can post its own statements today. We don't have the excuse that other World Bank members are resistant to these forms of transparency. It is something that can be done and it ought to be done, and we would urge Congress to ask Treasury to do that when they come to see you next week.

And the last point I want to touch on is workers' rights, which is of course crucial to our members. We work closely with our brothers and sisters in trade unions in the developing countries, and we hear disturbing stories all the time about World Bank policies that actually weaken unions, lower wages of workers who are already at or below the poverty level, and undermine the core labor standards that the international community has time and again endorsed and agreed to, both at the ILO, at the United Nations, and at the WTO, believe it or not.

But it seems to us that respect for core workers' rights, for freedom of association, the right to bargain collectively, and prohibitions on child labor, forced labor, and discrimination in employment are absolutely essential to the World Bank's core mission of reducing poverty and also building the kind of democratic, sustainable, equitable societies that can really take the money from debt relief and from the IDA loans and be able to ensure that they are benefitting a broad sector of society, that they are hearing from key civil society players in an effective way.

We would like to see the United States and this Congress in particular use the IDA replenishment process to require the Bank to adopt enforceable and comprehensive policies to protect core workers rights, and we would like to see in particular a screening mechanism that the Bank would put in place for all of its lending, including the structural adjustment to ensure that loan conditions do not undermine core workers rights, as we are afraid they have done numerous times in the past. Also the Bank should assess the impacts of its loans on employment, wages, and income inequality. It should work with the ILO and with trade unions on the ground in a consistent way year after year in order to ensure that their participation and input is incorporated into Bank policies.

And one final point on this, that the Treasury Department has been mandated by Congress to produce an annual report on workers' rights and how the various policies that have been legislated through this Congress to structure policies and programs so that

they don't undermine workers' rights and so on to report on what kinds of progress they have made.

Now even when Treasury makes those reports, sometimes they are not as transparent as we might like. There are conflicting claims that are made by different people and we hear different reports and, of course, since we don't have access to the meetings or the transcripts, it is hard for us to verify what is going on.

But most troubling is that in 2001, Treasury did not even bother to issue this report. The report just didn't happen. And there has been I think not enough outcry and not enough outrage that Congress has asked Treasury to report on workers' rights and Treasury has simply decided it is not interested in doing that. And we object very strongly to that dropping off the agenda.

So let me end there and look forward to your questions. I thank you so much for the opportunity to come. I thank my fellow panelists for their very interesting and thoughtful remarks. And I look forward to working with you and the subcommittee in the future on shaping this authorization program.

[The prepared statement of Thea Lee can be found on page 98 in the appendix.]

Chairman BEREUTER. Thank you very much, Ms. Lee. We will proceed under the five-minute rule but we will be able to proceed with as many rounds as members wish this morning to take maximum advantage of the expertise that is at the witness table today.

And I will recognize myself first. Ms. Lee, your most recent comments, as you concluded your remarks, are bringing to our attention a very troubling aspect of Treasury's performance with respect to congressional mandates. It seems to me it doesn't matter which administration is in office, which Secretary is there, there is a degree of arrogance in Treasury that is almost unmatched in the Executive Branch. They seem to regard themselves as part of the Office of the President and therefore are not a line department like all the others that are to respond to appropriate policy initiatives. Within the Department, there is this culture of loving democracy but not respecting the role of Congress in this democracy and its appropriate public policy statements.

I would like to—and I want my staff to follow up on some of your suggestions about the recent failures and how we can bring more transparency to Treasury itself. Perhaps this is the time for a major consideration of legislation related to Treasury in addition, as a separate item instead of just focusing on the reauthorization.

One of the disappointments, and I think it must be somewhat embarrassing to the Europeans, is that when the United States takes the lead on trying to move a larger percentage of resources to grants, they oppose. They have always had a very superior attitude about their contributions and their assistance to undeveloped countries of the world and so I find their reluctance to move in this direction to be puzzling, at least. What do you think, gentlemen and lady of the panel, that we should consider in objective consideration of their statements and views that moving to a larger percentage of grants would actually weaken the governments of poor countries by contributing to a culture of dependency and hindering poor countries' ability to develop international credit worthiness?

That is the line that we have heard repeatedly in the course of these negotiations. Is that something where there is legitimacy or is it something that you reject? Who would like to offer an opinion? Reverend Beckmann, you can start. I see several hands.

Rev. BECKMANN. I think it is nutty, the European position has just been nutty. But what it is about is not the issue. What it is about is a really dangerous lack of coordination and sense of common purpose on these international development issues.

Over the last few months there was a sort of bidding war between the Europeans and the U.S. about who was going to embarrass the other at Monterrey. Both the Europeans and our own administration made remarkable commitments to increase development assistance, but I don't get any sense that they are talking to each other about how they are going to do this together. I don't want to exaggerate that, but as far as I can tell the conversation about the Millennium Challenge Account within the administration is not very well connected to what the Europeans may be planning.

Just before the hearing began, I talked to John Sanford from Congressional Research Service. He just came back from Europe. John said this stand-off on IDA grants is partly because Europeans together have 30 percent of the votes in the multilaterals. They realize that if they can get their act together, they don't always have to follow the U.S. the way they have typically done.

To me the issue is not just why were the Europeans wrong on this issue, but why aren't we working together better when on both sides of the Atlantic, people are promising to do more for poor people? If they don't work together on what could be a remarkable new initiative, then we will squander a lot of the potential of the moment.

Chairman BEREUTER. I think I saw two other hands, Mr. Orr and Mr. Offenheiser both. Mr. Orr?

Mr. ORR. I am never eager to rise to Europe's defense, but I think it would be a mistake to dismiss too quickly this argument, which I associate more with the Japanese government that has resisted debt relief for fear that countries will adopt a culture that not paying debts is an acceptable practice.

I think there is a feeling throughout Asia that Asian countries borrowed from these institutions and made the sacrifices necessary to repay the debts and that other countries should follow suit.

I think in the case of Europe that that argument might have been a sham. My sense is that Europe was really worried that we would move the World Bank or IDA to a largely grants-based system and then legislatures, particularly this legislature, might not then follow-up with the additional resources that would be necessary to keep up the flows.

There is a lot of resentment in Europe that the United States is the country that pushes hardest and loudest for reforms at all the multilateral institutions and then is often the country that is the lowest common denominator in agreeing to funding increases and then often the last country to implement those increases.

So whether Europe is right or wrong, I leave to you to judge but I think that is perhaps the real concern with the move to grants.

Chairman BEREUTER. Mr. Orr, I am afraid that there is some validity in there, the last two expressed concerns that you reiterated.

Mr. Offenheiser?

Mr. OFFENHEISER. As a member of the broader Oxfam family, I spend a good deal of my time in Europe with my European colleagues who we have five Oxfam members, affiliate members who are European based. And, again, my perspective on this discussion about grants versus loans is that in Europe at this particular time, the deeper concern is not about credit worthiness and dependency of the developing countries. In some ways, I think that is a canard.

The real issue is at this particular moment in history a deep distrust of the motives of the United States in putting that offer on the table, unfortunately. In its extreme, I think there is an assumption that behind it there is an intent in some sense to undermine or de-fund the multilateral institutions over the long haul by putting forward that kind of an agenda and then trying to push it and broaden it going forward. In some sense, it is about the Treasury Department. And the fact that there is a sense that our approach to these issues perhaps is more unilateral than multilateral and that we are less concerned about coordination than perhaps advancing a particular agenda.

I actually believe that Congressman Frank is correct that to some degree if the United States were to come forward with a very strong statement about a commitment to replenishment and were actually to deliver on it, not just to argue for it, that in some sense it would allay a lot of the fears about this that there are other motives behind this gesture than good development practice.

The other thing I would like to say about the grants versus loan issue is that there is some interesting history in the United States that I think sometimes we lose sight of and that has to do with our broader sort of philanthropic connection to the developing world.

I spent 10 years prior to Oxfam working for the Ford Foundation in Asia and all over Latin America, and one of the things that was really quite striking to me, particularly during my tenure, five and a half years in Bangladesh, was the extraordinary contribution that institutions like Ford and Rockefeller Foundation had made to building institutions, teacher training institutes, universities, in some cases the actual ministries and planning institutes of these governments, all of this was done with grants through much of the 1950's and 1960's. And really those institutions today are the backbone of what is really conducting a lot of the development debate with the United States throughout South Asia. All of which is to say that I think grants combined with loans actually gives institutions like the World Bank a multiplicity of tools to use creatively to solve problems that are extraordinarily complex.

And so I would encourage the committee at some point perhaps to tap some of the knowledge within the foundation community to understand a little bit about that history and the use of grants in the developing world over the last 50 years.

Finally, I think at the root of this discussion about grants versus loans there is an important question about accountability and leverage that I think is obviously of concern to bank lending officers. I think there is a sense that somehow if you switch from a loan mechanism where you have a lot of obligations for repayment and reporting requirements and so forth that are tight and very finan-

cially based to grants that somehow you lose leverage and there is no accountability.

And I think the real question about switching to this mechanism is what are the accountability mechanisms and tools that you would use in a grant versus a loan framework. And I think there is a lot of experience out there that could assist the World Bank in thinking those issues through.

Thank you, sir.

Chairman BEREUTER. Thank you very much. Thanks to all of you. Ms. Lee, you will let this one go? All right. The gentleman from Vermont is recognized.

Mr. SANDERS. Thank you all. I don't want to get into the issue of grants versus loans. That has been touched upon a lot, and I think there is nobody who is a Member of Congress who has been here today who is not in favor of substantially increasing U.S. aid and seeing the rest of the world do what it can to alleviate the horrendous poverty that exists in developing countries.

But there is an issue that we have not gotten into terribly deeply this morning and that is the impact of globalization in recent years. I think there is sometimes an assumption, just as there is in the United States: free trade, no kidding, that is great. That always works. But you examine it and you find that it is a disaster for American workers. In my own state right now, we are at the lowest level of manufacturing in the last 33 years. We have lost 10 percent of our manufacturing base. Real wages for many workers is going up. Guess what? Free trade does not work for American workers.

And I happen to think that globalization, while everybody in a major corporation, "It is obvious, trade not aid." It is obvious. It is a no-brainer says every intellectual and editorial writer in the United States. You know what? It may not work as well.

Let me just ask, and Mr. Orr, maybe start with you. Worldwide, the total wealth of the globes three richest individuals is greater than the combined gross domestic product of the 48 poorest countries and the wealthiest 447 billionaires own more wealth than the bottom half of humanity, some 2.5 billion people. What do you think about that, 447 individuals own more wealth than the bottom half of humanity? Is that an issue that we think we should put on the table?

Mr. ORR. Well, on a personal basis, Mr. Sanders, I find that fairly shocking. I think all of us at the table and certainly all the members of the Bretton Woods Committee share concerns that you have expressed today about growing inequities and inequalities and problems with income distribution around the world. But I would like to think that those problems exist despite and not because of the World Bank and IDA. In fact, I think IDA is a very important tool for helping rectify the problem that you have pointed to.

Mr. SANDERS. What I wanted to do, if you will allow me is, I appreciate that and I know where you are coming from, but I wanted to get away from the IDA issue just a little bit, although I know that that is the subject of the hearing this morning, and to suggest that maybe there are broader issues out there in terms of globalization that are working against billions of poor people in this world and having to do with a philosophy exerted by multi-national

corporations in this country that are working to the detriment of the poorest people in the world and in fact American workers. What we call the race to the bottom. In other words, playing off American workers who are losing their jobs against the very poor in the world to the detriment of both. Do you share that?

Mr. ORR. I would say I guess, Mr. Sanders, my sympathies lie more with the editorial writers and others that you have described who see the glass as mostly full.

Mr. SANDERS. Thank you. Ms. Lee, what do you think?

Ms. LEE. I would have to say that the general view, the generally accepted view within the economics profession or the editorial pages on globalization has missed a lot of really important pieces of the picture. I think if you look at the overall picture, of very slow growth, of stagnant or growing poverty, growing inequality, that it is not a successful global economy and that we do need to look at both the rules and the institutions that we put in place over the last 20 years and say what can we do differently, not how do we do more of the same? How do we change that set of rules and frameworks?

We have in my view provided precisely the wrong incentives for both governments and for multi-national corporations that are trying to navigate in a global economy, a very difficult competitive, dynamic, global economy. What we have said to the corporations, what we have said to the governments is go out and make a lot of money, move around, pit governments against each other, pit workers against each other. Go get the best deal you can and there is no limit on how low you can go in terms of respect for workers, respect for the environment, and basic human concerns.

We need to build that floor. We need to say, sure, we need a dynamic global economy. We need competition. Competition can be a very important force for growth and for change, but we need to put some limits on the kind of competition. We need to send a message, it needs to be an enforceable set of rules that will protect basic workers rights. And the global community has agreed that every worker in the world deserves the core workers' rights, the fundamental human rights of the workplace, the freedom of association, the right to bargain.

Mr. SANDERS. The global community, multi-national corporations agreed with that?

Ms. LEE. The International Labor Organization, which has employers, workers, and governments from over 175 countries has agreed to that. Even the WTO at its first ministerial meeting in Singapore in 1996 agreed that all countries should promote the core labor standards. But they have made a rhetorical commitment and then the question is how do we make that real? Is it just enough to stand up in a room in Geneva and say we believe in core workers' rights?

Mr. SANDERS. But in many ways that is just words. Up until a few years ago in Mexico, Mexico, when workers tried to form free unions, they were destroyed, put in jail, right?

Ms. LEE. Well, that is exactly the point. The trading system we have put in place—and I would say that the World Bank and the IMF have been also guilty of it, of having an ideology where they

believe that if they just took care of the multi-national corporations, everything else would fall into place.

But growth hasn't fallen into place. Poverty reduction hasn't fallen into place. And certainly we haven't seen that there is an inevitable improvement in workers' rights and environmental standards. Some countries do. Some countries trade, grow, invest and improve their workers' rights. Other countries, and I would say China is a prime example here, have been very much a part of the global economy, have benefitted from trade and investment flows and yet have allowed a really disgraceful human rights and workers' rights situation to continue and in fact worsen.

So I would say that if we are going to get improvements, we need to put in place the rules and the institutions that will change the direction of the global economy so that we can really get some better outcomes for the people at the bottom, for workers all over the world, and for workers in the United States.

And you said it, and I haven't talked that much about it today, but obviously for our members the direction of the global economy has been extremely damaging. It has just pulled the whole manufacturing sector to pieces in the United States with a lot of serious impacts for the distribution of wages, for the productivity growth in the United States over the long time, and even the trend of growing international debt, which I think is not sustainable, those are all pieces of the failure of globalization to date.

Mr. SANDERS. If I could, Mr. Chairman, let me just ask Mr. Offenheiser how he feels about that?

Mr. OFFENHEISER. Thank you, Congressman Sanders, for the question and the opportunity to comment. Oxfam, about five years ago began to struggle with the fact that much of the kind of development and humanitarian work we were doing on the ground in poor countries in Africa and elsewhere we felt was not achieving the goals that we had hoped for. And increasingly in dialogue with the partner organizations that we work with, we became increasingly aware that we were dealing with a process and a problem that extended far beyond the national borders of the countries where most of our programs were concentrated. And I think what it led us to was actually the recognition that in some ways globalization has become the default development paradigm of this era and that as an organization we in some ways had to struggle to come to terms with what that in fact meant for many of the poor people of the world that we represent and work on behalf of.

Having said that, as we have delved into the issue, we have recognized that, as one talks about globalization, many people mean different things when they use the word. I think very often here in Washington the term is used in a very narrow economic sense. But I guess from our point of view that globalization is probably more aptly described as the accelerated movement of people, money, ideas, images, knowledge, and technology around the world at a highly accelerated pace through sort of a seamless and almost borderless planet.

Now, looking at that objectively even from within developing countries, you can actually see some things that are positive about globalization defined in those terms. And we want to be honest about those. The information flows that are going into many coun-

tries I think are good for democratization, good for promoting citizen accountability, and so on and so forth, and human rights.

Mr. SANDERS. But given the growth of all of that technology, computers, the Internet, all of those very positive things, why aren't we seeing a substantial increase in the standard of living of the poorest people? Why aren't we seeing people with health care and educational opportunity? And what endemic, what aspects of globalization are working the other way?

Mr. OFFENHEISER. Well, just to pursue this a bit further. Oxfam, in trying to grapple with more of the economic side of this question, released in April a report on trade, which was an effort on our part to tackle the larger issue of globalization from the economic side. The study is entitled, "Rigged Rules and Double Standards: Trade, Globalization, and the Fight Against Poverty." And the fundamental premise of the study, which has gotten quite a bit of play in the global media, this report was released—this a 270-page report, this is the executive summary, we are happy to provide committee members with the full report or the executive summary as you would care.

Mr. SANDERS. Please do.

Mr. OFFENHEISER. The fundamental premise was that trade in and of itself is not inherently bad for development or bad for the poor. In fact, it might actually deliver some greater economic benefits. But the rules are rigged against the poor and against poor countries. And the study attempts to try to explore in greater detail what exactly that might mean.

For example, we struggled with the question of—we were looking at the issue of ending the use of conditions attached to IMF/World Bank programs which force poor countries to open their markets regardless of the impacts on poor people, the Zambia case being an example that was cited earlier in the hearing this morning. We are concerned about the whole issue of commodity pricing. As you may well be aware, the international price for coffee has collapsed and Central America is in a dire crisis at the moment.

Mr. SANDERS. But what does it mean if countries are forced to export if they give up their basic agriculture, which feeds their own people perhaps not in the best way but provides sustenance to their people, if they are transformed to an export economy, coffee or whatever it may be, and that market collapses, what happens to the people in those countries?

Mr. OFFENHEISER. Well, the economic indicators or the social and development indicators would suggest we are going to get greater impoverishment and greater erosion of social welfare. I think that is pretty clear.

And I guess what we through this trade report have found ourselves arguing for is a less of a rigid sort of cookie cutter approach to the kind of planning that goes forward through the PRSP processes that we talked about this morning and giving countries more of an opportunity to develop more diversified approaches to the development planning that would vary a bit from the more straitjacket free market policies of the World Bank.

It is interesting, Joseph Stiglitz in a recent speech commented that if you actually look—or he actually posed a question to the audience which was what do India, Botswana, and Vietnam have in

common, all countries with significant economic growth rates and reasonably good social welfare indicators or at least on the rise. And the answer to his rhetorical question was none of them have participated in a World Bank structural adjustment or policy program. And more to just make the example, that they have sort of exempted themselves and yet they are the good performers.

Mr. SANDERS. Right. I know I have gone on too long. Can we get Reverend Beckmann to say a few words? Please proceed.

Rev. BECKMANN. Well, I agree with the other people who have spoken, that globalization is a mixed bag for poor people. And there are a number of things that can be done. With all political realism, that would make globalization work better for poor people.

One of those is to have a strong, well-financed IDA that is democratic, more democratic than it is now. That would help some of the poorest countries insert themselves into the global economy in a way that would be good for their people.

Another one is the issue of worker rights or environmental standards or I would say food security standards. If we are going to go into a trade agreement and we know it is going to make some people hungry, then part of the agreement should be, no, we are going to do some things to keep that from happening. So I think there are a number of politically feasible reforms that in fact will make globalization work better for poor and hungry people. So that has been the focus of our effort.

I do think it is important to recognize that globilization is a mixed bag. On the one hand, it seems to me that over the last 25 years, we have seen a fairly dramatic reduction in hunger and poverty in the world—

Mr. SANDERS. In what parts of the world?

Rev. BECKMANN. Well, especially in East Asia. And part of that, in my judgment, is because East Asia seized the opportunity of opening markets for manufactured goods. Europe and North America negotiated liberalization in manufactures, and countries like Korea, Indonesia, and Thailand jumped in. That is not the whole story. But the global economy I think arguably helped a lot of people in East Asia get out of poverty.

At the same time, it is also clear that globilization has left a lot of people behind. I went to a meeting in Tanzania some years ago that had a really significant impact on my own thinking about this. This was church leaders in Tanzania and other English-speaking countries. And there was a guy there from the World Bank who talked about adjustment. He said, "get used to it." Everybody has got to adjust. General Motors has got to adjust. This is a global economy. It is fast moving. We were meeting in a rustic hotel in Aroutia. And this guy would retreat into his hut, and he would be on the Internet. He said, "Tanzania has got to adjust to the fact that Malaysia is a more competitive coffee producer. The problem isn't North America. The problem is that you guys have got to get in shape and compete with the Malaysians. They are getting ahead of you." And these African church leaders had no answers. They said the reality you describe is exactly the reality that we are living, and we cannot cope with this. Our countries cannot cope.

In fact, the only hopeful note was that those church leaders prayed together, and they said, "God will not forget Africa," and they sang like nobody's business.

Mr. SANDERS. Thank you very much for that. Your last remarks. Mr. Chairman, you have been amazingly indulgent. You get five gold stars.

Chairman BEREUTER. Mr. Sanders, you and I have both asked excellent questions that have elicited substantial illuminating responses but Mr. Bentsen is entitled to a very generous five minutes.

Mr. SANDERS. Given how long we have gone on, give him a minute or two and that is it.

Mr. BENTSEN. I appreciate that, Mr. Chairman. I know my colleague from Vermont, who I agree with more often than I don't, won't cut me off if he starts to disagree with me. I actually enjoyed the last round of questions. And I have to say, Reverend Beckmann, I agree with your assessment of our partners in IDA in not going to the 50 percent grant level, I think "nutty" is probably the appropriate term. I don't know if that comes from your economics background or your divinity background. So I think just that in and of itself is rather interesting.

But I do think that—I would also say I think it is absurd because the question of whether or not the United States will make a long-term commitment to IDA, either in the -- is equal either in the form of grants or loans. And from a budgetary standpoint, arguably in real terms, the loans as they are structured are really no better than grants themselves. Now, we use obviously a little bit different accounting but nonetheless I just think the risk exists one way or the other.

I was actually—and Mr. Frank alluded to this as well, we had the Secretary of the Treasury here last year before the full committee and discussed the question of the HIPC program and the new administration's commitment to it and whether or not—what its response would be going beyond HIPC. It was at that time that the Secretary I think for the first time said, "Well, we probably would look at it going into grants." And I have been pleasantly surprised, quite frankly, with this administration that they have that commitment. So I think that would bode well for the long-term commitment.

The other thing I would say is when we did the debt forgiveness program back in 1997 or 1998, I don't remember exactly when, one of the issues I was concerned about, and I think maybe perhaps misunderstood on, but I didn't lose in the committee nonetheless, was this whole idea that we would forgive debt and then immediately turn around and put these countries back in the hock again. It made absolutely no sense whatsoever. I think the first part of the proposal was on track but there had to be some form of a—and there is not a better term for it, but some form of a bankruptcy that you were putting these countries through and then providing them with capital so that they could go forward and restructure themselves to continue the process of what the original intent was for them to become at some point self-sustaining.

And, Mr. Offenheiser, I appreciate—I think it was in your testimony—that you addressed the need to look at the various ratios

that we are using. The 150 percent export ratio has always been—I have always had many questions about what the validity of that ratio really is in what we are trying to accomplish. So I am glad that you raise it. I am not confident that anything is going to be done about it in the near future, but I think the more that is talked about it and trying to look at self-sustainability of ratios is a better idea.

I do have a few questions. Mr. Offenheiser, in your testimony you state that we should work to de-link the HIPC program from the PRSP. Is your concern that the PRSP will just be another means by which to hold up the HIPC program as those papers are being developed and reviewed, as just yet another condition that is set?

Mr. OFFENHEISER. That is precisely the concern. In other words, that the promise of the PRSP is an extraordinarily ambitious one but it requires a lot of citizen participation and citizen consultation to do it right and do it well. And, as I said in my testimony, we haven't quite got it right yet but we are getting there. And the concern was really that we might be delaying the delivery of debt relief benefits to countries if the PRSP process is too onerous.

That has been partially addressed by the acceptance of the notion of an interim PRSP which then was able to trigger debt relief to a number of countries. And I think we are at a place now where we are finding our way through it, but I think we want to just underline in the testimony that we don't want to hold up debt relief. We think deeper and broader debt relief should be a critical priority and along side it delivering on a good PRSP is equally important but not to conflate the two to a degree to which it slows down the debt relief process. That is really the core point.

Mr. BENTSEN. Mr. Orr, in your testimony, you discussed, if I understood it correctly, you talked about the close relationship between Bank staff and Development staff in the recipient—in the beneficiary countries. Are you asserting I guess that this long-term relationship I guess creates too much coziness that there is not sufficient oversight from the Bank staff?

Mr. ORR. The point I was trying to make, Mr. Bentsen, is that I think in certain instances there is room for the World Bank to be tougher on its clients than it has been, particularly in areas of governance and ending corruption. If you take a long-term look at performance of some of these countries, it is disappointing that more progress hasn't been made in some of these areas. And I think the reason, part of the reason is that too many allowances are made for failure or slow progress in some instances.

Now, it has occurred to some people that maybe multilateral institutions ought to threaten to cut off funding to governments that don't make important strides in these areas. But that, of course, would have a very harsh impact on the poor people that IDA serves. But I think maybe it is worth thinking about, are there other ways to deliver benefits to the same recipients, perhaps not using governments that are resistant to change, either using civil society or some other mechanism to deliver the benefits.

Mr. BENTSEN. Well, if I might, Mr. Chairman, if we went to a larger grant program, wouldn't that in some ways allow for greater oversight and greater involvement as those grant monies are disbursed? If you think about some of our own federal programs, it is

certainly not true in all, that there are compliance mechanisms in place. And going to a grant program, one, would allow you to—it seems to me it would allow you to do that with the government. But it also would allow you, whereas in trying to structure a loan with— you have to structure a loan with a sovereign entity, a grant program would be, and similar to Mr. Offenheiser said with the Rockefeller Foundation and the Ford Foundation and others were able to do perhaps with non-governmental entities. So would that be something that we could pursue on the grant side of the ledger?

Mr. ORR. Certainly grants will involve less local government involvement than the current lending process, where all the loans have been from the World Bank and IDA to the local government. But, of course, there will be other oversight problems. Instead of watching one ministry in borrowing Country X, the World Bank will have to monitor 15 or 75 civil society organizations that are implementing smaller aspects of the same project. So I mean there will still be plenty of room for oversight.

Mr. BENTSEN. If I could with the chairman's indulgence ask one quick final question. A number of you all talked about the problem of the cookie cutter approach to whether it is the structural adjustment programs or view towards dealing with the IDA countries. There aren't that many of them. There are a lot of people within the various nations but there aren't that many clients if you look at the individual countries themselves.

Is it possible within the structure of the Bank and its sponsors, including the United States, that the Bank can become more I guess client-specific? I don't know if that is the appropriate term or country-specific in developing structures or is it something inherent in the view of the donor states that precludes that or the culture of the Bank? Whoever is fine.

Rev. BECKMANN. For myself, I am not convinced that the Bank has a cookie cutter approach. They are trying to learn from the experience of one country for another country, and they are making some generalizations about what works. Maybe at a certain point in time it is too much market-oriented. Or it is too statist. The Bank has swung back and forth on those issues a little bit. But an advantage of the Bank is that they are sharing from the experience of one country to another, and that may mean that an idea that really has worked in one country gets channeled through the Bank to another country and so there is a certain parallelism to it.

As I look at specifics of the Bank's dialogue with particular countries and projects in different countries, it seems to me they do a pretty good job of adapting their advice. At any one time, if you think they are too gung ho on the markets (as I think they were in the early 1980's), they may go that way in a bunch of countries at the same time. On the other hand, in the 1960's and 1970's, they promoted governmental development finance companies all over the world.

So if, let's say, it is the early 1980's and you think, they are wrong, well, they are wrong everywhere. There is a certain amount of similarity across countries. But I think it is an unfair criticism to say that it is rote and unthinking and completely insensitive to local reality.

One other thought though is about the whole emphasis on participation and democracy and letting people in on the discussion with the PRSP's. In fact, there is still very little civil society participation on the big issues of national economic policy. And to a great extent in the poorest countries, civil society organizations don't have much capacity on these issues. When they are ushered into the finance minister's office, they don't know what to say about some of the issues of national economic policy.

Moving in the direction of openness and capacity building for local democratic discussion of the biggest issues—of the questions of markets versus state, for example allows for local democratic discussion of precisely the issues that this Congress debates all the time for our own country.

Chairman BEREUTER. Mr. Bentsen, I think Mr. Offenheiser would like to respond.

Mr. OFFENHEISER. Well, I am going to disagree with my very good friend David here for once. I recently was at the World Social Forum in Puerto Alegre, Brazil in southern Brazil where there were some 60,000 civil society representatives from all over the world meeting to debate actually these issues about globalization. And in one rather sort of heated exchange over coffee early one morning with one of the sort of leading spokespersons in these events, when we were talking about precisely these issues, he said to me, "You know oftentimes it is really hard to get the leaders of the multilateral institutions and particularly Americans to understand we want in our countries the same thing that you had." And I said, "Well, what do you mean by that?" And he said, "Well, if you study your own history, you will realize that you had 200 years of managing your economy with tariffs and developing strong institutions to manage sort of the internal operations of your economy and you carefully managed your trading relationships with others and developed a very strong internal economy."

The point he was really making was that in his own country and the country of many of the others around the table, the institutions are weak and the model of export-led development and free trade that I think is at the core of the cookie cutter approach, if you will, is really what worries many of the advocates for less of a cookie cutter approach, if we can put it that way, from the developing world. And what they are really arguing for is the opportunity to manage their sovereignty on their own terms, to open to the global economy. And the interesting thing is they are not anti-globalization in the pure sense.

They want to open to the global economy but they want to do it on their own terms and in a way that they can sort of pace reasonably so they can address the kinds of food security, internal food security issues that Congressman Sanders was talking about. They want to build strong infrastructures in their country. And they feel they have a right to manage tariff regimes if that is a tool that might be appropriate for them at a given point in time or they might want to preserve the right to manage capital flows in ways that would disagree with IMF/World Bank policy on those particular issues.

So I think that is really at the heart of this issue, can an institution like the World Bank and the IMF vary a bit from its export-

led development free trade model and accept that the countries that have succeeded like South Korea and the Vietnams and the Botswanas have in fact managed their opening to the global economy more on their own terms with strong civil society participation, building institutions, and using macro economic instruments in a reasonable way. And that is I think where the nub of the problem is.

Chairman BEREUTER. You are going to have the last word on this question, Ms. Lee.

Ms. LEE. Okay, I will be brief. I think the whole concept of the PRSP of course is designed to address that. And the rhetoric of the PRSP is terrific, that countries will own their development strategies. They will have broad-base stakeholder participation. And that sounds very good. And I think the reality, not surprisingly, as it gets off the ground has been less than that. It has not yet reached its potential.

The points you make I think are exactly right, that there is a capacity problem in very poor developing countries. We see this with the trade unions and we work very closely with our trade union counterparts in helping to build the capacity to participate effectively in the PRSP and also trying to take their stories back to the IMF and World Bank headquarters in particular when they tell us that they have been excluded from that process. I think it takes time and it will take time to get that process up, and we need to keep a lot of very close scrutiny on whether that is working out.

And I think the point you raise, Ray, in terms of the export-led development is also very important. That when you talk about a cookie cutter approach and you tell every country to do the same thing, export to the U.S. market and that is how you are going to get rich, it can't work for all those countries at the same time in the same way and that they need to make sure that they are taking steps to develop internal markets, to develop strong middle classes, and that is where the role of trade unions we think is so important, in raising wages and building a middle class in developing countries so that they can not be totally reliant on always selling to an export market. And if that market is always going to be the United States of America, we have a $400 to $500 billion merchandise trade deficit.

We have fairly low tariffs to begin with. And it is not clear to me that we can just double our trade deficit and take in more goods and be a consumption engine for the entire developing world. That is not probably a viable option overall, and I think that goes to whether the development advice that the World Bank and the IMF have been giving out is actually likely to work or not.

Thanks.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman BEREUTER. I am going to grant a little time to Mr. Frank in absentia because he wanted to address a series of related questions to you, Mr. Orr. And I am going to read it as he has written it here.

In 1997, the IMF member finance ministers and central bank governors, including Bob Rubin and Alan Greenspan, agreed to a special one-time allocation of SDRs, special drawing rights, which

is an international reserve asset issued by the IMF. Failure of the U.S. Congress to ratify this allocation has held it up.

Would this not be a good time to have the increase of international liquidity? Wouldn't it complement the IDA replenishment and the increase in bilateral aid the President has promised for next year and give at least a small additional stimulus to global growth?

Would you like to try to respond to his two related questions?

Mr. ORR. Yes, Mr. Chairman. Mr. Frank is alluding to an amendment to the Articles of Agreement for the IMF that the United States pushed at the IMF, primarily to give countries that weren't in existence when SDRs were originally issued, many states of the former Soviet Union in particular.

It would increase SDR allocations to 40 or 50 countries to about $30 billion, if I remember correctly, which is a pretty large number. It is 10 times or so as big as the IDA replenishment that we are discussing today. Much of that money would go to some of the poorest countries, including some of the front-line countries in the war on terrorism, countries in Central Asia, Afghanistan, Pakistan.

From my vantage point, for reasons of good government, this is something the United States should do. We pushed this amendment at the IMF. The last time I checked I think it requires an 85 percent approval in terms of vote share, the United States having 19 percent more or less. Seventy-two percent of the members have approved it. It can't be approved without the United States. And I don't believe that Treasury has even submitted it to the Congress. The Clinton Administration, when the time came, chose not to, for whatever reason.

But in terms of maintaining respect for U.S. initiatives within these institutions and out of respect for the other governments that have already approved this, I think it is probably an important thing to do. And I think the additional liquidity would certainly be of use to many of the poor countries that would be receiving it.

Chairman BEREUTER. Thank you very much. I wanted to ask two questions in a second round here. And one can be relatively brief. It is for you, Mr. Offenheiser. And the other one perhaps all of you can try to respond to if you care to.

You mentioned, as I understood it, that investments ought to be focused on in other areas. And I think you mentioned, among others perhaps, I didn't quite get it all, extractive industries. And then my staff showed me the report that Oxfam did on extractive sectors and the poor. In a minute or two, could you enlarge upon that statement and see if I have it correctly stated?

The second thing, I would welcome comments from any of you for a comment that Mr. Orr made and he said we as a Congress need to pressure treasury on the subject of educating the public with respect to the multilateral development institutions. That rang a bell with me. He said, "There is virtually no public education conducted by Treasury over the years on this subject." And I would like to have your thoughts about what specifically could and should be done if you agree that it is desirable, and I would think you would?

So let's go to Mr. Offenheiser first for the first question and then I will let the others respond, and then we will move to Mr. Sanders.

Mr. OFFENHEISER. Yes, in the particular area of mining extractives, Oxfam has been giving some attention to this, driven actually by experiences we have been having in countries where we work where we have seen an extraordinary increase in bank lending and also foreign direct investment from mining companies stimulated by actually concessionary lending from the Bank.

What has concerned us is what we have seen as relatively limited employment benefits, welfare improvements, and other broader sort of social development impacts that are a consequence of this kind of lending and at the same time, extraordinary negative environmental impacts and little net and economic benefit for the regions or communities that are actually the sites for these major projects. And it raised in our mind really the question is this the best approach to development lending when significant amounts of money are going into this particular area?

The general question we are raising is if we look at this from a development point of view, while it might make sense for a country to exploit a particular resource, and we are not against the mining of extractive activities per se but when measured against other types of investments, either to stimulate private sector investment or to promote other kinds of human development, we would question whether this was the best use of Bank funding.

Chairman BEREUTER. Thank you. And now it is for the public education responsibilities of Treasury. What specifically would you recommend that the Congress might encourage or mandate, any of you? And, Mr. Orr, you may start since you brought up the subject.

Mr. ORR. I didn't come with a solution. I think the problem is, if it is a problem, the problem is that Treasury doesn't think this is its mandate. But I remember back three or four administrations ago a very aggressive assistant secretary of Treasury for international affairs made it his business to do a great deal of public speaking about the important work of the multilateral institutions, and I think it had an important impact on raising public understanding and support. So potentially a mandate from Congress to do this and some funding to do it with. Perhaps it is the Department of Commerce, the Department of Commerce should have a role in this as well.

Chairman BEREUTER. You may as well mention, if you recall, is it—

Mr. ORR. I was thinking of Fred Bergsten, Assistant Secretary Fred Bergsten in the Carter Administration.

Chairman BEREUTER. Perhaps he will give us some suggestions. We will go right down the line. Reverend Beckmann?

Rev. BECKMANN. Well, I would encourage you to just commend Secretary O'Neill. He did a great job of development education going to Africa with Bono, precisely because it was so unlikely. And why did he have to play straight man to Bono? He did this because he cares about the issue. And I think he is really learning a lot about development and seems to really care and want to do more.

I don't know what his next moves will be, but what he did achieved a lot. He articulated precisely the questions of a lot of people in Nebraska, "We spend a lot of money on this, but what are we getting for it?" He asked these questions, but then was willing to go to Africa with Bono and say, yes, we ought to do more about

AIDS and water supply and opening up enterprise here. He did an extraordinary service to the world. So just commend him for what he has done, and ask him what his next moves are going to be in this area.

The notion that Treasury is going to have a program of development education strikes me as implausible. But they could do a couple of things. Clearly, they can do more speaking and that sort of thing. I think that over the years they have really discouraged the World Bank itself from spending money on speaking to Americans.

I used to work at the Bank and there were serious partly financial constraints on the extent to which the Bank itself could do development education. My understanding at the time was that the U.S. opposed spending by the Bank to tell its story within our own country, partly because of the fear that the Bank might have a slightly different line and would in effect propagandize against the administration's policy on a particular issue. But the Bank could do more to talk about development to Americans and would probably do a better job than Treasury.

And then within the U.S. government, I think the Biden-Pell program is where it belongs. The Biden-Pell program could be five times the size that it is. That is within AID. The ads within Canada probably come out of CIDA and most of the other industrialized countries also have very substantial programs of government funding for development education.

Mr. SANDERS. If I could just interrupt and just ask, if I could, don't you think part of the problem is that there is probably 25 or 35 percent of the United States Congress that doesn't believe in the United Nations?

Rev. BECKMANN. Sure.

Mr. SANDERS. Let alone AID?

Rev. BECKMANN. Sure. That is part of the problem.

On the other hand, there is a movement afoot within American life; the public opinion polls show it clearly. It is a political movement that leads President Bush to propose a bigger expansion in development assistance than President Clinton ever proposed, and Senator Helms this year has made a big push for an extra half billion dollars for AIDS. There may be a movement in our nation's life and in international life that would make it possible to do some new things. And one new thing that would have a long-term impact would be to increase funding for the Biden-Pell Program. It wouldn't cost Congress very much, and it would have a multiplicative effect over a period of 5 or 10 years.

Chairman BEREUTER. Mr. Offenheiser?

Mr. OFFENHEISER. I very much welcome this recommendation from Mr. Orr and wanted to share with you that, stimulated in some sense in the aftermath of 9-11, there is a whole series of groups that are actively meeting, trying to evaluate the impact on public opinion and sentiment in the United States about alternative forms of U.S. engagement overseas.

In other words, what is the sentiment of the American public about internationalism, about investment in development programming, and how that connects back to the whole larger discussion of U.S. security going forward. And the surveys that have been done, and actually there are quite a number of them, there are

probably four or five, and we can certainly—I would be very happy to provide these to the committee if there is interest, are really quite striking in I think all sharing the numbers that would suggest that the public is in fact—the public attitude on these issues has really shifted to some significant degree. And there is more awareness in the broader public or more thinking going on about should we be addressing these issues of poverty and AIDS and isn't that perhaps linked in some way, although the public isn't real clear how, to these broader issues of terrorism that we are confronting.

Now, these polls would suggest that the public in general supports the war on terrorism, as the President has articulated it, but it also supports I think a more long-term view about rethinking U.S. engagement in the world and about the obligations of Americans to address issues of poverty and injustice. The question of how we do that is another matter. But I think what this survey material really represents is an opportunity I think for the Congress and the administration and programs like the Biden-Pell program to expand its reach and perhaps challenge the American public and these sensibilities and see what the American public attitude is. I think the surveys might suggest that the public attitude might be ahead of the congressional leadership on these issues. That might be just one sort of line I would close with.

Chairman BEREUTER. That would be really shocking but I would be pleased to hear from Ms. Lee again in the final spot on the response panel.

Ms. LEE. Thank you. I think it is important to have a broad public discussion and debate over U.S. development aid and the role of the United States in the world along those lines.

I guess I am not quite as enthusiastic about the idea of the Treasury Department sort of leading what might be sort of a cheerleading public effort just on behalf— uncritically on behalf of the multilateral development agencies, that there are so many issues that we are debating in terms of the direction of these institutions that what I think would be more important is the transparency reforms that we have talked about. That if it were easier for Americans to understand where the policies are and who they are helping and what the conditions have been and so on, I think that would be a really important piece.

Obviously, that takes a lot of doing and that information needs to be made accessible to the public. It can't just be in World Bankspeak or its not going to be all that relevant. So I think certainly the idea of broadening the public debate is very important and broadening information.

I think one of the tragedies, when we see the poll results that Americans that we are already devoting an enormous percentage of our budget to foreign aid and that it is probably not quite enough. But they are way off the mark in terms of that percentage.

Chairman BEREUTER. Every two years the Chicago Council on World Affairs demonstrates that. And the American public think we ought to reduce our foreign aid to about 5 or 6 percent.

Mr. ORR. We are for it.

Chairman BEREUTER. The gentleman from Vermont is recognized.

Mr. SANDERS. Thank you for that point. Let me just ask a very simple question but obviously a question with huge human ramifications.

We all know what the AIDS epidemic is doing throughout the world and in Africa and so forth. I think something like 5,000 people a day are dying in Africa from AIDS. We also know that there are medicines and prescription drugs that are available that certainly can play a significant role in extending life and protecting people. And we also know that these drugs are extremely expensive. We know that here in the United States the pharmaceutical industry is the most powerful lobby. And the United States Congress is unable to take them on. They are too powerful for the United States Congress let alone poor African countries.

What would you do if you were seated where we are seated in terms of understanding that God knows how many people will die because they don't have medicine, that the pharmaceutical industry is making certain to as great a degree as possible that they will not get medicine at a price that poor people can afford around the world, what strategies would you utilize? Mr. Orr?

Mr. ORR. I think I have seen somewhere, Mr. Sanders, the statistic that something like $10 billion in additional resources is needed to combat AIDS and to treat— to do more in prevention and to treat current HIV/AIDS- inflicted people. I think one of the most important things Congress could do is add pressure on administrations and other governments to increase funding for this objective.

Mr. SANDERS. But should we pay the prices that the pharmaceutical—you are right in one sense, obviously. But should we pay the prices that the pharmaceutical industry wants or is there some moral obligation to make sure that poor people around the world get drugs at a price that they can afford?

Mr. ORR. I am by no means an expert on this, but my impression was that pharmaceutical companies had promised to make a number of price concessions to developing countries.

Mr. SANDERS. Yes, but if you are living on a dollar a day, price concessions. Yes, you can cut your prices in half or by a third but it is still like—

Mr. ORR. Clearly, it has to be the international community that finances this at this stage for the poorest countries.

Mr. SANDERS. But what is the responsibility—my question is we can pay for these things. We can go to the American taxpayers and say, hey, it is $50 billion. Buy the drugs from the pharmaceutical industry at the price they want or maybe get a little discount. But what is the moral responsibility, what should we do about the pharmaceutical industry that make huge profits while people die?

Mr. ORR. I don't think I have the answer.

Mr. SANDERS. Okay, thank you. Yes?

Mr. OFFENHEISER. Well, Oxfam, along with Doctors Without Borders over a year or two ago began a global campaign to challenge the pharmaceutical industry on precisely these questions. And what we were fundamentally arguing was that the industry per se was making less than 1 percent of its profit on sales of these critical drugs in the developing countries.

And that from our point of view, we could not see why there could not be approaches to what is commonly called tiered-pricing for these markets where per capita income annually is very low as one approach. Or where you had extreme AIDS crises invoking what is already part of the WTO rules for clearing of public health emergency and producing generic drugs at lower prices. We were pleased with the progress made on this issue at Doha but were troubled that the industry seems to want to kind of reel it back a bit and tighten up the application of these rules in the developing countries.

The industry I think for its part is struggling to find ways forward. And, unfortunately, some of the ways forward that they are opting for are more philanthropic approaches. While we are heartened that they are willing to distribute drugs in various countries, free in some cases, we think that is laudable, in our view it is not a systemic solution to the problem.

In our view, what we do need when faced with a global pandemic of the sort that AIDS presents to us and TB as well, we need more systemic approaches to these kinds of problems that will make these kinds of pharmaceuticals available on a more routine basis in all of these developing country markets. And we are not sure if philanthropy is an adequate and sufficient response.

Mr. SANDERS. Do you support the right of countries like Brazil and India, I think it is compulsory licensing is what we are talking about?

Mr. OFFENHEISER. Yes, we do. We very actively have supported the Brazil—we think Brazil is an exemplary case of a country that has responded to this public health crisis in ways that I don't know what else the international community could ask a country to do. And we think that in their case they have every right to invoke the compulsory licensing provisions and produce generics to address the problem, yes.

Mr. SANDERS. Okay, Reverend Beckmann, your thoughts on that?

Rev. BECKMANN. I would like to second what Ray just said. The only addition I would make is on the question of financing. The coalition around AIDS is particularly strong, partly because the problem is so severe but also partly because it is easier for us to empathize about people who are dying from AIDS than say, people who are dying because many girls never get to go to school.

We can't imagine all the deaths that are taking place for all the other reasons. The international community ought to do everything possible to deal with the AIDS pandemic. It is really huge. But it is not the only problem. And so also the broader approach to helping get girls in school, providing agricultural development assistance, dealing with TB and malaria and all—

Mr. SANDERS. I absolutely agree but I was—but I think that the issue of the role of the pharmaceutical industry, in a sense withholding life-saving drugs, while they are the most profitable in the United States, raises very broad philosophical and moral issues, which—

Rev. BECKMANN. Makes sense to me.

Mr. SANDERS.—we have got to deal with. Ms. Lee?

Ms. LEE. I just had a quick point to make in terms of the leverage of trade agreements and how we have written the intellectual

property rights provisions into trade agreements like NAFTA and also the Vietnam bilateral trade agreement. The pharmaceutical companies I think have been very influential in shaping the trade agreements and using the leverage of access to the U.S. market in order to force other countries not to put in place the kinds of policies like compulsory licensing that would save a lot of lives but would cut into the profits of the pharmaceutical companies.

And I think it is very important—Ray, you mentioned Doha and the declaration there, which we were very supportive of. And it is worth noting that the TPA bill before the U.S. Congress right now in fact contradicts the Doha declaration. That on the one hand the Doha declaration says that developing countries should have a longer implementation period for trips and the TPA bill instructs the U.S. negotiators to seek quicker implementation of trips even for the least developed countries. And these kinds of contradictions I think haven't been well resolved.

We are putting a lot of priority into achieving, into getting developing countries to agree to enforce intellectual property rights in a way that will profit pharmaceutical companies but maybe take life-saving medicines out of the hands of people who desperately need them. And we think that is a real backwards way of using the negotiating leverage that we have in these trade agreements.

Mr. SANDERS. What I have found interesting, and it gets back to the issue of globalization and how it is manipulated and for whom it works and whom it doesn't work, everybody around here believes—not everybody but many people believe in unfettered free trade. Some of us for years, I don't believe in it, some of us for years have said, "If you believe in free trade, why do American pharmacists and prescription drug distributors re-import drugs from Canada where they are sold—the same exact drug is sold for 50 percent or in some cases 10 percent of the price?" The pharmaceutical industry fought us successfully.

So I think your point is very well taken. But I would hope that this issue and the responsibility of the pharmaceutical industry, which has a product that can keep millions of people alive but is fighting hard to prevent that product from getting to the people at a price they can pay has got to be one of the great moral issues that we are addressing and the Congress has got to deal with that.

Thanks very much for your comments.

Chairman BEREUTER. You will remember, Mr. Sanders, that the House has approved re-importation of drugs and the Secretary of HHS, both the Clinton and the Bush administration has refused to implement it. And yesterday or the day before, the Senate re-approved it and I think if it is brought to the House, we will re-approve it again.

Mr. SANDERS. But it will not be implemented because there will be loopholes in it and because the pharmaceutical industry makes huge contributions to the Republican Party, and all due respect. I know something about that issue because I first introduced it here in the Congress and basically the industry is too powerful for Congress to pass it.

Chairman BEREUTER. Well, Mr. Sanders, let's prove them wrong.

Mr. SANDERS. Good.

Chairman BEREUTER. There is too much—

Mr. SANDERS. I look forward to your vote when I bring that up.

Chairman BEREUTER. Absolutely. You have always had it. International cost shifting is an egregious abuse of the American public. International cost shifting gets worse and worse. They are charging what the market will bear here as the other countries across the world impose restraints. But that is a side issue that is related as you brought it up.

One bit of advice in a sentence or two from you if I could get it and that is is it practicable for the U.S. to withhold a fixed amount of money as a rejection of aid to Iran? And I bring this up because of legislation introduced by Mr. Sherman and about which he talked today? Is it practicable because this will be a significant issue for us to address on the floor, if we bring this to the floor?

Mr. Orr?

Mr. ORR. I think there are ways that legislation can be written to have the same effect that Mr. Sherman wants to do, have the impact that Mr. Sherman wants to have. But a law that said the World Bank cannot lend to Iran or an appropriation that came with that stipulation would traditionally be rejected by the World Bank because of precedents dating back 30 or 40 years.

So attempts to condition funding against certain countries directly probably won't work but there are ways to do it. Legislative Counsel has found interesting ways to have the same impact.

Chairman BEREUTER. I will appreciate having your ideas in private on that because the conditionality has never been successfully pursued here in the past but it makes a big hurdle for those of us who might be advocates for the replenishment.

Mr. Offenheiser?

Mr. OFFENHEISER. I would just only make one brief comment and that is as the representative of a global humanitarian organization, we oftentimes find ourselves working in highly difficult national settings because of all sorts of humanitarian crises. And I guess what would trouble me a bit about the way that proposition goes forward, particularly if it can be replicated in other contexts, is where you have post-conflict regimes that may not meet everyone's expectations in terms of quality, are we precluding responding to humanitarian need or to the needs of impoverished populations by issuing sort of blanket positions like that? So I guess I am a little reluctant to kind of support such a strong position that might be more binding than our initial intent.

Chairman BEREUTER. Thank you. Mr. Sanders, do you have anything else?

Mr. SANDERS. No, I have got a plane to catch.

Chairman BEREUTER. All right, I ask unanimous consent that the statement on behalf—a statement by Chairman Michael Oxley be a part of the record. And I did want to read one paragraph to the public here and to members of the committee and to witnesses.

He says, "I am encouraged by the proposal to change the way IDA gives aid to developing countries to a mixture of both loans and grants. This is perhaps the most creative approach to improving the operations of the development institutions that has arisen in some time. I believe that this proposal will result in not only better access to critical services but also could help reduce the crushing debt burden that the developing countries face."

[The prepared statement of Hon. Michael G. Oxley can be found on page 84 in the appendix.]

Chairman BEREUTER. In light of that statement and a very similar statement in the written statement of the Ranking Minority Member, Mr. LaFalce, I think that is an encouraging expression of viewpoints by the leaders of the full committee.

I don't recall a hearing which I have found more interesting or stimulating for a very, very long time. So I want to thank the witnesses for their excellent testimony and your responses to our questions. They have been very helpful.

Mr. SANDERS. Let me concur in that. Thank you all very much.

Chairman BEREUTER. Thank you gentlemen and lady. And the hearing is adjourned.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned.]

REAUTHORIZATION REQUESTS ON U.S. PARTICIPATION IN THE INTERNATIONAL DEVELOPMENT ASSOCIATION AND THE AFRICAN DEVELOPMENT BANK

Thursday, July 25, 2002

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

The subcommittee met, pursuant to call, at 1:55 p.m., in Room 2128, Rayburn House Office Building, Hon. Doug Bereuter [chairman of the subcommittee] presiding.

Present: Representatives Bereuter, Ose, Sanders, Frank, Watt, Carson, Schakowsky, Gutierrez, and Bentsen.

Chairman BEREUTER. The Subcommittee on International Monetary Policy and Trade today is meeting in open session to examine the administration's authorization request for the International Development Association, IDA, and the African Development Fund.

I apologize for the late start. We have been involved in a series of three votes. Mr. Secretary, I appreciate your patience and those of you in attendance. Mr. Sanders has been here. He will be back shortly, but I think we have been authorized to go ahead with the agreement of Mr. Watt and Mr. Bentsen, too, now.

On July 18th, 2002, the administration submitted the following two authorization requests to House Speaker Dennis Hastert, copies of which are at each member's desk, $2.85 billion for the thirteenth replenishment of IDA and $354 million for the ninth replacement of the African Development Fund.

[The following information can be found on page 147 and 150 in the appendix.]

Chairman BEREUTER. Earlier this week we also received the administration's request for the North American Development Bank, and that is now being distributed to members.

Chairman BEREUTER. So this hearing is the fourth in a series of subcommittee hearings on IDA and the African Development Fund.

I ask unanimous consent that my entire statement be made a part of the record and I will summarize it. And all members may have their entire statements printed in the record, including that of the ranking Democrat member of the full committee John LaFalce. Is there objection?

Hearing no objection, that will be the order.

First, I would like to go to the thirteenth replenishment of IDA and give some preliminary remarks on four areas.

The first, as I said, is on the thirteenth replenishment of IDA. For fiscal year 2003, the administration is requesting $850 million for the first of three U.S. scheduled contributions under IDA 13, plus 24.3 million to pay one-third of the outstanding U.S. arrearages.

The total 3-year U.S. commitment to IDA 13 is 2.55 billion, with a possible increase up to 2.85 billion based on IDA's satisfactory achievement against key performance measures. With these increases, the annual average U.S. commitment to the IDA 13 replenishment would represent an 18.2 percent increase over the U.S. annual commitment under the previous IDA 12 replenishment.

The agreement for the thirteenth replenishment of IDA includes two major reforms which were initiated by the United States—conversion of loans to grants and the establishment of performance standards. With respect to the issue of loans to grants, in July of 2001 President Bush proposed that the World Bank and other multilateral development banks replace up to 50 percent of future lending to the world's poorest countries with grants. This proposal was controversial with some IDA donors and borrowing countries. The British and Germans, for example, were concerned it said that the loss of loan reflows would hurt the long-term viability of the IDA program without significant new commitments from donors, and Japan feared the broader use of grants would create an unhealthy dependency on foreign aid and hinder the development of international creditworthiness.

In early July of this year, IDA donors agreed to a complex plan to convert 18 percent to 21 percent of future IDA loans to grants. Under this plan, IDA-only countries will receive 100 percent of their assistance for HIV/AIDS and natural disaster reconstruction projects on grant terms. Further, post-conflict countries and debt-vulnerable countries with a per capita income of less than $1 per day will receive 40 percent of their assistance on grant terms separate from and in addition to HIV/AIDS or natural disaster funds. All other countries with a per capita income of less than $1 per day will receive 23 percent of their assistance in the form of grants, again separate from and in addition to HIV/AIDS and natural disasters.

With regard to performance standards, the second major reform, IDA 13 directly links multilateral development aid to meaningful governmental and social reform.

The U.S. administration has promised a $100 million increase in year 2 funds and a $200 million increase in year 3 funds if IDA demonstrates progress in developing reliable measuring tools, advancing specific health and education programs, and increasing steps taken toward market liberalization. This U.S. plan to increase donations in return for certain broad results incentivizes the systemic change necessary for sustainable development.

Number two, the ninth replenishment of the African Development Fund—a lot of attention on this subject by members of this subcommittee. Here, we have to consider not only the ninth replenishment of the African Development Fund, the concessionary lend-

ing, an affiliate of the African Development Bank; the Fund also, it needs to be said, provides loans on consensual terms, 40 to 50 years maturity, including a 10-year grace period, zero percent interest, 0.75 service charge, and 0.50 percent commitment fee to Africa's poorest countries.

In fiscal year 2003, the administration is requesting 118 million for the first installment of a 3-year commitment under the ninth replenishment of the African Development Fund. In addition, they are seeking—I am not sure I have the complete number here. Is that in fact the case? I will simply pass that number up and say they are seeking to clear one-third of outstanding arrearages.

This committee has looked with some particular attention at the African Development Bank and Fund because, by all accounts, it has been the weakest of the regional multilateral development institutions. At the subcommittee's hearings on this subject on April 25th of last year, we learned that the African Development Fund suffered both a serious fiscal and a managerial crisis in the early 1900s. From 1993 to 1997 the U.S. made virtually no contributions to the African Development Bank and Fund. The U.S. Also led other nonregional members in suspending negotiations for a new replenishment until reforms had been implemented.

However, in 1995 the African Development Bank and Fund elected Omar Kabbaj, a Moroccan finance official, as the new president. He has implemented fiscal and managerial reforms and as endorsement of Kabbaj-initiated reforms, U.S. contributions to the African Development Fund resumed in 1998 and to the African Development Bank in fiscal year 2000. And President Kabbaj was unanimously appointed to a second 5-year term in May of 2000.

The third element of points I would like to cover, the third replenishment of the Global Environmental Facility. I won't go into the responsibilities of the fund. I think they are fairly well known by members.

One thing we would note here, I don't know if it has come to the attention of all members, but according to a Congressional Research Service legal opinion, which I requested, authorization for the GEF appears to be provided by prior appropriation legislation, Public Law No. 103-306.

As the chairman of the subcommittee which authorizes GEF, and perhaps speaking for all authorizers in the Congress, I am upset, concerned about the fact that this is said perhaps to be a permanent authorization provided through an appropriation bill.

Fourth, the Regional Multilateral Development Bank legislation. As you know, we have legislation pending before the Senate at this point. I will hope other members will join me in pushing for action with Chairman Biden.

With that background, I would like to introduce Dr. John Taylor, the Under Secretary of Treasury for International Affairs, who will, I am sure, assist the subcommittee in examining these important issues. This is the second time that Dr. Taylor has appeared before the subcommittee. On February 6th, 2002, he testified on the Argentina financial crisis. And without exception, Secretary Taylor has been very helpful, cooperative, forthright in all of his contacts with the committee.

He has a very distinguished academic and professional record. He received an undergraduate degree from Princeton University and a Ph.D. From Stanford University; he has taught economics at Columbia, Yale, Princeton and Stanford Universities. He also has directed the Monetary Policy Research Program at the Stanford Institute for Economic Policy and Research.

In addition to these academic positions, Dr. Taylor was a member of the President'S Council of Economic Advisors during the administration of President George Herbert Walker Bush.

We are going to permit you to speak in a couple minutes, Mr. Secretary, but I want to now turn to the distinguished ranking member of the subcommittee, the gentleman from Vermont, Mr. Sanders.

[The prepared statement of Hon. Doug Bereuter can be found on page 126 in the appendix.]

Mr. SANDERS. Thank you, Mr. Chairman. And I apologize for being late. I am going to have to be running in and out. But I thank you for holding this important hearing.

We welcome Mr. Taylor. Thank you very much for being with us.

As we all know, the International Development Association, the poor countries' lending arm of the World Bank is up for reauthorization this year, and we look forward to working with the chairman and other members of the committee on that legislation.

The World Bank was originally set up to end global poverty. Unfortunately, many economists, labor unions, NGOs, religious groups, and others have strong concerns that the policies of the World Bank and the IMF, which often support unfettered free trade privatization and slashing social safety nets of countries in order to balance their budgets, have contributed to increasing global poverty.

Mr. Chairman I would like to briefly quote, I don't know if some of—if you saw an article that appeared on the July 19th front page of the New York Times. Let me just quote some of that article. I think it is important for us all to hear this.

"Across Latin America millions of others are also letting their voices be heard. A popular and political ground swell is building from the Andes to Argentina against a decade old experiment with free market capitalism. The reforms that have shrunk the state and opened markets to foreign competition many believe have enriched corrupt officials and faceless multi nationals and failed to better their lives." .

The article continues, and I quote the New York Times:

"Indeed 44 percent of Latin Americans still live in poverty and the number of unemployed workers has more than doubled in a decade. Tens of millions of others, in some countries up to 70 percent of all workers, toil in the region's vast informal economy, as street vendors, for instance, barely making ends meet.

Economic growth has been essentially flat for the last 5 years. Popular perceptions revealed in street protests, opinion polls and ballot boxes are clearly shifting against the economic prescriptions for open markets, less government, and tighter budgets than American officials and international financial institutions have preferred."

I hope everybody heard that.

In fact, a regional survey supported by the InterAmerican Development Bank found last year that 63 percent of respondents across 17 countries in the region, that is, Latin America, said that privatization had not been beneficial.

And this, by the way, is Latin America. I think the same tale is being told in many countries throughout the world.

I won't—I will just introduce my statement for the record, Mr. Chairman. I won't read the whole thing. But I think it is time not to keep saying the same old things. Year after year, we hear people saying free trade is just great, it is wonderful. But you know what, unfettered free trade has been a disaster for American workers. We have lost 10 percent of our manufacturing base over the last 4 years. It has equally been a disaster for many, many poor people throughout the Third World. Privatization has not been a miracle.

What you are hearing here is, people in Latin America do not necessarily think it is a good idea when most industries are given over to foreigners who could care less about their existence and jobs in their own country.

Free market competition has not necessarily been good for agriculture. When poor countries are forced to develop crops that export and those prices go up and down, when they go down as they have in recent years, it is a disaster. And it is a very scary situation that many poor people around the world are unable to grow the subsistence in food that they need, and on and on it goes.

So I think, Mr. Chairman, what you are increasingly seeing all over the world—and I think is even trickling into the United States Congress when Republican leadership really had to twist some arms severely for the last fast track agreement that passed by one vote—that a lot of people are beginning to rethink what the IMF and the World Bank has told us in the sense it is not working for poor people around the world nor is it working for American workers.

With that, I would ask unanimous consent to submit my full statement into the record.

Chairman BEREUTER. Thank you, Mr. Sanders. I have received unanimous consent for all members already.

[The prepared statement of Hon. Bernard Sanders can be found on page 135 in the appendix.]

Chairman BEREUTER. Are there other members of the committee who wish to have opening statements? Under the rules, you are entitled to 3 minutes.

The gentleman from Texas, Mr. Gonzalez.

Mr. GONZALEZ. Thank you, Mr. Chairman. And I do thank you for calling this hearing today. I am particularly interested in what Under Secretary Taylor has to say concerning the North American Development Bank. As you may know NAD Bank, is located in my district, it is the only multilateral development bank dedicated to the United States-Mexico border.

This past May, this subcommittee did in fact hold hearings on that bank. It is apparent from that hearing that NAD Bank is critical to the economic development of the United States-Mexican border and that, in my view, Treasury has not been especially forthcoming either with this committee or with border communities as to what their specific reform proposals are concerning NAD Bank.

I will hope, and do hope, that Under Secretary Taylor will use today's hearing to open the doors to what exactly the administration's plans are with NAD Bank, and start to open a full dialogue with Congress and other communities as to how best to improve this important situation. I would hope that he would expand on the latest initiative and what would be in store later in the year around September.

I yield back. Thank you very much.

Chairman BEREUTER. Thank you, Mr. Gonzalez. To be fair, to be up front about this, we did not request Secretary Taylor to present testimony on the North American Development Bank because we didn't know that the authorization request would be coming to us this week. Now, if he wishes to give some preliminary comments today, that would be most welcome. But he has not been asked to be prepared on that subject.

Mr. GONZALEZ. The only reason I bring it up, sir, is that we were informed that he was going to address it. And that may—it may not be good information, but if we have that opportunity, I would welcome it and would seek the Chair's indulgence. Thank you very much.

Chairman BEREUTER. You certainly have that. And Secretary Taylor will be invited to make any comments on that subject, but it was not in the invitation. I just wanted that to be known.

Secretary Taylor, again thank you for the cooperative attitude and spirit that you have always displayed since you have come to your position with respect to the subcommittee and committee. Your entire written statement will be made a part of the record and you may proceed as you wish.

STATEMENT OF THE HONORABLE JOHN TAYLOR, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF TREASURY

Mr. TAYLOR. Thank you very much, Chairman Bereuter, for your kind remarks and for inviting me to this hearing, along with the other members. As I understand, the topic of the hearing is the reforms we are trying to put through the multilateral development banks, as well as the reauthorization request for the International Development Association, IDA, and the African Development Fund.

My testimony does touch on the North American Development Bank in the written version. I wasn't planning on discussing it in my opening remarks, but I would be very happy to answer any questions that Mr. Gonzalez might have. I would like to focus my opening remarks on IDA and the African Development Fund.

The reform of the multilateral development banks has been one of the highest priorities of the Bush administration's international American agenda. Improving the effectiveness of these development banks means making them more effective in raising economic growth and improving the lives of the poor in all parts of the world. We think that they can improve a lot in these regards, and have put forth a number of specific reforms, some of which you mentioned in your opening remarks, Mr. Chairman.

I would mention three specific reforms that we pursued most actively: first, an insistence on measuring the results of their activities; second, a conversion of grants to loans to the very poorest

countries; and third, a focus on increasing productivity growth, which is the ultimate source of poverty reduction.

I am happy to say, after long negotiations and very hard work by the Treasury staff, that we have made progress on all of these fronts; and I think this progress provides grounds for our request for authorization and for appropriations for the MDBs. Total appropriation requests for fiscal year 2003 is 1.437 billion for all the MDBs.

In the case of IDA, the authorization request is for an 18 percent increase over the previous replenishment. In fact, it is an 18 percent increase over the replenishment before that. So it is a substantial increase compared to recent history. I think it is very important that this requested increase entails a new focus on measuring and achieving results from our IDA funding.

For the first time ever, part of the requested funds will be contingent on achieving results in particular areas, first, creating a new measurement system—believe it or not, a measurement system has not been developed yet so that we can measure results—but, in addition, to look for real improvements in certain particular areas such as health, and here we are looking at immunization rates improvement; and education, and here we are looking for improvement in primary school completion rates; and in private sector development, here we are looking for reductions in the cost it takes to start up businesses.

I will say that without achievement of these stated objectives the administration will not seek appropriations for that additional funding which amounts, over 2 years, to $300 million. I think this is just the start of a fundamental shift of focus on the multilateral development banks to measure results. It means stating in quantitative terms the expected results of individual projects that we support and overall country assistance before providing the funding.

This agreement also includes a substantial increase in the amount of funding in the form of grants—as you stated, Mr. Chairman, grants going to the poorest countries—and it largely fulfills the vision that President Bush put forward last summer. It is a real victory which will make a difference in the operation of IDA.

In addition, there is another first-time accomplishment, and that is that part of IDA funds can be used to help private sector development. Here the idea is that IDA can work along with the International Finance Corporation, the arm of the World Bank Group that provides financing to the private sector. So that it can develop in ways that we couldn't before the private sector itself.

Let me briefly say some—give some remarks on the African Development Fund. Negotiations for the ninth replenishment are not complete unlike the negotiations for IDA 13. We have reached agreement on certain things, such as the importance of measurable results and the importance of better coordination with the other multilateral development banks, and in particular, the World Bank in Africa, as well as bilateral donors.

Two issues remain which are not settled in these negotiations; one is the overall size of the replenishment, and second is how much will be in the form of grants.

President Bush's proposal was that all the MDBs would shift a substantial amount of their funding towards grants, and we expect that the African Development Fund will adopt a grants program which is similar in its characteristics to that which we successfully negotiated in IDA.

Let me say, just to conclude my opening remarks, Mr. Chairman, to say that MDB reform has been a very high priority to us. I believe that steady progress is being made in achieving our objectives with each of the institutions, and that, for that reason, these authorizations will allow us—should be approved and will allow us to make further progress.

I would like to say that I want to work hard, along with the staff of International Affairs at Treasury, to pursue these goals. I will endeavor to be demanding of the institutions, to set high standards for them in order to make them more effective in raising living standards around the world.

Thank you, Mr. Chairman. I will be happy to answer any questions, and I hope you can put my full testimony in the record.

Chairman BEREUTER. That has been ordered. Thank you very much Mr. Secretary for your remarks and for your statement.

[The prepared statement of Hon. John Taylor can be found on page 141 in the appendix.]

Chairman BEREUTER. We will now proceed under the 5-minute rule, and I will recognize myself, then Mr. Sanders when he returns, if he is here at that time; then Mr. Bentsen and Mr. Watt were also here at the beginning of the hearing. Then we will take members as they appeared. We think we have an accurate record of that.

Mr. Secretary, my first question would be how IDA 13's program, with its new performance standards, would be reconciled, coordinated with the Millennium Challenge Account. And how would you see any kind of coordination or effort between our bilateral programs, which are handed out of the State Department, and what you are attempting to accomplish through multilateral institutions and Treasury's dominant role in the U.S. participation in those multilateral development banks?

Could you speak to the Millennium Account and the bilateral aid and what you are attempting to accomplish.

Mr. TAYLOR. There are some similarities between our reform efforts in the multilateral development banks and the President's proposal for the Millennium Challenge Account. One similarity is the emphasis on measurable results. Another similarity is the emphasis on policy performance.

In the multilateral development banks we have been working towards an allocation of resources to countries who have policies that are more conducive to economic growth. But that really is the most important aspect of President Bush's proposal for the Millennium Challenge Account. As you know, he wants to increase funding on bilateral assistance by 50 percent. It is not decided what the form of that will be, but the total is there; and the way in which it was delivered will be there, and that is by policies that endeavor to invest in people that encourage economic freedom and that encourage good governance to rule justly.

Now, the interaction between these, I think is something we need to focus on very much. My observation from traveling and observing on the ground the operation of the MDBs and the operation of our bilateral systems, other countries' bilateral assistance, is there is an enormous amount of improvement we can do in coordination. We want to work towards that.

I can assure you, as we develop the MCA, how they are actually used and disbursed, it will be very high priority for to us get that coordination right.

Chairman BEREUTER. Thank you. I think the disbursement coordination is a major problem. If we just, at least, manage to coordinate our involvement through the MDBs, those disbursements with our own bilateral, that would be a major step forward.

Mr. Secretary, during our hearing last week a number of witnesses suggested that the Treasury Department ought to take a more active role in promoting the successes of IDA and highlighting the positive role that the U.S., through such multilateral institutions, has played in improving conditions throughout the world. Others felt this was an inappropriate task for Treasury and that public education funds should be handled elsewhere.

I would be interested to see, to hear, if you have any comments on that suggestion.

Mr. TAYLOR. Well, my comments are that we should do our very best to communicate what we are doing with these institutions and to lay the facts out, both the successes and the failures of the institution, so that we can improve them. I think the obligation here is to show how foreign aid can be useful, and in particular, this kind of foreign aid; but also to be very demanding.

I think the position that we have been taking is to be demanding of the institutions, to point out successes and failures. That is what I think is the most effective thing we can do to the American public and to the voters. They want to see results from the funds, from the taxpayer funds. If we are convincing and straightforward in presenting the results, I think that is the best thing we should do.

Chairman BEREUTER. Thank you, Mr. Secretary.

I yield the balance of my time to Mr. Watt, who was here at the beginning.

The gentleman is recognized for 5 minutes.

Mr. WATT. Mr. Chairman, I think I will pass.

Chairman BEREUTER. Then we will recognize Mr. Bentsen.

Mr. BENTSEN. Thank you, Mr. Chairman.

Mr. Secretary, I want to say at the outset that I am actually pretty pleased with the administration's proposal to expand the use of grants and to do so, hopefully, in conjunction with debt forgiveness, because I think it is a mistake to go through a period of debt forgiveness and then just go straight back to the soft window. And then, in fact, the studies you referenced, the GAO study and others, have shown that that would be meaningless because we would be back in debt forgiveness again.

You mentioned that it is the administration's intent to increase bilateral assistance by 50 percent over a period of time, if I understood you correctly; and I assume this would be related to the—in large part, to the grant program to the extent, at least, of meeting

the new level that has been worked out in IDA 13, and then hopefully getting our partners to agree to a higher ratio.

I personally think it is ludicrous that our European partners have objected to this thinking that we would not be putting up the money. But I am eager to hear from you exactly how the administration plans to fund this increase over the next several years.

We are in a pretty tight budgetary situation. It doesn't appear to be getting all that much better. As you know, this is probably the hardest money to get from Congress, but I do think it is important.

Is the commitment from the administration as strong as it ought to be?

Mr. TAYLOR. Thank you for your remarks about the grants. It is indeed related to the debt forgiveness operation, because one of the advantages of grants is, it provides assistance without adding to the debt burden of countries, especially in areas where the effect of a loan would not be something that would generate revenue.

So, for example, support for HIV/AIDS, which will be 100 percent grants from now on instead of loans, makes so much sense.

The 50 percent increase in funding I mentioned wasn't particularly associated with the Millennium Challenge Account. The Millennium Challenge Account will—over a period of 3 years will rise to 50 percent of our current foreign assistance. It is separate; it is over and above the amount that would be going to the IDA, into the other existing foreign assistance.

Your question about funding for the grants is a very important one. I agree very much with the General Accounting Office study which showed that because of the fact that the loans are now very concessional and payments occur years in the future, it actually requires a very small increase in funding to offset the loss from the reflows of the loans. In fact, it is quite remarkable; GAO showed that even for a larger grant program than we ultimately negotiated, it would require an increase in IDA less than the rate of inflation over the coming years. So it is—actually it could even be a decline in real terms.

So I feel very confident that as long as we continue support for IDA at the levels that we have been—and I hope with the achievement of results that we can do more than that—that we will be able to support this grant program. And that is the arithmetic.

Mr. BENTSEN. I agree with your arithmetic.

I want to ask you—I am not sure what the arithmetic is at the Office of Management and Budget and whether or not, because of the way that these items are scored, and I honestly don't know—whether there is a different scoring mechanism. You may—between the grants and loans, whether or not you have to score the grant allocation up front, as opposed to loans and being able to amortize it and spread it out over time. So that is one concern I have, if you could address it either now or for the record.

And the other is—you probably can address this—the political question, again with the Office of Management and Budget, because we hear a lot of folks within the administration say things they are for, and then your colleague, Mr. Daniels, comes up and seems to be saying something different.

And so I just hope that the commitment really is there.

Let me ask in my remaining time two things. One is, you talk about going to a results-oriented approach as well; and I think that is good. The recent IDA conference came up with the idea of the PSR, the country-specific paper of what the country's plan would be.

What goals does the United States have for ensuring that there is sufficient NGO and public involvement, as opposed to all governmental involvement in preparing that document; and what goal—what is the administration's plan for ensuring that we don't—that this just isn't a new plan like the old plan, and we end up with either a one-size-fits-all or another ESAF-save or something like that.

Mr. TAYLOR. Well, the poverty reduction strategy papers do involve NGOs in a wide community input. I think the purpose is to have ownership of this from a broad segment of society. I think what we have tried to do is emphasize ownership, in the countries, of the programs and policies they want to follow. We will continue to do that as best we can.

The measurable results are more for what the country decides what they want to do. So, for example, increase enrollment in schools; once that is decided, then we want the grant or the loan to have the specifics of how much the enrollment will increase by what dates. And those results will be monitored, and we will hold the institutions to those results. So that is how it fits in.

The concept that what should be done, whether it is education, health or particular kinds of help will be over this overall process where we emphasize the full participation in the democracy, as well as the ownership of the countries. But once it is decided, then we want to be very specific that this is what you are getting for your money, this is what we want to get for our money, and this is the time line.

Mr. BENTSEN. My time is up, but if I could interpret what you said, then it would be the administration's position that you would set your goals based upon PSR in consultation with the beneficiary country?

Mr. TAYLOR. Yes.

Mr. BENTSEN. Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Mr. Bentsen.

The gentleman from Vermont, Mr. Sanders, is recognized.

Mr. SANDERS. Mr. Chairman, I apologize again for having to run out.

Mr. Taylor, let me just change the direction of the discussion a little bit. I want to get your point of view on the administration's point of view. You heard me a moment ago read an article from the New York Times. Let me read again the, quote, "popular perceptions"—this is dealing with Latin America, but the truth is, this is, I think, a sentiment which exists increasingly around the world.

"popular perceptions revealed in street protests, opinion polls and ballot boxes are clearly shifting against economic prescriptions for open markets, less government, and tighter budgets that American officials and international financial institutions have preferred. Sixty-three percent of respondents across 17 Latin American countries felt that privatization had not been beneficial." .

Is the growing opposition to the formula of the World Bank and the IMF the fact that more and more people think that that is working to benefit the wealthy and corrupt officials, rather than ordinary people? Does that have any impact on the administration's thinking?

Mr. TAYLOR. I don't know the survey explicitly that the article refers to. I would like to look at it carefully. It seems to lump in things which some people can like and some people could not like. "Tighter budgets" has a connotation that maybe it is too tight, maybe it is not providing the services that it might. If someone asked me if I am in favor of tight budgets, I guess it depends on what is being tightened.

"open markets," I think what I observe from traveling around the world and talking with people is that there is a perception of a great benefit from opening markets. And in terms of Latin America, the Chilean economy is doing very well by opening. And even closer to home, America, Mexico is a much different economy now. It is one of the real stars in Latin America, getting investment grade rating.

Central America, El Salvador, is opening and emphasizing the private sector. And as I go around and look, I see the private sector as really the source of poverty reduction. The private sector is creating jobs. Everywhere you go, if you want to see a job created that is higher wage or raising productivity, it is in the private sector.

That is just trying to answer your question.

Mr. SANDERS. That is fair enough. You are right in pointing out in some countries, actually some of these neo-liberal reforms have been successful. But in many other countries, and you have cited some of them, Chile being a good example—in Mexico, I don't have the statistics in front of me, but my understanding is that poverty, while some good things have happened in Mexico, there is an increase in poverty, an increase in child labor. And then, in fact, the average Mexican worker, as I understand it, is worse off today than they were before NAFTA, for example.

So it is working to some degree, but in many, many countries it is not working.

What I think you are seeing is that people are saying, well, opening up our markets, completely moving toward privatization, cutting back on health care, education, food subsidies in order to get IMF loans and World Bank assistance may not be doing so well. And, you know, in Argentina we have a disaster; in Venezuela you have a disaster; and there is growing sentiment against it.

So I am just kind of curious if these types of political sentiments have had an impact on your feeling about the wisdom of the IMF and World Bank approach.

Mr. TAYLOR. I am disappointed that growth is not more rapid in Latin America. The best measure of growth I know is productivity growth; it is how much more workers can produce and, therefore, get paid per hour. And it is—productivity growth in Latin America is lower than the United States. They are way behind in terms of income per capita. It should be higher.

But I am also disappointed about productivity growth not being higher in Africa. In China, it is much better.

But we can do a lot better. We can do much better than we are, and that is why we are trying this reform effort to do what we can.

Mr. SANDERS. People very often, when they talk about developing countries, they talk about China. But China has done everything in the last—with the exception of the last few years, they have done an entire process in opposition to what the IMF and the World Bank do. They have closed their boundaries, they have heavy state involvement in their economy. The people say, Isn't it interesting how China has gone a long way to eliminate poverty? But they have not accepted the IMF and World Bank formula.

Mr. TAYLOR. I think there is lot of advice that the World Bank and IMF give that you can criticize from time to time, and some advice you can say makes a lot of sense. The fact is, the World bank feels they made a lot of positive suggestions with respect to China. The Chinese have pointed out it is good advice they have been getting. I think if you go to Shanghai, you see the private sector thriving, you see foreign investment thriving, you see the great possibilities because of openness, because of the WTO. It is exciting.

It seems to me the things you see are this openness and this emphasis on the private sectors and markets.

Mr. SANDERS. But China has been in the WTO for 3 months or 5 months. They have been doing what they have been doing for decades and doing exactly opposite of what the IMF recommends to many other poor countries. And people say, Look at China, look at well their economy. It doesn't make a lot of sense to me.

I would end my questions by suggesting that laissez-faire, unfettered capitalism does not always work for all people around the world and, in fact, has caused a lot of suffering. I would hope we rethink some aspects of that.

Thank you very much.

Chairman BEREUTER. Thank you, Mr. Sanders.

The gentleman from Texas, Mr. Gonzalez, is recognized.

Mr. GONZALEZ. Mr. Chairman, I would be glad to defer to the other members that are here to pose questions to the Secretary on those matters that he was noticed on; but I would reserve the right and the privilege to ask questions regarding NAD Bank at the conclusion of the other members' questions relating to those topics.

Chairman BEREUTER. Thank you. That is very courteous. Then we would move to Mr. Frank.

Mr. FRANK. Mr. Secretary, I am very pleased that we appear to be reaching what I think is a consensus, namely that substituting grants for loans makes a great deal of sense when you are talking about very poor countries, as long as there is a commitment to prevent that from leading to a lower level of activity.

And your reference—when Secretary O'Neill testified here earlier, I asked him that. I have a letter from him, March 28th, which isn't as categorical as I would like—unusual for Mr. O'Neill for being less categorical than people want, but I think your comments reassure me, namely, am I correct to say that our position is that, assuming you get agreement on the poverty measurement, the effectiveness measurement, assuming things are being done well, our position would be that we would be prepared as a country—and you mentioned how relatively small the amounts are under the

GAO study—that we are in fact prepared to put our money where our mouth is, and that to the extent that we get what we think is appropriate and we substitute grants for loans, we would make up any difference that there might be from the lack of reforms? Is that accurate?

Mr. TAYLOR. Yes.

Mr. FRANK. I appreciate that. I think that very much advances where we are.

The next specific question I had has to do with, you mentioned the private sector, and I know there was a meeting of the deputies at IDA dealing with this. And one of the things we are talking about up to this poverty reduction and health and education, there is also the infrastructure question, and I guess one of these days we have to deal with it.

And I share Mr. Sanders' skepticism that unrestrained, unregulated capitalism is the answer to everything. It does seem to me there is clearly a private sector role in the provision of some essential services, and the question is, how do we structure that in the utility area and in infrastructure.

You talked about some ways of doing that. One of the ways you talked about was drawing on the International Finance Corporation as part of this.

I want to make a declaration. I have a personal relationship with an employee of the IFC, so I want to get the record clear here. But that does seem to me to have something to do—how would you see that being worked out in conjunction with this? How could we most make some kind of synergy possible there, without raising the kind of flags that the people would be troubled by?

Mr. TAYLOR. Well, let me give you an example of something that we are working on. It hasn't been completely developed yet, but I think it is a good answer to your question.

One of the most difficult areas in terms of our helping the development of the private sector, small-, medium-sized businesses is really where a lot of jobs are created, and in many developing countries, it is very hard for this entrepreneurial sector to get financing. So one of the proposals we are working on is where IDA could contribute some small funds for small loans in some financial institutions—more "microlending," as it is uniquely called—and the IFC could help organize that as part of their emphasis on the private sector. So that is an example.

Also, some of the IDA assistance could be for technical assistance to make this micro—.

Mr. FRANK. So IDA funds do utilize the expertise of the IFC in distributing these funds? I must say that sounds plausible to me, the great deal of support for the small and medium enterprise.

You mentioned microlending, but by the time you get to them, you are beyond microlending. But the notion of increased lending to smaller entrepreneurs drawing on IFC's—I would be interested, not necessarily now, but as we get to a marking up stage, in any suggestions you might have about how we could best implement that.

Mr. FRANK. My last point a more general one. I am pleased that we are talking about a 50 percent increase; I just want to know whether it is enough. We are the richest society in the history of

the world. When we need to find money, we can find it. It isn't totally free, but it does seem to me, if we were talking about leveraging some money, a relatively small amount in terms of the Federal budget going to places of desperate poverty would be very important.

Now, we are talking about economic development, but we are also talking about poverty reduction. We read about famine now in Africa and, of course, the devastation of AIDS. Is there any reason why we shouldn't just—when you say, "I am encouraged," you appear to be telling us that there is increased confidence on the part of the administration that we are able to send money with some confidence that it is being spent well, we have a new organization in Africa trying to put more focus in the way we want.

Given that, is there any reason why we don't significantly increase by a couple of billion dollars to try and alleviate the abject human misery that we see over there? Are there ways that we could even go beyond this to encourage, both bilaterally and multilaterally? I think none of us—obviously we are the richest country in the world, and there are kids starving to death. Can we do more about that?

Mr. TAYLOR. Our proposals are to increase substantially the foreign aid. They are matched, substantially. You compare—historical comparisons, whatever you want to do, and they are matched with this assistance on measuring results and getting something for the funds, which I think is essential if we are to be successful in getting the appropriations and the authorizations that are necessary. The taxpayers will be looking carefully, your constituents, so I think they go right together.

But we are increasing it. And I guess in terms of very—you know, some specifics again: I have been spending a lot of time on Afghanistan reconstruction. We have had a very successful fundraising conference in Japan, got pledges for $1.8 billion for this year, 4.5 over several years. It is a global—.

Mr. FRANK. How much have we disbursed so far?

Mr. TAYLOR. The United States has disbursed just about all of what we have pledged. There have been some more funds—.

Mr. FRANK. How much is that?

Mr. TAYLOR. The United States, in the first year, has pledged 296 million, and approximately over 90 percent of that has been disbursed. There are some additional funds that are in the supplemental, which will be able to go directly to the operating budget of Afghanistan; and that will be, hopefully, going very soon.

Mr. TAYLOR. We need to work harder on other countries' fulfilling their pledges. That is one of the things that I am trying to do.

Chairman BEREUTER. The time of the gentleman has expired.

The gentlelady from Indiana, Ms. Carson.

Ms. CARSON. Thank you very much, Mr. Chairman. I will be brief. Thank you very much, sir, for preparing me for the committee.

Mr. Taylor, some time ago the Treasury committed to implementing the law passed by Congress to oppose any loans or other agreements that include user fees for children going to primary school or for basic health care.

Should not the U.S. Lead the way in pushing to eliminate these fees that harm poor people and don't raise much money?

Mr. TAYLOR. Yes. I am not quite sure what legislation you may be referring to, but we agree that user fees for people, very poor people that can't afford the services, is not something that we are supporting.

In fact, the World Bank doesn't have a position that there should be user fees in any particular case. There is some legislation that says there shouldn't be user fees at all, of any kind, in poor countries. What we emphasize is that there shouldn't be user fees for poor people, because even poor countries have people that are quite well off.

Ms. CARSON. Further question, Mr. Taylor.

Do you have an index in terms of what constitutes quote, unquote, "a poor person"? Is there some level of poverty that you determine as being the poorest of the poor? I guess that would be—

Mr. TAYLOR. That is a good question. There are measures of poverty. The World Bank sometimes uses $1 a day; 1.3 billion people earn less than $1 a day in the world. The goal is to double that to $2 a day. That still seems awfully poor to me.

I see a lot of poverty, even by those measures. And it is well below what we use as measures here. So one of the reasons we are pursuing all of these reforms and being so demanding on institutions is, we want to make faster progress than has been made in the past to reduce poverty.

Ms. CARSON. Do you have some tracking mechanism, Mr. Taylor, that would sort of follow through the kinds of grants and supports that the United States makes to ensure that it does, in fact, reach the human beings for which it is intended?

Mr. TAYLOR. Well, that is one of the things that this measurable results proposal should do.

I have been very disturbed to find out sometimes that a very small fraction of the aid goes to the people who it is meant for, sometimes less than 50 percent, sometimes less than 30 percent. We just can't let that stand anymore. But it requires a lot of work; there are a lot of people out there. We are talking about coordination of assistance with NGOs and all of the different donors.

But we really want to work very hard on that. I think it makes no sense to be spending money and so little of it goes to the people who need it.

Ms. CARSON. Is there in place now some auditing process, some ongoing auditing process?

Mr. TAYLOR. Yes. The auditing process, or monitoring process, for this kind of thing is already being developed and, in fact, has been successful in detecting some of the real outrages.

In Uganda, these review mechanisms have discovered that a very small fraction of the aid, I believe, in this case, education, went to students. As a result of that, it has changed. There is now a much larger fraction.

So some of these performance evaluation reviews—I believe is the name that is most frequently used, kind of a budget review process—have been tracking it down and trying to expose these problems and then trying to fix them.

But more needs to be done, in my view.

Ms. CARSON. Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Ms. Carson. Good questions.

The gentleman from California, Mr. Ose, is recognized.

Mr. OSE. Thank you, Mr. Chairman.

Mr. Taylor, welcome to our meeting. Last May, the witnesses who came before us to talk about the North American Development Bank talked about the merging of the boards of directors on the environmental side and the bank itself. And what I am curious about is, how do you see the fair and equal representation of the two organizations being reflected in that board?

Mr. TAYLOR. Well, the board members themselves are representative. There are representatives from the region, representatives from the different agencies of the government on both sides. And the merging of these two entities I think is essential to make NAD Bank more effective in delivering assistance.

It is unusual to have kind of the certification separate from the funding in these kinds of institutions. Mr. Gonzalez was saying that the North American Development Bank is the only bank of this kind operating with Mexico and the United States. Well, it is also the only the only bank of its kind that separated out these two functions. So we think that by merging at least the boards on this, we will be able to coordinate and do a better job.

Mr. OSE. One of the concerns that I have had since we got here is that Mexico remains one of our largest trading partners, and to the extent that we can frankly facilitate the amelioration of environmental challenges that they face and what have you, we prosper and they prosper, because, frankly, air pollution or water pollution really doesn't know national boundaries in this sense.

What kind of assurance do you have under the agreements or discussions between President Bush and President Fox that we are going to have true, measurable improvements within that new 300 miles or 300 kilometers—.

Mr. TAYLOR. Kilometers.

Mr. OSE. —300-kilometer band?

Mr. TAYLOR. Well, part of the reform is to extend it from 100 kilometers to 300 kilometers. The NAD Bank's mandate is also, part of it will be in the form of grants. That is actually somewhat related to our other reforms.

I always think of grants, you are able to bring in monitoring and measurable results even more than you can in the case of the loans. But the main reason to provide the grants, in this case, is that a greater amount of subsidies seem to be necessary to make those projects work.

NAD Bank really has not provided much assistance in a loan form since its existence. So putting it in grant form, we hope will improve that. But in terms of measurable results, I guess it may be best just to appeal to this general cultural change which we are trying to institute in all of these institutions, which is, write down what is meant to be achieved, on dates, by quantified form, and make sure it gets done.

Mr. OSE. I am very pleased to see the administration focusing on this to the degree that they are. I want to encourage you—I think the message that I would like to convey both to the administration and to our trading partners is that when you are a good trading

partner, when you pay your debts in the past and you trade fairly and equitably, there is transparency in your system and what have you, the United States will look at you as a premier trading partner, if you will, and make it possible for so many other things.

I think there ought to be a premium attached to those of our trading partners who have paid their debts and who have worked with us in this way. And I would hope that, given the difficulty Mexico went through that caused the genesis of the Brady Bonds and what have you, and the fact that they repaid those, would give us the opportunity to provide our friends to the south in Mexico the opportunity to, frankly, get a little of a premium in the evaluation of their grant applications.

And I just think that is good policy, to reward positive behavior. With that, Mr. Chairman, I yield back.

Chairman BEREUTER. Thank you, Mr. Ose.

For the information of the members, I have been calling on members that are members of the subcommittee. And Mr. Hinojosa and Mr. Gonzalez are not members, as I understand it, but they have been here very early. If you have a scheduling problem, you would just have to ask unanimous consent that you be allowed to go next and you would probably find a cooperative attitude.

Mr. HINOJOSA. I would like to ask unanimous consent to be able to address—.

Chairman BEREUTER. Is there objection? Hearing none, the gentleman is recognized under the 5-minute rule.

Mr. HINOJOSA. Thank you. I appreciate, Mr. Chairman that you have called this hearing. And I also want to voice my skepticism as to what I just heard regarding the amendments, to some of these documents that you all wish to approve.

My first question is with regard to the U.S. Participation in the International Development Association and the African Development Fund: In looking at and listening to your statement, you talk about the three hallmark reforms, and that is to help countries, poor countries, in the areas of health, education, and creating small businesses.

The reason I have such skepticism is that just in January of 2002, President Bush signed the bill on ESEA, which has a component of trying to improve the graduation rate of students in our country. I represent border communities in Texas. We have an Hispanic performance of students graduating at only 70 percent. And Senator Jeff Bingaman included in the EASE bill that the President signed a bill that is designed to improve graduation rates.

We received $25 million in this 2002 budget, and yet, for the 2003 budget, the President zero funded it. So how can we believe, if we can't take care of the domestic problems in our country with the fastest growing minority group in this country, and that we are asking for $125 million to fund those programs, exemplary programs that work, to graduate Hispanic students, and we get a zero funding, what is going to be different in this international program to help all of those countries improve their graduation rate when we can't even do it in our own country?

And certainly there is no political will in the administration, or they would have funded at $125 million as both the House and the Senate had requested. Could you answer that question?

Mr. TAYLOR. I am not familiar with the particular line item you are referring to at all. And I would like to look into it and try to answer your question.

Mr. HINOJOSA. I would appreciate it.

Mr. TAYLOR. With respect to the portfolio that I have, I think the goals of raising completion rates are ones that we are going to take very seriously and that the amount that is there in the first year is not as large as I would like, but it is moving in the right direction. And, you know, 70 percent is too low; that is obvious. We need to work to make it higher, but I don't know why this one was—this line item was affected the way that it was.

In the international case, which I can speak to, we want to make sure it gets done. The resources are limited. We have indicated a request of $850 million for the whole world in the IDA program for the current fiscal year. So some very hard choices will have to be made about how to use it effectively. And we will participate in that choice and try to make sure it is used effectively.

Mr. HINOJOSA. Well, Mr. Taylor, I look forward to getting some kind of response on this.

The second question that I have, and the last one, this is on NAD Bank, and I follow up on some of the questions that my friends from Texas, Ken Bentsen and Charlie Gonzalez, have.

That is that you know that in South Texas we are currently suffering a severe drought and a water shortage crisis that is compounded by the lack of Mexico repaying its water debt to the United States.

It has been said in the newspapers that President Bush agreed to fund water conservation projects in Mexico in exchange for their speedy repayment of the water debt. Do you know if the Texas projects to improve its water distribution system, which we have been asking $60 million for, are going to be funded before we ask the NAD Bank with its amendments and improvements that are being proposed, before the loans or grants are given to the Mexico water projects—which, to my understanding, have not been planned, no engineering has been done; whereas we have, in Texas, for 3 years been working on that, but have not been able to get the funding?

Mr. TAYLOR. The proposed amendments that we have would take the current retained earnings in NAD Bank, which is approximately $80 million, put those into a trust fund of which equal amounts could be used on both sides of the border, Mexico and the United States. So that is $40 million that, once it is in that fund and—that the intent is to put it in that fund, could be used in Texas or wherever it is allocated.

I would think, if there are proposals and plans already worked out, that you would be first in line to be able to use those funds as soon as they are available.

With respect to the other amounts that you are indicating, I don't know. It doesn't sound like it is related to NAD Bank, but other sources of funding from the United States.

But with respect to this proposal of taking $80 million of retained earnings, it is meant to be used equally on both sides of the border.

Mr. HINOJOSA. Well, I hope that that equal parity is respected because everything that we read in the papers, our water users, farmers and ranchers and municipalities are very unhappy with the agreement on that Order 308 that was signed 2 weeks ago. Farmers and ranchers are expected to be here in the next week to voice their—how upset they are with regard to this, and certainly we hope that equal parity will be respected.

Mr. TAYLOR. Well, our part of this—my own part had mainly to do with the NAD Bank component and the use of these funds. But, of course, it is not just for Mexico; it is for the United States.

I understand that Mexico has pledged and will be delivering 90,000 acre-feet of water that is due under the treaty. So that will, I hope, have a positive impact on the farmers suffering from the drought in your area.

Mr. HINOJOSA. But the other amendment to that agreement is that, if they don't get rain in October, we have to repay those 90,000 acre-feet of water. So it is not good for south Texas where we have—at least half of our farmers and ranchers have gone out of business.

So, again, I thank you for giving some clarification on the amount of money, and that it is available to both sides. We thank you.

Thank you, Mr. Chairman.

Chairman BEREUTER. Mr. Hinojosa, thank you. You went beyond your time, but I have a drought-stricken State as well, so I have an understanding.

Next I have on the list the returning Mr. Sherman, Schakowsky, Mrs. Waters, then to Mr. Gonzalez if that is—Mr. Sherman.

Mr. SHERMAN. Thank you. We have to go back to our districts and explain why we are for more foreign aid, and I want to do that.

I have got one problem, and I am about to mention a word that I don't think has been spoken at this hearing. It may be because it is considered an obscenity, and I hope my words are not taken down. The words or phrase is "World Bank."

Now, we can call it IDA. We can keep repeating IDA. But my constituents are smart enough to know it is the World Bank. The World Bank is smart enough, or at least honest enough, to say on its own Web site, the IBRD and IDA are run on the same lines. They share the same staff, the same headquarters, report to the same president, and use the same rigorous standards when evaluating projects. IDA simply takes its money out of a different drawer.

That is not Sherman railing about the World Bank, that is the World Bank about the World Bank. And my colleagues on this committee know where I am going.

The World Bank is about to loan $755 million to the government in Tehran. So we have a President that tells us that this is a government insistent upon developing nuclear weapons and smuggling them into American cities, and a bureaucracy that doesn't mind very much that our tax dollars, or our capital investment dollars, to draw fine distinctions that matter only in Washington, are about to allow that government to meet the minimum domestic expenditures it needs to make to retain power, and then use money which is fungible, use its other money that they would otherwise have to

spend on domestic programs, to develop the nuclear weapons that will be smuggled into American cities—not to mention that that government is identified as the number one state sponsor of terror in the world.

So, Mr. Secretary, would you support a provision in this authorization bill that says that in the event that the World Bank approves future loans to Iran, that we will thereafter not disburse a single penny to the World Bank? Or would you, instead, like to come to my district and explain how it is okay to put money in one drawer if it is another drawer that is financing the nuclear destruction of American cities?

Mr. TAYLOR. Well, I would like to explain our position in the following way. IDA, which is an arm of the World Bank, focuses on the poorest countries, provides funds to Africa, to the poorest countries in Asia, poorest countries in Latin and Central America. So to take money away from that—.

Mr. SHERMAN. If I can interrupt you, sir, my bill will provide, or amendment will provide, that any penny otherwise taken away from IDA is used to help the poorest countries in Africa deal with HIV/AIDS; and I am open to other amendments as to some other difficulties, as well. I am not for spending a penny less on helping the poorest countries with the worst problems.

I want to know whether you think that the only way we can help poor countries is to take money from my constituents and put it in a drawer at the World Bank?

Mr. TAYLOR. It is not the only way. And, in fact, we are helping poor countries, humanitarian assistance bilaterally in the U.S., in the Millennium Challenge Account. There will be more of that. But it is an effective way.

The advantage of the multilateral assistance is, other donors contribute too. And we—basically it is—sometimes people refer to it as a leverage. Our request for $850 million this year is only part of the total. It multiplies by a factor of five, roughly, so we get more as a result of that.

Mr. SHERMAN. Are you saying that if we spent that $850 million helping poor people deal with AIDS in Africa, that Europe would turn off the spigot and not help those same people, either through the World Bank, if they chose, or in some other way; that the generosity of the Japanese or the Europeans is dependent upon the willingness of this administration to put money in the hands of those who want to finance Iran; that anything else we do to help the world would be ignored by our other developed friends?

Mr. TAYLOR. No.

We, as you know, are working hard on, and the President has focused on, Iran and the problems there. We will continue to do so. My only point is that attacking IDA is not going to help that. And what I—.

Mr. SHERMAN. So do you have another strategy that will prevent the World Bank from making those loans?

Chairman BEREUTER. The time of the gentleman has expired.

Mr. SHERMAN. I would ask that he be allowed to answer the question about whether we have a strategy to prevent American dollars from financing the nuclear destruction of American cities.

Mr. TAYLOR. Well, of course we would never vote for that and don't vote for it. And we try to persuade others not to vote for it. And, overall, it seems to me that the mechanism that you are suggesting would be harmful to our foreign policy interests; and we should therefore focus on ways, such as the President is pursuing, to deal with the terrorism and the proliferation issues, very serious ones that you mention, in Iran.

Mr. SHERMAN. In other words, the same strategy that failed completely in the year 2000.

Thank you. I yield back.

Chairman BEREUTER. The gentlelady from Illinois is recognized.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. I wanted to talk about water.

My former U.S. Senator, Paul Simon, is spending a good deal of his time and energy dealing with the international water crisis and wrote a wonderful book called "Tapped Out, the Coming World Crisis in Water and What We Can Do about It."

A couple of things that he points out are that late in 2000, U.S. Intelligence agencies were asked to project what challenges the world might face in 15 years. And, not surprisingly, one of them was that the world will be threatened by wars over water. And another source said the national security issue of the 21st century is water.

And you are probably aware that about—well, actually when he wrote this book, so it is now more, 9,500 children die every day due to poor quality water; at least 1.5 billion people do not have access to a minimally adequate supply of safe water—1.5 billion; 3 billion lack sanitation facilities, which is really tied to water quality.

The World Bank estimates that 80 nations have water shortages severe enough to retard agricultural production.

This book is a plea really for the United States to get more involved. Let me just read a couple of words he says.

"The massive numbers dying for lack of both food and water will be seen by us over and over again if the world does not act, and action requires U.S. Leadership. No other nation has our capability and resources to lead. The question is whether we will."

So I just wanted to ask, one, what level of priority—one of the senses that I get from this book is his feeling that no one is really—that no entity—that there is not a concerted international effort or U.S. Effort to really focus in on the problem of this looming water crisis, or in some places, extant water crisis. And just your views on this.

Mr. TAYLOR. Well, thank you very much for the question and for the information about the book. Secretary Paul O'Neill has actually focused attention on this issue in a very constructive way. I think that is the best way for me to answer this question.

He has, as you may know, traveled to Africa—.

Ms. SCHAKOWSKY. With Bono?

Mr. TAYLOR. Yes. And at every stop asked about water and the issues that you are raising, and really would like to try to improve the situation in a dramatic way by providing more water to people, fresh water to people who don't have fresh water, and to deal with the problems, especially, in the rural areas. So it turns out it is a high priority for us at this point in time.

It will require an international effort. There will be a discussion of it at the World Summit on Sustainable Development in Johannesburg. There is a meeting at the State Department tomorrow on the subject. So, fortunately, I can answer your question in a very positive way. We are trying to move ahead on this important issue.

Ms. SCHAKOWSKY. What kind of money are we putting into desalinization, for example? Have there been any concrete efforts to spend more money on things that will actually alleviate the problem?

Mr. TAYLOR. Well, money is being spent. I don't think it is being spent in the most effective way. I have no idea how much is spent on desalinization, but I will try to get the information for you.

What Secretary O'Neil has emphasized is how to be more cost effective in getting it. He observes that with the same amount of money we are spending now, we could do a lot better; not to say that we shouldn't spend more money, in fact, my guess is that we will have to spend much money to reach the goals of reducing the number of people that don't have fresh water.

But with respect to desalinization, I will get some information for you.

Ms. SCHAKOWSKY. In the remaining couple of seconds, the emphasis of the World Bank has been heavily on the issue of privatization of water. In many cases, as cited, I can also share a wonderful article in the New Yorker, April 8th, 2002, that talked about some of the serious problems that water privatization projects have wreaked on the poor inhabitants of communities. And those projects are beginning to backfire all over Latin America.

[The following information can be found on page 153 in the appendix.]

I see that my time is up. But I hope that I can work more closely with the Secretary of the Treasury and try and help to promote more focus on this issue.

Mr. TAYLOR. Good. Thank you.

Chairman BEREUTER. I thank the gentlelady for her questions.

The gentlelady from California.

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

I have a number of questions, and the first ones that I ask, I am not asking for a long answer. I just want to quickly try and understand. I will do my research later.

Is World Bank funding an oil pipeline from Uzbekistan down through Afghanistan into some Gulf or Pakistan?

Mr. TAYLOR. A particular pipeline you are referring to, or simply the funds?

Ms. WATERS. Pipeline.

Mr. TAYLOR. I will have to look into the particular pipeline from Uzbekistan to Afghanistan.

Ms. WATERS. You don't know about it, though?

Mr. TAYLOR. I don't know enough about it to answer your question.

Ms. WATERS. Do you know anything about it?

Mr. TAYLOR. I was just in Uzbekistan. We talked about gas, we talked about oil, we talked about water. But this particular project, I don't—.

Ms. WATERS. Are there any projects that you know, any pipeline projects at all from Uzbekistan down through Afghanistan, that the World Bank is involved in?

Mr. TAYLOR. Not that I know of.

Ms. WATERS. You are talking about getting involved in something?

Mr. TAYLOR. There was talk about natural resources, energy and water, when we visited Uzbekistan, Yes.

Ms. WATERS. Okay. Obviously you are very cautious about this discussion for some reason; I don't know why. But evidently, whatever is going on, we will find out about it. I will talk about it later.

How much is spent on the Chad/Cameroon pipeline at World Bank, how much do you have in that?

Mr. TAYLOR. I have to look up those numbers for you.

Ms. WATERS. Okay. This discussion on Iran was very, very interesting. If you can't prevent loans to Iran, how did you prevent loans to Haiti? How did you do that?

Mr. TAYLOR. The loans to Haiti in question are from the IDB, the Inter-American Development Bank. We are trying to get those loans moving. They were approved 4 years ago. There are a lot of troubles, as you know, in Haiti, and the IDB is sending a team, I believe, on—next week, July 29th, to Haiti to try to work this out.

Ms. WATERS. Okay. So the mission is on its way to do the assessment, and you support that?

Mr. TAYLOR. I certainly support that.

Ms. WATERS. All right.

Now, what I really want to talk about are the six countries where there is a famine in southern Africa—Malawi, in particular. I am told, and again it has been reported, that the IMF basically advised or forced, coerced, or what have you, Malawi into selling its excess grain, because they had a surplus and now the silos are bare and the famine is on. It is a fact of life.

Did you in any way get involved in causing the selling of that grain from Malawi to be exported to other countries for sale?

Mr. TAYLOR. No. I have not been involved in that at all. Before the hearing, someone mentioned this to me; and I was told that the IMF did not, in fact, instruct that the grain be sold. But I will look into it and see if I can get more information for you.

Ms. WATERS. Would you please do whatever you have to do and share that information with us, because we want to know how those decisions are made.

Now, given that there is a drought and there is famine and there is a crisis in these six countries in southern Africa, what can you do? Given that you are exploring the possibility of giving more grants, how can you make an impact on this drought, this crisis; and given what you can do, why haven't you done something about the water needs of those southern countries, these southern African countries?

We have this drought. There is a need for both water and wells, and these water projects, that can be done for $12-, $13,000, $14,000 each that could help irrigate land and supply food—they need seed, they need water, and we need food for the crisis. What can you do now to help with this?

Mr. TAYLOR. With respect to the water, we can get started putting forth a water program to provide water to people that don't have it. As I said just a few minutes ago, that is something that Secretary O'Neill has focused on, he speaks about; and I believe that we will really make a difference. So what we can do is go ahead and do something.

Ms. WATERS. So what would your next step be from this conversation? What would your next step be?

Mr. TAYLOR. Well, we already are costing out how much it would take to deliver water to areas. We have had a round table with water experts to come into Treasury. Water is very much on our minds these days in the Treasury, and I hope it will really make a difference.

As I mentioned, at the World Summit for Sustainable Development, it will be a subject. We have talked about it in the State Department and in the Treasury.

But what we can do is get started. As you say, why have I done anything? Well, I am doing something, and Secretary O'Neill has.

Ms. WATERS. I would like to set up a meeting with you and a U.N. representative whose name I can't recall, who has made me very much aware of the cost of these small water projects, to talk with you about water and seed. We are trying to think beyond the drought, so that people can become more independent. That is one of the goals.

Mr. TAYLOR. I would like to work with you.

Ms. WATERS. I would like to meet with you on that. I would like to help organize a meeting so that I can do everything that I can to support, you know, getting into these projects as quickly as possible.

Secondly, in terms of the immediate drought, what role can you play?

Mr. TAYLOR. With respect to humanitarian assistance, USAID is quite effective in getting on the ground with food aid fast. I know most about their recent activities with the droughts in Afghanistan, which I think were very impressive, and they worked quickly, both before the Taliban and after the Taliban.

But my sense is that we do have a very effective operation with respect to humanitarian assistance in the case of droughts. But this is perhaps a little longer term than your answer—your question indicates. But I think raising the capability of agricultural production in Africa is a very high priority, should be a very high priority.

Right now the potential to produce grain or simple food products is very low. The productivity in Africa is like a hundredth of what it is in the United States. So what we need to do, I guess, is go to Ethiopia. And I saw the huge potential from simply getting a different breed of cow in terms of producing milk, they could increase the productivity of a single animal by 700 percent by just a different breed.

Ms. WATERS. I ask for 30 seconds.

Chairman BEREUTER. No objection.

Ms. WATERS. I don't know if you have been seeing the reports about this famine and the fact that people are dying now. And at first I had confidence that USAID could get ahead of this problem

and stop this impending crisis, but they haven't, and people are dying. And ABC and the world reports are coming in, we are going to see more images of dying people on television.

It appears to me that they need some additional things that I want to get more money for. But if in fact they needed more trucks to truck food up into the villages, and they needed money for security for the trucks to keep starving bandits from robbing the trucks on their way to the villages, could you assist in that from the—from your operation? Could you do that? Is that something that is possible by the way grants for immediate—.

Mr. TAYLOR. Security is not something that we have focused on, international security, in the Treasury.

Again, let me look into this issue and see what I can do. But we usually—usually the security is needed, as you say, for delivery of humanitarian assistance. If it is dangerous to go into areas, or the products are being stolen, it is not being effective. But with respect—I personally am not involved in providing security assistance.

Ms. WATERS. I know. We need your money. We just need some money, it seems like.

I would like to again, in addition to the meeting I am talking about with the U.N. representatives and others, with Mr. Natsios at USAID and you and some others, I would like to talk about—I am trying desperately to stop what happened in Ethiopia. I am trying desperately not to have us 6 months from now looking at these starving, dying people on television and saying, oh, isn't that a shame—we are doing all we can.

So I would like to follow up with you.

Chairman BEREUTER. The time of the gentlelady has expired. To the extent that you provide answers to Mrs. Waters on her previous questions, I would appreciate it if you would put it to the committee, as well, so we have it as part of the record.

If I may make a personal suggestion, I think the gentlelady ought to have Mr. Hyde and Mr. Lantos try to get you an immediate meeting with AID, because if they are not providing assistance, then the only logical source of this kind of assistance is not working. I appreciate the desperation that faces these people.

Now, the gentleman from Texas, Mr. Gonzalez, has been waiting for some time. I appreciate that. He is recognized for 5 minutes, at least.

Mr. GONZALEZ. Thank you, Mr. Chairman. I do appreciate the opportunity and the courtesies that you have extended me to discuss NAD Bank.

And Mr. Secretary, as we know that OMB Director Daniels in his letter of July 19th to Vice President Cheney and Speaker Hastert had a draft of a bill regarding some changes to the cooperation agreement that created NAD Bank. And, of course, part of it has already been alluded to, and that is the extension of the jurisdictional area within the Mexican border to 300 kilometers.

We would commend Treasury, and we join you; it is something that we have been discussing for some time. However, the bill does mention—and I wanted some explanation—a system of financial differentiation whereby grants and subsidized loans would be restricted to the current 100-kilometer region.

There is very little borrowing capability and environmental projects throughout Mexico, even at the subsidized interest rates. What impact would you expect then of a market rate lending program in the additional 200 kilometers, given whatever you—you propose regarding this differential rate?

Mr. TAYLOR. The reason to differentiate really was because of the limited resources, in the sense that the funds closer to the border were ones that—100 kilometers, I think it is—were ones that should be used for grants.

If you had grants—and I think this is what you mean in your question. If you had grants that could go all of the way to 300 kilometers, it might not be enough. We have limited resources for the grants, so we had to limit it to go further, but not to have this very concessional support go further.

If there are other ways to think about this, I haven't been informed about it; but that seemed to make sense to me as a way to allocate it. I could imagine that there would be other ways, based upon need or based on population or something like that, but this one made sense to me.

Mr. GONZALEZ. Part of the question is—I understand on the grant part of the equation, but if we are still talking about extending some sort of credit, loans, whatever, in this expanded region, we still have the same problems that we have always had, haven't we?

I guess I am just asking, what do you see, other than grants? Because I think your whole focus has been—and that has been part of some of the difficulty—is, what can we do regarding accommodating a loan relationship?

Mr. TAYLOR. When we thought about this, we thought about extending the scope in terms of the area as one way that the funds could be used. In other words, there may be some projects beyond 100 kilometers which could benefit from the loans with interest rates.

The second way we looked at was to make the support more concessional, that is, through grants. So both the distance from the border and the form of finance, we looked at ways to make NAD Bank more effective or make it more usable to people.

And I think what you are saying there is a combination of those, increasing the distance from the border, you can use the money in increasing grants; but just because of the limitation on the resources, we didn't do both of those on top of each other. We did a little bit of each.

Mr. GONZALEZ. And the nonmarket rate loans aspect of it, again, are we looking at treating that aspect of your recommendation differently for those—for the area within 100 kilometers and those outside of 100 kilometers?

Mr. TAYLOR. I just had a note passed to me. Some of the low interest loans can be used between 100 and 200 kilometers, that is, 25 percent. So it is actually like a graduation, or an incline, if you like. The further you are away, the less concessional it is.

But it is not like it is a once-and-for-all thing. Between 100 and 200 kilometers, you get this somewhat more concessional rate than between 200 and 300.

Mr. GONZALEZ. The second question—and obviously this has been around for discussion for some time, and I appreciate the opportunity of discussing this with you today; that is that the lending experience regarding environmental projects in every multilateral development bank, including the World Bank, around the world is extremely limited. Their lending to such projects is, at best, 6 percent of their total portfolios.

The challenge is to increase the creditworthiness of service utilities through technical assistance, which we already know that NAD Bank is engaged in doing. But that process takes a long time and is subject to legal and political reforms controlled by Federal and local governments. In the meantime, NAD Bank's sectorial mandate continues to be constrained to environmental projects.

How can the bank use its capital more productively and service broader and equally urgent infrastructure needs along the border to include energy, transportation and communications, as the Mexican side has been demanding for some time, if its mandate continues to focus only on projects with a direct environmental component?

Mr. TAYLOR. We also considered those kinds of proposals to expand the scope of NAD Bank beyond where it is now, in terms of types of projects. And many people we talked to—and it was a very open process—suggested that.

We also recognize that this is a package which requires an enormous amount of consensus from different parties with different perspectives. And what we felt, in consultation with many people, was that if we tried to work with the grants and increasing the distances from the border within roughly the current environmental mandate, we should try to do that and make it work.

We will try to do that, and I think it will work. But believe me, if it doesn't work, we are going to look for alternatives to make it work.

I think those are some of the things that were discussed. But for right now we have got a good reform package in place that balances a lot of different interests—and there are many different interests—and I think it will work. And we would like to pursue it and hope that the legislation is passed.

Mr. GONZALEZ. Mr. Chairman, if I can have just one short question, and that is, I realize this has been proposed as of July 9th. Our understanding is that Treasury would have a more comprehensive proposal that would be forthcoming. And if so, can you give me an idea when it would be presented for our consideration, because at every step of the way, we have always asked that we be kept informed. And the honest truth is, that we have not been.

We will take that up some other time.

What do you perceive again as your next proposal affecting NAD Bank, and when would it be coming?

Mr. TAYLOR. Well, the proposed legislation, as submitted, are the things that we need legislation for. Other parts of the reform package we don't need legislation for. But you should know about those now, as much information as we have; and I will try to make sure that you get it.

Mr. TAYLOR. There is a process that is being put in place, called a business review process, where the whole operations of NAD

Bank and back are going to be examined. There may be additional ideas that come out of that. So I don't want to say this is completely settled about how we—maybe there are some new ideas that will come up.

But in terms of where we are now, and the rationale for the legislation and the rationale for the other changes, I would like to keep you completely informed, and I will try to make sure that it happens.

Mr. GONZALEZ. Any time line?

Mr. TAYLOR. Let's set up a meeting as soon as we can.

Mr. GONZALEZ. Talking about, as far as any proposals, nonlegislative in nature, you don't require us, initially anyway. Do you have any idea when all of that is coming to a head?

Mr. TAYLOR. As far as I know, we have—except for this business process review, we are ready. We have all of the information. Okay, so we will sit down with you, or my staff can sit down with your staff, however you want to proceed. If you don't perceive it as enough, or if they don't perceive it as enough, let me know, and we will see what the problem is.

But, I have got a good fix in my head about what we are proposing on the legislative and administrative side. I am going to go to San Antonio in the middle of the month. I am going to participate in one of the NAD Bank board meetings, with my counterpart from Mexico—from their hacienda. The two of us have talked a lot about how to expedite this and work hard together to make—make the whole process work.

I can perhaps provide with you some more information after that meeting, after I am down there for a few days.

Mr. GONZALEZ. I look forward to it. Thank you very much.

And thank you, Mr. Chairman.

Chairman BEREUTER. Mr. Gonzalez, if you will look at the bill, I want to make sure that you have a positive reaction.

Mr. GONZALEZ. I think there are a couple of items in there that are encouraging, regarding sanctions jurisdiction. Again, I am not real clear on some of the provisions, Mr. Chairman. We will be talking to staff at Treasury to get some clarification.

All of these things are, hopefully, proposals to make the bank something that it is really a viable international financial institution, and not necessarily just a conduit or agent for grants.

I mean, that is really the whole problem, Mr. Secretary. We would really love to work with you. We would like to see it be a robust and vibrant instrument.

Mexico is different from most other countries with which we have these types of relationships. Grants are necessary. But the potential to have a really good business relationship with some of these communities taken into the character of the Mexican people, their history with the United States, and of course the fact that they are our neighbors, really does come into play. And it is going to take—maybe it is a different philosophy as we go in there and we deal with our Mexican neighbors. So I look forward to it.

Thank you again, Mr. Chairman, for your interest.

Chairman BEREUTER. If you work with Treasury, you and anybody else that you want to be involved with that, I won't promise

to take it up, but I will give it very strong consideration to take it up and move it in a separate bill.

Mr. GONZALEZ. I express my appreciation, sincerely. I look forward to that day.

Chairman BEREUTER. We are going to conclude with questions from Mr. Bentsen. I heard some bells ringing. This is an appropriate time.

Mr. BENTSEN. Thank you, Mr. Chairman. I will be brief. You caught me off guard earlier. I thought Mr. Watt was going to ask questions. I did have some.

Last week we had some of the NGOs testify before the committee. And they raised some issues that I wanted to raise with you. One goes back to the PRSP. And one of the groups argued that Congress should work to have the U.S. Propose to delink the PRSP from the ongoing debt relief program and—I believe the fear there being that we have already been through a series of debates with our partners in IDA, in the bank, and in the fund on the debt relief and conditions that are set, that need to be set, and that that should not be extended any further, the debt relief program is ongoing.

I would like to get the position of the administration with respect to that.

And the second question that was raised, as well, is that as part of the conditionality that the administration is seeking in its new view of the IDA programs, both loans and grants, and the proposal to put more money in, assuming conditions are met, is the concept that the guidepost or measures should change. And one of those raised—it caught my attention because I have always been curious about it—is the debt-to-export ratio, and what the administration's position is with that.

Is it your intention to maintain that as a key factor of determining poverty level or to discount that?

Mr. TAYLOR. I don't know of any proposals to delink the PRSP, or the other mechanisms that were put in place in recent years, to broaden the discussion about how our assistance can be used and broaden the coordination in order to delink this from any kind of program that we are doing.

So I have tried to learn as much as I can about the PRSP process since I have been in this job—talked to a lot of people, read a lot of documents—and my sense is that it does bring together different parties in a healthy way. It is positive.

I don't think it is the only thing that we should be doing, however. I think, as I said before, that once something is decided upon and it is viewed as something that is going to be helpful to the country with their leadership and their people, then we ought to make sure that is the most effective that we can, that is, with measurable results.

Mr. BENTSEN. I think the concern—if I understood it correctly in the testimony that was given last week, the concern was not so much with the PRSP program, assuming that it works the way everyone wants it to—that is a matter of interpretation—but rather that it raises the bar for the debt relief program, and thus could act as a delay.

With the assumption of many parties and the NGOs that that program has been decided, it is just a question of process at this point in time. And the PRSP is really a more forward program as it relates to new loans and grants.

Mr. TAYLOR. All I can say is that I haven't even heard that proposal. Almost all of the NGOs I talk to are positive about the PRSP process. I don't hear about delays that it may be causing. Let me look into it.

Mr. BENTSEN. That is all I ask.

Mr. TAYLOR. With respect to the different measures of debt, sustainability is the way that I would put it. Debt-to-exports, for example, I don't think there is any one single measure that is sufficient. We are now using debt-to-exports, and I think we should continue with that. It is something that people are familiar with. But I think we should look at the whole process of sustainability of these countries, debt sustainability, in the broadest way that we can.

What I am concerned about is the HIPC process not completely bringing the countries to a sustainable situation, so that they can get favorable credit ratings and function as good, healthy developing economies so they can grow.

There is going to be a review of the HIPC process—it is in process now; it will be finished in the fall—by the World Bank and the IMF. They are looking at the measure you mentioned, debt-to-exports, seeing how things are going, whether the country is really fiscally sustainable.

I want to look at that, and the rest of our government is looking at it very carefully, to see whether there are some improvements that we can make in the process. Maybe there are some other measures.

Some people suggest—in fact, there is some legislation that says we should look at interest payments compared to revenues. But there are a whole bunch of indicators. Right now we have that one; it seems fine to continue using. But I don't think it is the end or the last word on the story.

Mr. BENTSEN. Thank you.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Mr. Bentsen.

Mr. Secretary, it is nice to give the executive branch a look at the diversity of views and interests of the Congress. Thank you for taking a variety of questions here. We very much appreciate your time today.

We will look back to you from time to time for some advice as we try to move forward.

Mr. TAYLOR. Thank you, very much.

Chairman BEREUTER. The subcommittee's hearing is adjourned.

[Whereupon, at 3:40 p.m., the subcommittee was adjourned.]

A P P E N D I X

July 19, 2002

Opening Statement
Subcommittee Hearing on International Development Association Reauthorization
July 19, 2002
Congressman Doug Bereuter

The Subcommittee on International Monetary Policy and Trade meets today in open session to examine the International Development Association (IDA). The Administration is expected to submit an authorization request for the 13th three-year reauthorization of IDA in the immediate future.

This hearing is the second in a series of three hearings on the subject of World Bank-IDA. Previously, on May 2, 2002, the Subcommittee heard testimony from the General Accounting Office (GAO) on the subject of converting World Bank IDA loans to grants. Today, we will hear from a distinguished panel of private sector and non-governmental-organization witnesses. Subsequently, on July 25th, the Subcommittee is expected to hear testimony from Undersecretary John Taylor of the Department of Treasury on the pending Administration requests for the multilateral development institutions.

Before I introduce our distinguished witness panel, I would like to make a brief opening statement on IDA which addresses the following three subjects:

1. background on the U.S. contributions to IDA;
2. loans-to-grants debate; and
3. performance measures.

Background on the U.S. contributions to IDA

First, this year Congress must consider the 13th reauthorization request of IDA, the concessionary lending arm of the World Bank. The IDA extends highly concessional loans to the world's poorest nations to finance investments in health, education, sanitation and infrastructure required for lasting poverty reduction. In addition, IDA promotes basic economic policy and institutional reforms needed for sustainable economic growth and development. For example, IDA loans are provided interest free to qualifying countries although a 0.75% service charge is assessed to borrowers. Recipient countries are granted a 10-year grace period, followed by a 30-year repayment schedule. Despite the highly favorable terms, many of these poor countries remain trapped in unsustainable debt.

For FY2003, the Administration is expected to formally request $850 million for the first U.S. scheduled contribution under IDA-13, plus $24.3 million to pay one-third of outstanding U.S. arrears. The total three-year U.S. commitment to IDA-13 is $2.55 billion, with a possible increase of up to $2.85 billion based on IDA's satisfactory achievement against key performance measures. With these increases, the annual average U.S. commitment to the IDA-13 replenishment would represent an 18.2% increase over the U.S. annual commitment under the previous IDA replenishment (IDA-12).

Loans-to-Grants Debate

Second, with respect to the issue of loans-to-grants, in July 2001, President Bush proposed that the World Bank and other multilateral development banks replace up to 50% of future lending to the world's poorest countries with grants. According to the GAO report which was co-requested by the Honorable Jesse Helms (R-NC), Ranking Member of the Senate Foreign Relations Committee and myself, conversion of half of all IDA loans to grants would cost donor countries approximately $15.6 billion in present value terms. This amount could be financed if donor countries increase their IDA contributions by 1.6% for each of the next 40 years. The GAO also found that 50% grants would promote debt sustainability better than 100% debt forgiveness of old multilateral debt. According to GAO, this is largely because, despite any one-time full debt forgiveness, poor countries would continue to accrue new debt that would quickly become unsustainable.

The Administration loans-to-grants proposal has been controversial with some IDA donor and borrowing countries: the British and Germans, for example, were concerned that the loss of loan reflows would hurt the long-term viability of the IDA program without significant new commitments from donors; similarly, Europeans feared that the distribution of grants would create an unhealthy dependency on foreign aid and hinder the development of international creditworthiness; and poor countries feared grants could give the World Bank increased clout which they could use to extract additional concessions from borrowers.

In early July 2002, IDA donors finally agreed to a complex plan which would ultimately result in converting 18% to 21% of future IDA loans to grants. Under this plan, IDA-only countries will receive 100% of their assistance for HIV/AIDS projects in the form of grants and all IDA assistance for natural disaster reconstruction will be on grant terms. Further, post-conflict countries and "debt-vulnerable" countries with a per capita income of less than one dollar per day will receive 40% of their assistance on grant terms – separate from and in addition to HIV/AIDS or natural disaster funds. All other countries with a per capita income of less than one dollar per day will receive 23% of their assistance in the form of grants (again, separate from and in addition to, HIV/AIDS and/or natural disaster funds). There is general agreement among IDA donors that the grant money will be focused heavily in health, education, water supply and sanitation projects.

Performance Measures

Lastly, President George W. Bush first introduced his thinking regarding performance based criteria for the multilateral development institutions last year at the G-8 Summit in Genoa, Italy. Thereafter, world leaders studied performance standards at the U.N. summit on development held in Monterrey, Mexico in March 2002; and major donors discussed them again at the late June 2002 G-8 summit in Kananaskis (Can-an-ASK-is), Canada. Led by the U.S., IDA donors now want results which show that financial contributions actually enhance the lives of poor people and help build sustainable economies.

As recently negotiated by IDA donors, IDA-13 directly links multilateral development aid to meaningful governmental and social reform. Donor countries have agreed to a performance-based program which allows recipient countries to participate in the process, tailor

the programs and take ownership of the projects. The U.S. plan to increase donations in the second and third year of IDA-13 in return for certain broad results incentivizes systemic change necessary for sustainable growth.

For example, the U.S. Administration has promised a $100 million increase in Year Two funds if IDA demonstrates that 1) it has a monitoring and evaluation system in place, 2) its country strategies will be informed by education action plans and investment climate assessments, and 3) sufficient diagnostics are conducted in IDA countries to ensure effective use of donor resources. For a further $100 million U.S. increase in Year Three, IDA must demonstrate 1) an increase in education enrollment rates, 2) a to-be-determined percentage increase in the rate of measles immunization (which is viewed as a good proxy for overall health programs), and 3) a reduction in the cost of, and start-up time for, creating new businesses in IDA countries.

Therefore, to assist the Subcommittee in examining these issues, I am pleased that we have the opportunity to hear from our distinguished panel of witnesses. We will first receive the testimony of Mr. James Orr, who is co-founder and Executive Director of the Bretton Woods Committee, a bipartisan, non-profit group organized to promote sensible reforms and increase public understanding of international financial and development issues in the global economy. From 1975 to 1983, Mr. Orr served as a legislative counsel for the U.S. House Subcommittee on International Trade and Development, the predecessor to this Subcommittee. He holds a masters degree in international economics from the School of Advanced International Studies at Johns Hopkins University, and an undergraduate degree in economics from Wesleyan University.

Second, Reverend David Beckmann will provide testimony on behalf of Bread for the World, a nationwide Christian citizens movement dedicated to eliminating world hunger. Rev. Beckmann, a Lutheran minister, served for several years on the board of directors of Bread for the World before becoming president of the organization in 1991. In the interest of full disclosure, I also served on that board under his predecessor. Prior to this, he spent many years as a World Bank economist, where he played a prominent role in the Bank's heightened focus on poverty reduction. He holds a Master of Science in Economics from the London School of Economics, a Master of Divinity from Christ Seminary in St. Louis, and an undergraduate degree from Yale University. I also think important to note that Rev. Beckman is also a native of Lincoln, Nebraska.

Testifying next will be Mr. Raymond C. Offenheiser, President of Oxfam America and a member of the board of Oxfam International, a confederation of 12 non-governmental agencies working together in over 80 countries, where he works to serve Oxfam International's goal for lasting solutions to poverty, suffering and injustice. Oxfam is a strategic funder of development projects, provide emergency relief in times of crisis, and campaign for social and economic justice. Prior to joining Oxfam, Mr. Offenheiser worked for the Ford Foundation in Bangladesh and South America, and the Inter-American Foundation in both Brazil and Columbia.

Finally, the Subcommittee will hear from Ms. Thea Lee, Assistant Director for International Economics in the Public Policy Department of the AFL-CIO, where she oversees research on international trade and investment policy. Previously, Ms. Lee worked as an international trade economist at the Economic Policy Institute in Washington, D.C. and as an editor at Dollars & Sense magazine in Boston.

Before the witnesses testify, I now turn to the distinguished gentleman from Vermont, the Ranking Member of the Subcommittee (Mr. Sanders), for any comments he may have.

Opening Statement

Chairman Michael G. Oxley

House Committee on Financial Services

Subcommittee on International Monetary Policy and Trade

"Authorization Request for U.S. Participation in the World Bank - International Development Association"

July 19, 2002

Today the Subcommittee undertakes the important task of reviewing the Administration's request for the thirteenth reauthorization of the World Bank's International Development Association, or IDA. I regret that it has taken so long for the Administration to send its legislative request to this Committee, as this proposal makes significant changes to the way that IDA money will be distributed to needy countries over the next several years. I want to thank Chairman Bereuter for convening this important hearing, and I look forward to a thorough and thoughtful discussion.

I understand that the Administration has been in intense negotiations with the other donors to the World Bank over the past several months, and I commend them on developing an innovative approach to dealing with poverty in developing countries. However, I am very concerned over the delay in providing this Committee with any formal details of the negotiated agreement. It has taken so long to reach a workable solution among the donor countries that a detailed authorization during this Congress may prove difficult to achieve.

The current proposal calls for a commitment of $2.55 billion for this replenishment, with the potential for an increase to up to $2.85 billion based on IDA's satisfactory achievement against key performance measures. I believe that it is important for there to be accountability for the programs that IDA funds to ensure that we are not throwing U.S. taxpayer dollars at programs that are ineffectual and inefficient. However, we have not received any details as to how those performance measures will be developed or how success will be measured.

I am encouraged by the proposal to change the way IDA gives aid to developing countries to a mixture of both loans and grants. This is perhaps the most creative approach to improving the operations of the development institutions that has arisen in some time. I believe that this proposal will result not only in better access to critical services, but also could help reduce the crushing debt burden that the developing countries face.

I want to welcome our distinguished panel, and I look forward to hearing your perspective on the agreement reached among the donor countries and on the future of the IDA. Your voices will be influential as this Committee reviews the U.S. commitment to the IDA.

Statement of the Hon. John J. LaFalce
Subcommittee on International Monetary Policy & Trade
Hearing on Replenishment of the International Development Association
July 19, 2002

Thank you Mr. Chairman. I am very pleased by the panel that the Subcommittee Chairman has assembled this morning. Each of the organizations represented has played a critical role in the effort to alleviate poverty and bring prosperity to the developing world – Oxfam through direct humanitarian action, Bread for the World through grassroots activism to fight global hunger and poverty, AFL-CIO through the promotion of worker rights in all countries, and Bretton Woods through its advocacy role in support of the World Bank and the other multi-lateral institutions that serve as our primary tools for development policy.

One of the goals of U.S. policy within the International Development Association, and all the multi-lateral institutions, has been to expand the role of civil society in the institution's activities. This requires greater transparency as well as more openness to the input of civil society representatives. I believe the World Bank has made substantial progress in this area, and I expect that our witnesses will agree, at least to some extent, that the IDA-13 replenishment negotiation process has been more transparent and more receptive to the input of outside parties than previous replenishments. There is, of course, room for additional progress. More disclosure of key documents earlier in the policymaking process should be a goal of U.S. policy for IDA. Also, the poverty reduction strategy process should be improved to ensure that the participation of civil society is more than cursory.

I think there is much to be pleased with in this IDA agreement, and I would note in particular that the U.S. has committed to significant increases in IDA contributions over the next three years. While I take nothing away from direct U.S. aid to poor countries, I believe that in general multilateral assistance is a more effective delivery mechanism for such assistance. I

think some of our witnesses today will address the importance of donor aid coordination, and it seems obvious in this context that more reliance on institutions like the IDA will go a long way toward reducing the inefficiencies and burdens of overlapping and redundant bilateral aid projects.

Let me turn to the issue of debt relief for many of the IDA countries. Those of us who fought for debt relief funding in the last Congress are well aware of the unfortunate fact that much of the unsustainable debt shouldered by the heavily indebted poor countries is the result of past IDA lending. The shift to grants will help alleviate this problem in the years ahead. But I would also like to see a greater commitment to build on the successes of the HIPC Initiative with additional debt forgiveness.

We now know that the HIPC initiative will require additional funds simply to achieve the existing commitment to the eligible HIPC countries. I think the effort to secure these funds should also occasion the consideration of other refinements to the program. From my perspective, one improvement would be to create an additional standard for determining how much debt is forgiven in each HIPC country. Secretary O'Neill has said that he does not like formulas for debt relief – that is well and good, but the fact is that we are currently stuck with one formula, debt-to-exports, that is only partially successful in delivering appropriate levels of relief. I have joined my colleague Chris Smith in introducing H.R. 4524, the Debt Relief Enhancement Act, which would deepen debt relief for the HIPC countries by introducing an additional consideration, the amount of a poor country's budget that is consumed by debt service.

We can debate the merits of this particular formula relative to others, but my goal is to introduce enough flexibility into the HIPC program so that we can achieve the desired goal – debt sustainability and poverty reduction. Beyond this effort, I think there is a good case to be

made for bringing more countries into the multi-lateral debt relief program. These proposals will cost money. And let me be clear that in my desire to improve the HIPC ~~country~~ program, I am sensitive to actions that would undermine the World Bank's ability to fund existing programs. If donor countries want more debt relief through the multi-lateral institutions, and I think they should, then these countries should be willing to pay for it through higher contributions to the effort.

STATEMENT BY REP. BERNARD SANDERS ON THE WORLD BANK

I would like to thank Chairman Bereuter for holding this important hearing on the World Bank, and thank our distinguished guests for being here today.

As we all know, the International Development Association, the poor country lending arm of the World Bank, is up for re-authorization this year and I look forward to working with Chairman Bereuter and the other Members of this Subcommittee on that legislation.

The World Bank was originally set up to end global poverty. Unfortunately, many economists, labor unions, NGOs, religious groups and others have strong concerns that the policies of the World Bank which often support unfettered free trade, privatization, and slashing social safety nets of countries in order to balance their budgets has contributed to increasing global poverty.

Mr. Chairman: It is my view that the United States and the other wealthy industrialized countries must radically change their attitude and policies toward the developing countries. It is neither moral nor in the long term best interests of the United States that millions of poor people around the world lack health care and medicine and die from preventable diseases. It is neither moral nor in the long term best interests of our country that large sections of humanity are unable to find clean water to drink, or schools that can teach children how to read or write.

Ultimately, in my view, a global situation in which a few countries have enormous wealth while a billion people live on less than a dollar a day is not sustainable. Public policies that enable huge multi-national corporations to exploit and control the poor of the world cannot be allowed to continue. International financial organizations, controlled by the wealthy countries, cannot be allowed to continue undermining democracy and the interests of indigenous people.

Here are some facts:

** According to the President of the World Bank, James Wolfensohn, "global poverty is getting worse. Some 1.2 billion people now live in extreme poverty."

** In 1999, the world's poorest 400 million people lived on an average of just 78 cents a day or less which represents an actual reduction in living standards from 1990. At the same time, the world's 200 richest people have doubled their wealth in the last four years.

** According to former Chief World Bank economist Joseph Stiglitz, "although world income increased 2.5% a year in the '90s, an additional 100 million people fell below the poverty line. A growing divide between the haves and have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day."

** According to a recent study by the United Nations, more than 100 million people in the world's poorest countries will be dragged below the basic subsistence level of a dollar a day by 2015 due to globalization. However, the U.N. study concluded that if countries were allowed to abandon the economic adjustment programs they were forced to adopt in the 1990s by the IMF and the World Bank, and instituted other reforms, widespread poverty in the least developed countries could be cut by two-thirds over the next 15 years.

Even, the World Bank has admitted to its failures to reduce poverty in Africa. According to an April 22, 2002 front page story in the *Washington Post*, "40 countries south of the Sahara have over the past two decades adopted the free-market reforms -- "structural adjustment programs" in development jargon -- prescribed by such lenders as the World Bank and International Monetary Fund. But in the generation since independence, sub-Saharan

Africa has never been so poor. Since Zambia's leaders embraced free-market policies in the 1990s, the country's manufacturing base has been eviscerated, leaving the government buried in more debt than it can repay and gradually replacing a full-time workforce with a growing informal economy that offers low wages, no benefits and no job security. World Bank officials acknowledge that the collapse of Zambia's textile industry is an unintended and regrettable consequence of the free-market policies promoted by the organization."

And, according to Foreign Policy in Focus, "The policies dictated by the World Bank and IMF exacerbated poverty, providing fertile ground for the spread of HIV/AIDS and other infectious diseases. Cutbacks in health budgets and privatization of health services eroded previous advances in health care and weakened the capacity of African governments to cope with the growing health crisis. Consequently, during the past two decades the life expectancy of Africans has dropped by 15 years."

It is my strong belief that while the current processes involved in the global economy may be working for multi-national corporations, they are not working for the poorest people around the world and, in many instances, are not working for middle class and lower income families in the United States.

Corporate globalization is forcing men and women around the world to run a destructive race to the bottom -- a competition in which workers, communities and entire countries are forced to cut wages, environmental protections and social programs to attract footloose capital.

I have already described some of the enormous social problems facing some Third World countries. Let me say a word about the global economy, and its impact upon the United States. In my own small state of Vermont, factory after factory is closing down because they are unable to compete against cheap imports. But this is going on all over the country. In the last four years

Workers across the United States are working longer hours for lower wages than they earned 25 years ago. Thirty percent of our workers earn poverty or near-poverty wages. In fact, low-wage American workers are now the lowest paid in the industrialized world. One out of every five children in America now lives in poverty, compared to one out of seven 25 years ago. Thirty-four million Americans live in hunger or in families so poor that parents skip meals so their children can eat.

And the race to the bottom doesn't stop here. It is being run in emerging economies that are afraid of losing jobs to third world countries – that in turn are afraid of losing jobs to fourth world countries. And it is being run in fourth world countries that are forced to cut basic health and social spending to get some loans from the World Bank so that they can go even deeper into debt.

Corporate globalization is leading to an enormous concentration of wealth. In the United States, the richest 1% of our population now owns more wealth than the bottom 95%, and the typical CEO of a major corporation now earns over 500 times more than the average worker.

Worldwide, the total wealth of the globe's three richest individuals is greater than the combined gross domestic product of the 48 poorest countries and the wealthiest 447 billionaires own more wealth than the bottom half of humanity – some 2 and a half billion people. Trade - over the past 4 years, we have lost 2 million jobs - 109,000 manufacturing workers

Corporate globalization is undermining democracy. It has drastically increased the power of global corporations -- at the expense of local, state and national governments. Of the 100 largest economies in the world, 51 are corporations -- not nations.

Here are some of the reforms I would like to see in regards to the World Bank:

- The United States should insist that the World Bank open themselves to public participation and scrutiny. No longer should this institution, which makes decisions affecting hundreds of millions of people around the world, be allowed to operate in secrecy.
- The United States should insist that the World Bank cancel the debts they are owed by the poorest countries in the world. It is unacceptable that many poor governments are forced to spend more on debt repayments to the World Bank than they spend on healthcare or education for their people. According to Mr. Stiglitz, "In many cases the debts are so large the prospect for reducing poverty is going to be very bleak unless we write off their debts. And some of the debts are cold-war debts."
- The United States should condition funding for the World Bank and other international financial institutions on support for labor rights, environmental protection, decent living standards and support for small and medium-sized local enterprises.
- And, the United States should include enforceable labor and environmental protections in all trade agreements.

Written Testimony to the
International Monetary Policy and Trade Subcommittee of the Committee on Financial Services
U.S. House of Representatives

Hearing on the International Development Association

July 19, 2002

Respectfully submitted by
David Beckmann
President, Bread for the World

Thank you for this opportunity to offer some comments about IDA.

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

The following testimony first responds to the questions the Chairman addressed to the witnesses at this hearing and concludes with some thoughts about the proposed Millennium Challenge Account.

IDA's Role

Agreeing to a U.S. initiative, World Bank member countries created the International Development Association (IDA) in 1960 to give the poorest countries access to financing on highly concessional terms. Now, IDA is an important source of funding for the poorest countries in the world, many of which would not be able to borrow at commercial interests rates and therefore do not have access to private capital. Since its inception, IDA has lent about $107 billion to 106 countries for primary education, basic health care, access to clean drinking water and sanitation, agriculture, capacity building and infrastructure development. IDA channels about 15% of all official development assistance to IDA-eligible countries in Africa, approximately $3-4 billion a year.

Grants vs. Loans

Last year the United States made an important intervention in the history of IDA when President Bush proposed to shift 50% of IDA lending to grants. Bread for the

World supports the recent agreement that IDA will provide grants for some types of projects. The grants proposal is a step forward in addressing some of the concerns that were raised by Bread for the World members and other grassroots groups around the country involved in the Jubilee movement to reduce the debt burden of the world's poorest countries. A shift toward grants for the social sectors will help to improve living conditions and prospects for poor people without further increasing the indebtedness of low-income countries. This proposal makes a lot moral and practical sense.

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

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

Debt Relief

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

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

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

The G8 Summit last month agreed to "top up" the Enhanced HIPC Initiative by $1 billion to compensate for the impact of the decline in commodity prices and to cover the shortfall in HIPC funding. This is an important step, and we urge Congress and the President to provide the U.S. share of this $1 billion in FY 2003. The President has recently made ambitious promises about future development financing from the United States, and it would be good to achieve some increase in the coming fiscal year.

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

The Poverty Reduction Strategy Paper Process

One of the great things that came out of the debt relief movement was the Poverty Reduction Strategy Paper (PRSP) process. In principle, the PRSP idea gives countries full ownership of their own development process, and it focuses policies and resources on the goal of poverty reduction. Indeed, the PRSP process has directed new investment to basic health, education, and poverty reduction in many countries, and it has opened new opportunities for democratic participation in some countries.

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

Additional technical and financial assistance would help to enable broad, informed and timely participation by civil society in all aspects of the design, implementation, monitoring and evaluation of the PRSP. Donors could also do more to monitor PRSP processes. As the PRSP has been widely embraced by donors and will be the basis for IDA lending in the future, it is important that we get it right.

A More People-oriented and Open World Bank

We would like to see the World Bank and IMF undertake ex-ante social, economic and environmental impact assessments for all their lending to ensure that policies and projects they support are not harmful to poor people, both in the short and long term. We would also like to see a more transparent decision-making process at the international financial institutions. One of the criticisms of the PRSP process is that it sometimes seems that World Bank and IMF staff have written the PRSPs in Washington.

More transparency would put an end to such practices, if indeed they exist, and to those allegations, if they do not.

It's important that the Bank be respectful of the governments with which it deals. But it's not enough that the government really "owns" Bank-supported policies and projects. The wishes of people outside government are also important. Social and environmental conditions that could seem onerous to an official might be important in securing broader popular ownership.

Performance Goals and Preconditions

The Bush administration has put a lot of emphasis on performance goals and preconditions. Both the grants proposal and the recent Millennium Challenge Account (MCA) proposal share the goal of measuring results and setting performance indicators. But the World Bank has insisted on goals and preconditions for many years (sometimes too much so), and the Bank already does a relatively good job of reporting to its member governments on its own performance.

One real improvement that could come from this administration's emphasis on results would be to upgrade the systems that monitor trends in poverty, hunger, and others aspects of basic well-being in poor countries. More accurate and current data would help everybody – beginning with citizens in poor countries – to evaluate development efforts. I don't see how short-term changes in poverty indicators can be used to evaluate IDA's performance, since a country's development takes time and depends on many variables. But the Treasury could make annual assessments of the Bank's contributions to better systems of monitoring what is happening among poor people in developing countries.

The U.S. Treasury has not yet announced what performance indicators it will use to decide on whether to propose increased funding for IDA in the second and third year of this replenishment. I'd also recommend some assessment of the Bank's progress on issues of transparency and participation, because the best way to strengthen the performance of Bank-supported policies and projects is to make it easier for local people, especially poor people, to have some influence. Far-off officials will never be able to monitor development activities as effectively as local people can.

IDA and the Millennium Challenge Account

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

assistance programs, including the MCA, to use countries' national development strategies or PRSPs as a basis for allocating funds.

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

Testimony of Thea M. Lee
Assistant Director of Public Policy
American Federation of Labor and Congress of Industrial Organizations
Before the International Monetary Policy and Trade Subcommittee of the
Financial Services Committee of the House of Representatives
on the World Bank's International Development Association (IDA) Funding

July 19, 2002

Mr. Chairman, members of the Subcommittee, I thank you for the opportunity to speak to you today about the World Bank's concessional lending arm, the International Development Association (IDA), on behalf of the thirteen million working men and women of the AFL-CIO.

I would also like to offer some comments today on behalf of a broad civil society coalition of development, religious, environmental, gender advocacy, and labor organizations, with whom we have been working to promote positive proposals for World Bank reform. I would like to submit the full report prepared by this coalition for the written record. It is titled "Responsible Reform of the World Bank: The Role of the United States in Improving the Development Effectiveness of World Bank Operations," and it was published in April 2002.

The report's proposals focus on:

- Increasing the amount of resources poor countries can dedicate to development;
- Making the World Bank more effective and accountable; and
- Ensuring that Bank resources are used to make productive investments in human development, instead of being used to support policies that harm the environment, workers, and the poor.

The U.S. Congress has an excellent opportunity to push for meaningful reform of World Bank policies as it authorizes and appropriates the IDA replenishment. Congress should ensure that the hundreds of millions of taxpayer dollars that are provided to the World Bank this year do not fund more failure at the institution. Reforms to cancel poor country debt, improve transparency, achieve positive health and education outcomes, ensure respect for core worker and gender rights, and protect the environment can deliver positive change to hundreds of millions of people in poor countries.

Tying these essential reforms to Congressional funding decisions is the most effective way of ensuring: first, that our government (via the U.S. Treasury Department) forcefully conveys these concerns to the Bank; and, second, that the Bank is motivated to comply. Past experience with weaker directives (mainly with respect to asking Treasury to ask our executive director at the World Bank to use voice and vote to achieve policy reform) has yielded disappointing and inconsistent results.

A broad range of organizations has united to support a package of policy reforms that will improve outcomes at the World Bank. This reform package would not interfere with U.S. commitments to fund IDA, though it would condition future IDA funding increases on progress in adopting Congressionally designated reforms – just as the Treasury Department itself has pledged funding increases conditioned on performance indicators.

Generate More Resources For Development

1. Debt Cancellation: While the U.S. has canceled bilateral debts owed by poor countries, many of these countries continue to struggle with debt owed to multilateral institutions like the World Bank. The Bank should provide deeper and broader debt relief, using primarily its own resources, to countries that will apply funds freed up by debt cancellation to poverty reduction programs. This debt relief should not be conditioned on policies harmful to the poor, workers, or the environment.

2. Grants vs. Loans: Although the terms of IDA loans are concessional, they still place an untenable debt burden on the poorest countries. We have supported U.S. efforts to promote a policy requiring fifty percent of new assistance to IDA-only countries on grant terms, while ensuring that overall levels of assistance to these countries are maintained or increased, the grants are used for pro-poor expenditures, and environmental and social safeguard policies are complied with. While the final IDA agreement did not go this far, we believe it is a step in the right direction. This agreement will require increased contributions from donor countries, and we urge the Congress to ensure that these funds are available from our government. In addition, All the OECD countries should commit to a significant increase in their overall aid budgets by 2007 in order to ensure that the Millennium Goals are reached.

Ensure Accountability and Effectiveness

3. Increase Transparency: U.S. leadership in the past has led to some improvements in the Bank's information disclosure policies. The U.S. should press for further transparency, including reforms that require the Bank to open its Board of Directors' meetings to the public, disclose transcripts of these meetings, and release all key documents prior to Board consideration of a loan. The U.S. Treasury Department should also set a good example for other countries by posting its own Board statements and reporting regularly to Congress on compliance with its mandates.

4. Assess Social and Environmental Impacts: While the Bank conducts environmental impact assessments of projects (for example, a power plant or a road) and sectoral reforms, it does not assess the potential impacts of other types of lending, including structural adjustment. Structural adjustment loans make up an increasingly large percentage of the Bank's lending portfolio, and they have profound social and environmental impacts. The Bank should perform upstream environmental and social assessments for *all* types of loans to analyze the environmental, poverty, gender and worker impacts of the proposed action and eliminate or mitigate any negative impacts that have been identified.

5. Improve Poverty Reduction Strategies and Donor Coordination: The poverty reduction strategy paper (PRSP) process needs reform if it is to live up to its potential to truly engage a broad range of stakeholders in a meaningful participatory process of developing country-owned strategies and benchmarks for reducing poverty. Despite the rhetoric, many critical stakeholders, including trade unions, have been excluded from the PRSP process or brought in too late to have meaningful input. Technical assistance is needed to enhance participation and accountability, and IDA directors should track the extent to which civil society views have been incorporated into PRSPs. Countries should be required to list civil society recommendations and explain why they have not been included.

   The U.S. should work to ensure that the PRSP process does not unduly delay debt relief through the HIPC program. At the same time, it is crucial to increase genuine civil society participation at all stages of the PRSP process and ensure coherence between the PRSP and donor lending by increasing the public disclosure, debate, and review of policies attached to IFI lending.

6. Measure Health and Education Outcomes: The Bank must be held more accountable for the results of its programs, especially in core lending areas for IDA such as health and education. This is particularly critical, as an increasing proportion of health lending is for "sectoral reform" rather than for concrete primary health care projects. The Bank's own staff and internal evaluation unit have acknowledged that most health reform lending does not effectively track or measure health outcomes. A number of health reform programs have, in fact, been correlated with worsened health outcomes. The U.S. should oppose health or education loans or grants that do not include mechanisms for measuring outcomes.

Do No Harm to the Environment, Workers, Women, and the Poor

7. Respect Workers' Rights: Many World Bank loans directly undermine internationally recognized core workers' rights in borrowing countries, despite growing research showing that compliance with core workers' rights contributes to economic growth, more equitable distribution of income, and stronger democratic institutions. Declining labor standards in developing countries affect American workers' jobs and wages.

   The U.S. Congress should use the IDA replenishment process to require the Bank to adopt enforceable and comprehensive policies to protect core workers' rights. In particular, the Bank should create a screening mechanism for all of its lending to ensure that loan conditions do not undermine core workers' rights. The Bank should also assess the impacts of its loans on employment, wages, and income inequality, in close cooperation with the ILO and with local trade unions. Trade unions must be able to participate meaningfully in World Bank programs, and can only do so if full information about Bank lending is available to the public under vastly improved disclosure procedures.

The Treasury Department failed to produce the Congressionally mandated report on core labor standards at the international financial institutions in 2001 and has consistently failed to show convincing evidence of progress in any of the Congressionally mandated objectives. This dismal record needs urgent improvement.

8. Promote Environmental Sustainability: The U.S. should push the Bank to ensure compliance with environmental and social policies, reduce support for fossil fuel and mining projects, increase support for energy efficiency and renewable energy technologies, oppose dam projects that don't conform to World Commission on Dams recommendations, promote responsible forest protection policy, and advocate for biological or environmental pest control methods.

9. Target Gender Equality: The World Bank's own research demonstrates that societies with greater gender discrimination tend to experience more poverty, slower economic growth and inferior living standards than societies with greater gender equality. Today seventy percent of the world's poor are women, yet most Bank loan benefits accrue to men. The U.S. should ensure that all Bank project and adjustment operations undertake gender analyses and target women as necessary to promote gender equality.

10. End Harmful User Fees for Primary Health and Education Services: User fees imposed for primary health care and primary school have led to reduced access to critical basic health services, with increases in illness and maternal and child deaths, and reduced school enrollments (especially for girls). At the same time such fees have provided relatively small increases in budgetary support, sometimes not even covering the cost of fee collection, as in the case of health clinic fees. Data from UNICEF, the World Bank itself and from the World Health Organization (WHO) show that exemptions intended to protect the poor have largely failed. The U.S. should oppose any Bank program that includes user fees for primary health or education services in poor countries.

11. Target HIV/AIDS: World Bank loan programs can actually end up exacerbating the devastating crisis of HIV/AIDS in borrowing countries by imposing prohibitive fees on the users of health services, increasing economic and social dislocation, and miring poor countries in unpayable debt. The Bank should measure the impacts of its loan programs on the incidence of HIV/AIDS and other infectious diseases, support bulk procurement of pharmaceuticals to treat these diseases, and finance its HIV/AIDS programs with grants instead of loans.

12. Do Not Increase the Cost of Basic Services for the Poor: The Bank often prescribes measures that remove subsidies for poor people, denying them access to basic services such as water, health, and education. The U.S. should oppose actions that seek to increase cost recovery from persons with incomes of less than $2 a day to finance basic public services in IDA countries.

13. Stop Undemocratic Reductions in Public Ownership: The U.S. should ensure that privatization transactions are conducted in a transparent manner and that policies and regulatory regimes are in place to protect workers and vulnerable groups of society.

14. End Undemocratic Trade and Investment Deregulation: The U.S. should vote against any loan, grant, document or strategy that promotes non-transparent trade and investment deregulation in a country with a democratically elected national legislature unless the legislature has approved the policy first.

15. Do Not Undermine Tobacco Control: Experience suggests that the opening of tobacco markets leads to an increase in smoking rates. The U.S. should oppose any Bank program that reduces the public ownership or government regulation of any tobacco enterprise.

The World Bank should be an effective global development institution. The Bank cannot achieve this status – and does not deserve increased public support – while it continues to contribute to an unending cycle of debt; fails to systematically measure the full social and environmental impacts of its programs; funds projects which hurt the environment, workers, women, and the poor; and operates behind a veil of secrecy. Americans are willing to devote more resources to poverty alleviation initiatives around the world, but they must have faith that these funds will truly contribute to equitable, sustainable, and democratic development. The proposals described here are designed to help the World Bank meet this important challenge.

Testimony of Raymond C. Offenheiser
President, Oxfam America
to
The International Monetary Policy and Trade Subcommittee
of the
Financial Services Committee
of the
U.S. House of Representatives
July 19, 2002

Chairman Bereuter, Ranking Member Sanders, committee members, and guests; it is an honor for me to testify before the International Monetary Policy and Trade Subcommittee on the important issue of the World Bank's International Development Association fund or IDA.

I am the President of Oxfam America. Founded in 1970 we are based in Boston and accept no government or World Bank funding.

The Oxfam network has broad experience in the developing world with partners in 120 developing countries, many of who are recipients of IDA. We have field offices in 60 of these countries and work with thousands of partners in the South. In addition, this testimony draws upon my personal experience of more that 25 years of field experience in Asia and Latin America representing both the Ford Foundation and Inter-American Foundation. In these roles, I was exposed firsthand to debates about World Bank programs and in the case of Bangladesh, as the Ford Foundation Country Representative, I served as a member with ambassadorial status of the Consultative Group that managed the dialogue with senior Bangladesh government officials regarding all foreign aid and multilateral lending to Bangladesh.

The replenishment of IDA, which happens every three years, is the prime moment to examine the operations of the World Bank and to push for reforms in its operations. The United States Congress has been a leader in encouraging the Bank to reform. When you speak the Bank listens!

I would like to briefly review two key areas of IDA influence – overall IDA effectiveness and basic services needed to achieve the Millennium Development Goals.

Overall IDA Effectiveness:

IDA loans vs. grants
First in the area of Overall IDA Effectiveness it is clear to Oxfam that moving from IDA loans to using a portion of IDA for grants is a very positive step. We strongly support the Bush Administration's position of converting up to 50% of the IDA loans to grants for health and education in the public sector as long as the United States and other donor governments provide funds to makeup for the decrease in loan repayments. We regret that the G-7 is limiting grants to 18% to 21%; however if the grants arrangements succeed, then we anticipate seeing this amount increase in future years.

We believe that providing grants to the world's poorest countries instead of loans, especially for basic services such as primary health care and basic education, is essential. It also increases the likelihood that the poorest countries will be able to reduce their foreign debts in the long run.

The U.S. has pledged to increase its current $803 million IDA contribution to $850 million in the first year. Subject to improved performance and effectiveness, in fiscal year 2004, U.S. funding for IDA would increase to $950 million and to $1,050 million in the final year of the IDA replenishment cycle. This constitutes an 18 percent annual increase over current levels which Oxfam supports.

Debt Relief
Donor governments, with the United States leading by example, must provide sufficient funds for the poorest countries to meet the Millennium Development Goals; we must also insist that the World Bank, IMF and creditor countries, like ourselves, provide deeper *debt relief* to impoverished countries.

The two issues of sufficient amounts of grant and concessional aid and generous debt reduction are inseparable. The Administration is committed to *effective* development assistance. Funding for basic services will not yield a short term or even a medium term profit, so loans for these and similar purposes do not make sense. Similarly American common sense tells us that people who are struggling for basic human survival should not be exporting hard earned cash to cover debts to the world's richest countries and institutions. Specific to the debt issue, we encourage you, Mr. Chairman and our Subcommittee to demonstrate your commitment to effective development by discarding the old measure for "sustainable debt" (one which considered ratios of debt to export) for one that is more consistent with reality, namely, by assessing the amount of the *government's income* is spent on debt servicing. To this end we recommend that you examine and then support the Smith-LaFalce debt reduction bill. If a Heavily Indebted Poor Country were to spend no more than 10 percent of its annual revenues (or in the case of a country suffering a severe public health crisis, such as HIV/AIDS, not more than 5 percent of its budget), between $700 million to $1 billion of additional debt relief would be provided.

The World Bank reports that about 40 percent of the debt savings are being directed to education and 25 percent to health care. Nearly every HIPC is using a portion of debt relief to create or expand HIV/AIDS prevention and education programs. To illustrate, Tanzania and Uganda ended fees for grade school, and Benin ended fees in rural areas, giving millions of children the chance to go to school.

Prior to 1999, the 26 current HIPCs were paying $3 billion each year in debt service to their international creditors. While they have seen their debt service payments drop by $1 billion, they are left with nearly $2 billion in annual debt service, with the World Bank and IMF as the two largest remaining creditors. The Smith-LaFalce bill will reduce this by approximately $1 billion more.

As with current debt relief efforts, countries should not be eligible to receive relief if the government of that country has an excessive level of military spending, supports terrorism, is failing to cooperate in international narcotics control matters, or engages in gross violations of human rights. All savings from debt relief should be directed to country-led poverty reduction priorities, such as health, education, clean water and sustainable environmental policies.

Deeper debt relief should not be linked to agreement by the country to implement or comply with policies that deepen poverty or degrade the environment, such as user fees for basic education and health, cost recovery from poor people for basic public services (such as water), reductions in a country's minimum wage or labor rights, or the unsustainable extraction of natural resources.

Extractive Industries

In addition to sufficient grant funds for basic services and debt relief, this Subcommittee should insist that all elements of the World Bank, including the market based loans from IBRD (International Bank for Reconstruction and Development), the investments and investment guarantees of the International Finance Corporation (IFC), and the investment insurance of MIGA (Multilateral Investment Guarantee Association), like IDA, all be dedicated to eradicating poverty. Currently, the World Bank actively supports investments in *oil, natural gas, and mining*. These loans do little to increase economic growth and poverty reduction in developing countries. A recent study commissioned by Oxfam America[1] reveals that by creating relatively little employment and opportunity for the poor, and by contributing to corruption, conflict and increased vulnerability to economic shocks, these sectors actually appear to worsen poverty. Among the problems of World Bank oil, gas and mining involvement are:

- **Lower Economic Growth.** Economists such as Jeffrey Sachs have found that countries that rely heavily on oil, gas and mineral extraction tend to suffer unusually low rates of economic growth.[2] By hampering growth, this "resource curse" can frustrate poverty alleviation.
- **Lower Standards of Living.** Countries whose economies rely heavily on the extractive industries under-perform relative to countries with more diverse economies on a range of human development indicators, including child mortality, child nutrition, life expectancy, and education and literacy rates.[3]
- **Economic Benefits Limited to Enclaves.** Because extractive industries tend to employ only a small number of highly skilled (often foreign) workers, the income they generate tends not to be diffused throughout the economy. Rather, these projects raise incomes only among elites or in geographic enclaves near the project.
- **Increased Authoritarianism and Corruption.** The World Bank's own researchers have found oil and mineral dependence tends to make a country less democratic and more corrupt. Resource rich governments often use resource revenues to dampen democratic pressures through patronage and to finance internal security apparatus to stifle political dissent. Additionally, it has been shown that extractive industry developments do not tend to catalyze the kinds of social and cultural changes, such as increased educational levels, that produce a more democratic government.[4]
- **Increased Risk of Civil War.** Competition for resource revenue has been shown to cause, exacerbate and prolong armed civil unrest.[5]

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[1] Oxfam America, *Extractive Sectors and the Poor* (2001).

[2] Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth*, Development Discussion Paper no. 517a. Cambridge: Harvard Institute for International Development (1995); *See also*, Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press (1997); Michael L. Ross, *The Political Economy of the Resource Curse*, 51 World Politics 297 (1999).

[3] Oxfam America, *Extractive Sectors and the Poor* (2001).

[4] Michael L. Ross, *Does Resource Wealth Cause Authoritarian Rule?* World Bank (2000).

[5] Paul Collier, *Economic Causes of Civil Conflict and Their Implications for Policy*, World Bank (2000).

If the IDA grants and loans are to be effective, a good use of public funds, then all the programs of the World Bank must be coherent. Congress should press the World Bank to prioritize investments that will better respect the rights of poor communities. Continued Bank involvement in extractive industries must be predicated on: 1) clear demonstrated effectiveness of poverty alleviation; 2) a mode to diversify the country's export earnings; 3) respect for the development rights and wishes of local affected communities; 4) full public disclosure of payments by companies to all parties, especially government officials, and 5) transparent and accountable revenue management.

Improving donor coordination and the PRSP
The *Poverty Reduction Strategy Papers* have great potential for ensuring that all WB and other donor actions are consistent with a coherent national poverty plan that can succeed when there is local leadership and ownership. A developing country government should articulate one and only one national strategy that all donors "buy into." Current PRSPs are still weak in terms of donor acceptance and quality of local participation. Almost all share a further weakness: the macro-economic policies that create the basic architecture for the entire economy are still largely mass-produced by the World Bank and its sister institution the IMF. Tax, trade, investment, fiscal policy are all set according to a single mold. What no less a luminary the Nobel Laureate and former chief economist at the World Bank Joseph Stiglitz calls a "cookie cutter" approach. The coherence and effectiveness of the IDA replenishment you are considering requires that all donors and all aspects of the World Bank be consistent in their commitment to ending poverty and meeting the 2015 Goals. Similarly, through the PRSP, the national government, along with its legislature, press, and civil society, need to understand and "buy into" a coherent national approach for ending poverty.

As politicians, you recognize that the PRSP approach will take time, and several iterations to "get it right." In the meantime, it is important that the country's urgent needs for basic services and debt relief not wait.

The PRSP must be improved so that it lives up to its promise as a country-owned, participator document that sets a country's individual development path. Technical assistance should b provided to civil society and governments, including parliamentarians, to enhance participatio and accountability. IDA staff should track the extent to which civil society views have bee incorporated in PRSPs and require countries to list the civil society recommendations an reasons for not including them. Policy-based loans and grants must conform to the PRSP, wit revision as necessary for policies that contradict the PRSP.

To mobilize debt relief more quickly, the PRSP should be delinked from the HIPC initiative HIPC debt relief should be subject only to the establishment of mechanisms that ensure th budgetary savings from HIPC debt relief are spent on poverty reduction needs and th establishment of a plan for civil society participation in PRSP preparation.

In the past two years the U.S. Congress has taken action to mobilize U.S. government support fo reducing impoverished countries' debt burdens. Congress can again play a key role in ensurin that this debt relief is mobilized quickly to needy countries and that citizens have a say i determining how debt relief money is spent. Congress should instruct the US Executive Directo to work to delink HIPC debt relief from the PRSP; increase genuine civil society participation a

all stages of the PRSP process; and ensure coherence between the PRSP and donor lending by increasing the public disclosure, debate, and review of policies attached to IFI lending.

Social and environmental impact assessments

In addition to financing individual development projects, the World Bank also provides budget support to borrowing countries. This adjustment and policy-based lending, often referred to broadly as structural adjustment lending, involves large volumes of fast-disbursing loans, and includes a broad array of economic policy reforms as loan conditions. In 2001 adjustment loans accounted for approximately a third of the institution's public sector lending portfolio. These loans have far-reaching impact on the environment, public health, education, and social services, yet they are exempt from the environmental and social policies that govern the Bank's project loans.[6]

In a leaked internal study[7], the World Bank admitted that it rarely considered the environmental impact of its structural adjustment lending. Of the 54 loans the study reviewed, only nine made any reference to the environment. Social impacts are barely reviewed, in spite of widespread recognition of adjustment lending's negative impacts on a variety of social groups. According to the study, "the majority of loans do not address poverty directly, the likely economic impact of proposed operations on the poor, or ways to mitigate negative effects of reform." The report concluded that there is a "disconnect between Bank policy and practice" in adjustment lending.

The World Bank should adopt a policy to assess the social and environmental impacts of all Bank lending, including adjustment lending. These assessments should be conducted prior to loan approval, with the input of relevant stakeholders, and should be released to the public. The outcome will be better policies that deliver improvements to the country's economy and people's livelihoods, greater ownership of economic programs, and more accountability on the part of the Bank and borrowing government for the impacts of programs.

World Bank President James Wolfensohn committed to make poverty and social impact analysis part of the institution's adjustment loans in the near term. Congress should instruct the US Executive Director to request that the World Bank management and the Board of Directors act to adopt this policy. In addition, U.S. policy at the World Bank should be to oppose any structural adjustment loan that is not influenced by an ex ante, public environmental and social assessment.

[6] In March 2000, the Bank amended its environmental assessment policy to apply to sectoral adjustment loans. Structural adjustment loans, however, remain exempt.

[7] Social and Environmental Aspects: A Desk Review of SECALs and SALs appraised during FY 98 and FY 99, ESSD, May 34, 1999.

The second portion of my testimony looks more closely at **Basic Services needed to achieve the Millennium Development Goals.**

Performance: measuring health and education achievements
A surprising reality about the Bank's work in the fields of basic services is the poor quality of data available for monitoring effectiveness of its programs. The Bank must commit sufficient resources, intellectual and financial, to ensure that data are collected not on administrative or bureaucratic infrastructures of health and education, but on the number of well babies, and healthy moms, and children reading and writing. Such data collection is essential if we are to ensure that IDA funds are used well. Oxfam encourages the US Congress to provide full funding to meet the Millennium Development Goals We also share with you a passion to ensure that those funds are used effectively.

When providing grants for basic services, it is also imperative that the World Bank not use grants or heavily concessional funds to enable the private sector to make a profit in these fields. The private sector may have a contribution to make in providing basic services for a profit; however they should not receive scarce IDA grants or loans to do so. There are several indicators that private sector subsidies may be entering through the back door. It would be useful for this Subcommittee to solicit full disclosure on such plans, both before the IDA-13 replenishment is approved, and on an annual basis as that money, our money, is spent.

The World Bank's evaluation office, the Operations Evaluation Department (OED), has confirmed a marked increase in the number of health outcomes among the monitoring and evaluation indicators for health sector reform loans and projects. However, OED expressed a continuing concern over the quality and frequency of the data used in assessing these indicators. If loans have better and earlier tracking of results, donors can be better informed about where policy reforms are working properly, and more quickly alerted to problems where they have failed.

OED and Bank staff have noted that the lack of sufficient funding or domestic administrative capacity for fully tracking all the monitoring and evaluation indicators has been a major a problem undermining both the quantity and quality of previous efforts

Standard monitoring and evaluation indicators must be more uniform and comprehensive. Timely tracking must be conducted at the beginning, middle and end of project and loan cycles. Secretary of Treasury Paul O'Neill has suggested that loans should be continued based on measurable progress and results. For example World Bank health sector loans or projects a "success" ought to include measurable improvements in these indicators as a result of the loan or grant: immunization rates, percentage of underweight under 5-year olds, percentage vitamin A supplementation coverage, percentage coverage of DOTS TB treatment, percentage supervised deliveries, infant and under-5 child mortality and maternal mortality, net primary school enrollment, ratio of girls to boys in primary school, and grade 4 completion rates. Full funding for comprehensive monitoring and evaluation in World Bank loans needs to be significantly increased.

Congress should instruct the US Executive Director to ensure that all health loans/grants, education loans/grants, or sectoral reform programs include measurement of specific baseline

health and education indicators, projected measurable improvements in these indicators as a result of the loan or grant, and mandatory public reporting of these indicators.

User fees
The World Bank has developed an excellent assessment of the national education needs of the world's poorest countries. The G8 failed to take up the challenge to commit the essential funds to educate our children, to leave no child behind. It is an opportunity and an obligation for this Subcommittee to insist that there be full funding so all the world's children receive basic education.

In the IDA-13 replenishment you can make the delivery of these services a reality. Not only must IDA commit funds to governments that are committed to full service provision to their citizens. The World Bank must not allow so-called "user fees" to prevent the poorest from access to these basic services. Ample research and field experience have demonstrated that such fees do indeed prevent children of the poor, especially young girls, from attending school, and they do indeed divert limited family income from food to education and medicine.

In a landmark move, in 2000 the U.S. Congress included language in the foreign aid appropriations bill report that requires the U.S. to oppose any World Bank, IMF, or other multilateral development bank loan which includes user fees for basic health or education services, and to report to Congress within 10 days should any loan or other agreement be approved that includes such user fees. In September 2001, the World Bank issued a revised user fees policy, acknowledging that the fees have prevented poor people from accessing primary schools and health clinics. The new policy states that the World Bank now *"opposes user fees for primary education and basic health services for poor people"*. The Bank should work with governments to explicitly remove fees and assist governments to find alternative financing for the adequate provision of universal education and health primary services.

HIV/AIDS
Oxfam maintains that all people have a right to basic services such has health care and education. In the area of health, the HIV/AIDS crisis cries out for attention: 5,000 African die every day for lack of medicine. In some countries in sub-Saharan Africa as many as one in four adults are HIV-positive. For all but a handful of people in the poorest countries, an HIV diagnosis is a death sentence -- treatments available to prolong life in rich countries are unaffordable and out of reach. We and other donors have the resources to fund both prevention and treatment programs. IDA provides a mechanism for us to act in concert to halt the 21st Century's "Black Plague."

Given the enormity of the HIV/AIDS crisis and its concentration in many of the world's poorest countries, it is vital that the World Bank consider the impact of projects, loans, and strategies on prevention and treatment of HIV/AIDS, tuberculosis and malaria. World Bank projects should support dissemination of best practices in prevention and treatment of HIV/AIDS, tuberculosis, and malaria.

Treatment of HIV/AIDS requires procurement and distribution of expensive pharmaceuticals. However there are enormous savings to be achieved in acquisition through efficient bulk procurement of products at best world prices from producers meeting appropriate quality assurances. The Bank and other international financial institutions should support such bulk procurement arrangements.

Countries with high levels of HIV/AIDS need to concentrate their resources on addressing public health priorities, as well as other public needs. Support from the World Bank for projects related to HIV/AIDS, malaria, and tuberculosis should be provided on a grant basis. The Congress should urge the U.S. representatives to the World Bank to support these policy initiatives.

Transparency
The US Congress was instrumental in insisting that the World Bank begin the process of letting the public see its decision making processes, its lending priorities. This came with public information disclosure.[8] Regrettably, additional pressure is needed. This Subcommittee should require the Bank to open its Board of Directors' meetings to the public, disclose transcripts of these meetings, and release all key documents prior to Board consideration of a loan. The U.S. Treasury Department should also demonstrate more transparency by posting its own Board statements and reporting to Congress on compliance with their mandates.

The World Bank acknowledges that transparency and accountability are critical dimensions of development effectiveness.[9] Country ownership of the development process is not served if communities and their legislative representatives have no access to draft documents. Civil society groups have long pushed for recognition of these fundamental principles of development in Bank operations.

With IDA reauthorization, the U.S. Congress has the opportunity to advance greater transparency measures at the World Bank and at other international financial institutions. Congress should direct the Treasury Department to work toward ensuring that (1) meetings of the Board of Directors are open to the public and media, (2) transcripts of these meetings are made publicly available, and (3) all key documents are released prior to board consideration. Furthermore, the Treasury Department should set an example of greater transparency by posting the Board remarks of the U.S. Executive Director on Treasury's website.

Worker rights
The international community has endorsed the core labor standards as fundamental building blocks of equitable, democratic, and sustainable development. The International Labor Organization (ILO) defines core labor standards to include freedom of association and the right to organize and bargain collectively, the elimination of child labor and forced labor, and a prohibition on discrimination in employment. Research has shown that countries that respect the core labor standards tend to have higher economic growth, more equitable distribution of income, and stronger democratic institutions. These core worker rights are qualitative, human

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[8] The World Bank issued its first disclosure directive in 1985. U.S. Congressional pressure during the IDA-10 replenishment (1993) led to a revised policy and to even greater amounts of disclosed information. The U.S. Treasury Department has pushed for greater disclosure, and G-7 countries have called on the Bank to "adopt a more open policy on information disclosure by making *draft* and final key policy and strategy documents available to the public."[8] On January 1, 2002, a revised World Bank Disclosure Policy entered into force.[8] While the new policy improves certain practices, it falls far short of giving clear policy expression to the Bank's laudable rhetoric of "participatory development."

[9] Transparency and accountability are part of the rating criteria the Bank employs to determine overall lending allocations to borrowers. Bank management in turn does not disclose the ratings, not even to the Board.

rights principles – not quantitative minimum standards – that countries are obliged to respect regardless of their level of development.

Despite this broad recognition of the importance of core workers' rights, the World Bank has no systematic way to measure the impact its programs have on these rights. Many World Bank loans require countries to weaken their domestic labor and employment laws, privatize public enterprises and downsize the civil service, privatize the pension system, and freeze or reduce wages. Yet the World Bank has no screening mechanism or safeguard policies to ensure that these loans do not facilitate the violation of core workers' rights in borrowing countries. Failure to guarantee these rights leads to the poor performance of, and local opposition to, Bank programs in borrowing countries. Weakening of worker rights also contributes to high inequality and unemployment that results from many Bank programs.

World Bank labor market flexibility reforms can also give employers new freedoms to practice anti-union discrimination by reducing restrictions on the employers' right to fire employees. In some cases, labor market flexibility reforms also undermine workers' rights by creating more freedom for employers to hire part-time, temporary, and contract work – even where these workers are legally denied the right to organize and bargain collectively under domestic law.

The World Bank should create a screening mechanism for all of its lending to ensure that loan conditions do not undermine core worker rights. The Bank should also assess the impacts their loans will have on employment, wages, and income inequality in order to eliminate any negative impacts identified and ensure that adjustment measures truly contribute to broad-based economic development. Enforceable safeguard policies for workers' rights will ensure that workers whose rights have been violated can complain to the Bank's inspection panel. Closer cooperation with the ILO and with trade unions on the ground can help the Bank keep track of the impact its programs are having on workers' rights.

The U.S. representative to the World Bank is already required under U.S. law to use his/her voice and vote to ensure that World Bank policies do not have a negative impact on workers' rights, to press for the World Bank to create a screening mechanism for its loans, and to press for closer cooperation with the ILO. The Treasury Department is required to report to Congress each year on its advocacy of workers' rights at the World Bank. Reports prior to 2001 made claims of U.S. advocacy that were difficult or impossible to independently verify, both because Bank Board records are secret and because few tangible results in the content of Bank lending and policies were evident. Little progress has been made on a screening mechanism for loans, and cooperation with the ILO is still not a routine part of Bank programs affecting labor. The Congress should instruct the US Executive Director to require the Bank to adopt enforceable and comprehensive policies to protect core workers' rights.

The IDA replenishment discussions enable us to insist on greater development effectiveness by the World Bank. The United States Congress has a proud record of bringing reform to the Bank as you act as the peoples' voice. We thank you for the work you have done in the past and the dedication you continue to show.

Thank you also for allowing me to speak today. I welcome any questions.

STATEMENT OF

JAMES C. ORR

EXECUTIVE DIRECTOR

THE BRETTON WOODS COMMITTEE

ON THE WORLD BANK'S INTERNATIONAL DEVELOPMENT ASSOCIATION

BEFORE

THE INTERNATIONAL MONETARY POLICY AND TRADE SUBCOMMITTEE OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES

JULY 19, 2002

Introduction

Mr. Chairman, Ranking Member Sanders, and members of the Subcommittee, it is an honor and pleasure to be back again with the Committee today. My name is Jim Orr.[1] I am Executive Director of The Bretton Woods Committee, a public education foundation, dedicated to promoting sensible reforms and building understanding for the work of the Bretton Woods institutions – the World Bank, the International Monetary Fund, the World Trade Organization and the regional development banks.

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

I am here today to express our strong support for continued U.S. funding of IDA – the International Development Association of the World Bank. In my testimony, I will stress the historical and future significance of IDA and discuss some of the ways it advances U.S. interests.

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

[2] Truth in Testimony rules require a statement about the receipt of any federal grants or contracts. As a matter of policy, The Bretton Woods Committee accepts no government support of any kind. Nor does it

WHAT IS IDA?

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

HISTORY OF IDA

IDA was created in 1960 at the initiative and insistence of the United States, and today it remains the single largest source of donor funds for basic social services – health, education, clean water, sanitation, infrastructure, etc. – to the world's poorest countries. During the 1950s it became increasingly evident to World Bank shareholders that the Bank must turn its attention beyond its primary mandate – postwar reconstruction of Europe – toward assisting poorer nations, many of whom were newly independent from colonial rule, plagued by economic and political instability, and unable to afford the

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accept funding from the international financial institutions. It is supported solely by voluntary contributions of its members.

development loans on commercial terms traditionally offered by the World Bank. To fill this void in development financing, U.S. President Dwight D. Eisenhower urged World Bank shareholders to create the International Development Association (IDA), giving the Bank the resources and mandate it needed to reach the problems of the poorest nations and their citizens. Since 1960, IDA has lent $107 billion to 106 countries to address the basic needs of billions of people surviving on less than a dollar or two per day. It uses the same criteria to evaluate loans as that of the World Bank's IBRD facility, and aims to fund projects that build needed infrastructure, protect the environment, improve conditions for private industry to develop, and support reforms aimed at liberalizing countries' economies.

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

As the Committee is also well aware, there has been a consistent record of bipartisan congressional support for IDA, dating back to the 1950s. It was a Republican Senator who initially proposed creation of the program. It has been supported by every

president since Dwight Eisenhower. It also enjoys support from a broad array of interest groups, ranging from poverty and church groups to the business community.

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

IMPACT AND SUCCESS OF IDA

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

Over the years, thirty-two IDA borrowing countries have seen their economies develop and grow beyond the point where they are no longer eligible to use IDA funds, thus enabling them to 'graduate' from IDA to reliance on commercially-priced lending. The list includes Chile, China, Costa Rica, Egypt, Morocco, Thailand and Turkey. Other

former IDA borrowers, such as Korea, have made enough progress that they now contribute funds to IDA as donors.

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

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

A recent empirical study performed by the World Bank's research department measured the effectiveness of development aid throughout the 1990s and found that the effectiveness of IDA resources improved over the course of the decade, and was far more effective than the overseas development assistance (ODA) in general. The study

concluded that IDA funding was better targeted to specific needs of poor countries that maintain reasonably good policies.[3]

A major, independent evaluation of IDA's record between FY1994-FY2000, performed by the World Bank's independent audit agency (the Operations Evaluations Department) recently found IDA's compliance with more than 150 undertakings to be satisfactory, with qualifications. The report cited that over the seven-year review period, IDA significantly enhanced its relevance and the performance of its portfolio; became a more selective lender and more responsive to borrowers; recast its mission to address new concerns of poverty reduction; improved its presence in the field; and diversified its policy instruments. It also concluded that with IDA's help, a number of poor countries are in a better position now than at the beginning of the evaluated period to achieve broad-based growth and poverty reduction."[4]

CONCERNS

However, a number of legitimate criticisms about IDA resources, policies and effectiveness have been raised by members of the IDA community, including some of IDA's most ardent supporters. For one, IDA's track record needs to be better: progress in poverty reduction has been disappointing in some pockets of the world, particularly Africa, where living standards have barely kept up with population growth. Neither

[3] Dollar, David. "Has Aid Efficiency Improved in the 1990s?" Revised Draft. *World Bank Development Research Group.* Washington, DC. March 15, 2000.
[4] Gwin, Catherine. "IDA's Partnership for Poverty Reduction: An Independent Evaluation of Fiscal Years 1994-2000." *World Bank Operations Evaluation Department.* Washington, DC. 2002.

donors nor borrowers must become complacent or be left unaccountable for such failure. Although IDA's effectiveness in increasing, the translation of key IDA objectives into successful programs must become more clear and demonstrable.

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

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

The Bretton Woods Committee recently established a working group called the Group to Assist Private Sector Development, or GAPS, to assist poor country governments and multilateral institutions in strengthening their private sector development strategies. After only five months of operation, GAPS members have

launched numerous efforts to promote local and foreign business and capital formation in poor countries, and to offer advice on bilateral and multilateral assistance programs to help foster growth and competitive enterprises in IDA borrower countries.

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

IDA13 REPLENISHMENT

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

- To promote sound policies that will lay a secure basis for productivity growth and poverty reduction in IDA borrowing countries;

- To ensure IDA assistance is effective and delivers measurable results;

- To improve IDA's coordination, transparency and consultation to increase operational effectiveness; and

- To provide for a substantial replenishment of IDA resources to support countries demonstrating commitment to good policies and sustainable growth.[6]

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

New to the agreement is an emphasis on lending effectiveness and tying aid to performance by rewarding countries that make the most progress by granting them access to additional resources. Donor representatives called for a results-based system employing specific indicators to measure and enhance effectiveness, and improve borrower accountability performance. They also arranged to include an incentive-based supplemental financing mechanism to allow additional donor contributions to be added based on progress to be tracked during this three-year IDA cycle.

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

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

GRANTS VERSUS LOANS

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

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

Initially, the Bretton Woods Committee expressed concern about the proposal to convert up to 50 percent of IDA loans to grants. While grants make great sense, we were worried about the feasibility of the proposal for two reasons. First, a large-scale move to grants ran somewhat contradictory to the original intention of the IDA -- to create a culture of investment and credit within developing countries. Second, and more important, given the declining trend of official U.S. development assistance over the last

two decades, and given the large increase in IDA contributions that would be required to sustain future resources in the face of lost future income (reflows) from replacing loans with grants, we were not convinced U.S. and other IDA donors would commit the financial resources needed to sustain a healthy IDA program. Our concerns about the viability of this proposal were strengthened by a CRS study by Jonathan Sanford detailing the significant donor contribution increase that would be required to maintain IDA resources should IDA donors adopt the Bush administration's 50 percent grants proposal.

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

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

The significant strides that IDA has made over the past decade has helped it to become the most efficient international institution in terms of lending based on country performance, and IDA has proven itself as the most cost-effective way to fight extreme

poverty on a large scale. The proposals that IDA donors have made for this replenishment will further strengthen IDA's capacity, sharpen its focus on policy and institutional performance, and equip it to meet the challenges down the road.

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

A P P E N D I X

July 25, 2002

Opening Statement

Subcommittee Hearing on International Development Association and the African Development Fund Reauthorization

July 25, 2002

Congressman Doug Bereuter

The Subcommittee on International Monetary Policy and Trade meets today in open session to examine the Administration's authorization requests for the International Development Association (IDA) and the African Development Fund. On July 18, 2002, the Administration submitted the following two authorization requests to House Speaker Dennis Hastert (R-IL), copies of which are at each Member's desk: $2.85 billion for the 13th replenishment of IDA and $354 million for the 9th replenishment of the African Development Fund.

This hearing is the fourth in a series of Subcommittee hearings on IDA and the African Development Bank and Fund. First, this Subcommittee held a hearing on the African Development Bank and Fund on April 25, 2001, where we heard from a panel of qualified and experienced experts. Subsequently, on May 2, 2002, the Subcommittee heard testimony from the General Accounting Office (GAO) on the subject of converting IDA loans to grants. On July 19, 2002, we heard testimony from representatives of the following non-governmental-organizations on the subject of IDA: the Bretton Woods Committee, Bread for the World, Oxfam, and the AFL-CIO. Today, the Subcommittee will hear from the Administration regarding their request for authorization through the testimony of Dr. John Taylor, the Undersecretary of the Treasury Department for International Affairs on the pending IDA and African Development Fund reauthorization requests.

Before I introduce our distinguished witness, I would like to make a brief opening statement which addresses the following four subjects:

1. the 13th replenishment of IDA;
2. the 9th replenishment of the African Development Fund;
3. the 3rd replenishment for the Global Environmental Facility; and
4. the regional multilateral development bank legislation,

H.R. 2604, as passed by the House on May 1, 2002.

1. The 13th replenishment of IDA

First, Congress must consider the 13th reauthorization request of IDA, the concessionary lending arm of the World Bank. The IDA extends highly concessional loans to the world's poorest nations to finance investments in health, education, sanitation and infrastructure required for lasting poverty reduction. For FY2003, the Administration is requesting $850 million for the first of three U.S. scheduled contributions under IDA-13, plus $24.3 million to pay one-third of outstanding U.S. arrears. The total three-year U.S. commitment to IDA-13 is $2.55 billion, with a possible increase of up to $2.85 billion based on IDA's satisfactory achievement against key performance measures. With these increases, the annual average U.S. commitment to the IDA-13 replenishment would represent an 18.2% increase over the U.S. annual commitment under the previous IDA-12 replenishment.

The agreement for the 13th replenishment of IDA includes two major reforms which were initiated by the United States: conversion of loans to grants, and the establishment of performance measures. With respect to the issue of loans-to-grants, in July 2001, President Bush proposed that the World Bank and other multilateral development banks replace up to 50% of future lending to the world's poorest countries with grants. This proposal was controversial with some IDA donor and borrowing countries: the British and Germans, for example, were concerned that the loss of loan reflows would hurt the long-term viability of the IDA program without significant new commitments from donors; and Japan feared that broader use of grants would create an unhealthy dependency on foreign aid and hinder the development of international creditworthiness.

In early July 2002, IDA donors agreed to a complex plan to convert 18% to 21% of future IDA loans to grants. Under this plan, IDA-only countries will receive 100% of their assistance for HIV/AIDS and natural disaster reconstruction projects on grant terms. Further, post-conflict countries and "debt-vulnerable" countries with a per capita income of less than one dollar per day will receive 40% of their assistance on grant terms - separate from and in addition to HIV/AIDS or natural disaster funds. All other countries with a per capita income of less than one dollar per day will receive 23% of their assistance in the form of grants (again, separate from and in addition to, HIV/AIDS and/or natural disaster funds).

With regard to performance measures, IDA-13 directly links multilateral development aid to meaningful governmental and social reform. The U.S. Administration has promised a $100 million increase in Year Two funds and a $200 million increase in Year Three funds if IDA demonstrates progress in developing reliable measuring tools, advancing specified health and education programs and increasing steps taken toward market liberalization. This U.S. plan to increase donations in return for certain broad results incentivizes the systemic change necessary for sustainable growth.

2. The 9th replenishment of the African Development Fund

In addition to IDA, Congress must consider the 9th replenishment of the African Development Fund, the concessionary lending affiliate of the African Development Bank. The African Development Fund provides loans on concessional terms (40-50 years maturity, including 10-year grace period; 0% interest; 0.75% service charge; and 0.50% commitment fee) to Africa's poorest countries. The loans finance priority investments in health, education, agriculture, sanitation and infrastructure needed for poverty reduction, and promote basic economic policy and institutional reforms needed for sustainable economic growth and development. The U.S. is a non-regional member of the African Development Fund and is the second-largest historical contributor (after Japan), having paid 12% of the total cumulative contributions as of the end of 2001.

For FY2003, the Administration is requesting $118 million for the first installment of a three-year commitment under the ninth replenishment of the African Development Fund. In addition, the Administration is seeking $73,333 to clear one-third of outstanding arrears.

I have chosen to give special attention to the African Development Bank and Fund because it, by all accounts, has been the weakest of the regional multilateral development institutions. At the Subcommittee's hearing on this subject on April 25, 2001, we learned that the African Development Bank and Fund both suffered a serious fiscal and managerial crisis in the early 1990's. From 1993 to 1997, the U.S. made virtually no contributions to the African Development Bank and Fund. The U.S. also led the other non-regional members in suspending negotiations for a new replenishment until reforms had been implemented.

However, in 1995, the African Development Bank and Fund elected Omar Kabbaj (Ka-baj), a Moroccan financial official, as the new President. President Kabbaj (Ka-baj) implemented fiscal and management reforms and, as an endorsement of Kabbaj (Ka-baj)-initiated reforms, U.S. contributions to the African Development Fund resumed in FY1998 and to the African Development Bank in FY2000. President Kabbaj (Ka-baj) was unanimously appointed to a second five-year term in May of 2000.

3. The 3rd Replenishment of the Global Environmental Facility

Furthermore, I look forward to hearing the thoughts of Dr. Taylor on the third replenishment of the Global Environmental Facility (GEF). The GEF, to which the U.S. is the largest donor, provides funding for projects which fall into the following four categories: (1) conserving biodiversity; (2) expanding clean energy production and efficient use; (3) cleaning up international waters and protecting fisheries; and (4) phasing out ozone-depleting chemicals.

For FY2003, the Administration is requesting a $107.5 million appropriation to cover the first of four payments under the third replenishment of the GEF. According to a Congressional Research Service legal opinion, which I requested, authorization for the GEF appears to be provided by prior appropriations legislation (Public Law No. 103-306). As the Chairman of the Subcommittee which authorizes the GEF, however, I am concerned that an appropriations bill apparently could have permanently authorized U.S. contributions to the GEF.

4. The Regional Multilateral Development Bank Legislation -

H.R. 2604, as passed by the House on May 1, 2002.

Finally, I want to take this opportunity to briefly mention

H.R. 2604, legislation which passed the House by a voice vote on May 1, 2002. This bill, which I introduced, reauthorizes the U.S. commitment to the Asian Development Fund and the International Fund for Agricultural Development (IFAD). Also, H.R. 2604 establishes policies regarding these and the other regional multilateral development institutions, including the Asian Development Bank, the African Development Bank and Fund, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. This legislation, on which the Senate has not yet acted, addresses the subjects of HIV/AIDS, user fees, and institutional transparency issues. Because these subjects are very important to the authorizations of IDA and the African Development Fund, I am interested in the views of Dr. Taylor on H.R. 2604.

With this background in mind, I would like to introduce Dr. John Taylor, the Undersecretary of the Treasury for International Affairs, who will, I am sure, assist the Subcommittee in examining these important issues. This is the second time that Dr. Taylor has appeared before this Subcommittee. On February 6, 2002, Dr. Taylor testified on the Argentine financial crisis.

Dr. Taylor has a very distinguished academic and professional record. He received his undergraduate degree from Princeton University and his Ph.D from Stanford University. He has taught Economics at Columbia, Yale, Princeton, and Stanford Universities. Dr. Taylor also directed the Monetary Policy Research Program at the Stanford Institute for Economic Policy Research. In addition to these academic positions, Dr. Taylor was a member of the President's Council of Economic Advisers during the Administration of President George Herbert Walker Bush. He also served in the private sector as an analyst for Alan Greenspan's Wall Street Firm, Townsend-Greenspan, in the late 1970's and early 1980's, where he studied world commodity markets. Dr. Taylor was sworn-in for his current position as Undersecretary last year.

Under-Secretary Taylor, we welcome you to this hearing. Without objection, your written statement will be included in its entirety into the record. Before your testimony, I turn to the

distinguished Ranking Member of this Subcommittee from Vermont (Mr. Sanders) for any comments that he may have.

Opening Statement

Chairman Michael G. Oxley

House Committee on Financial Services

Subcommittee on International Monetary Policy and Trade

"Authorization Request for U.S. Participation in the World Bank - International Development Association"

July 25, 2002

Today the Subcommittee continues its of review of the Administration's request for the thirteenth reauthorization of the World Bank's International Development Association, or IDA. I want to thank Chairman Bereuter for convening this second hearing to hear testimony from Treasury Undersecretary Taylor.

The Administration's proposal calls for funding increases to be contingent upon IDA's satisfactory achievement against key performance measures. Of course, the devil is in the details as to how those performance measures will be developed or how success will be measured, and I am hopeful that the Undersecretary can help to enlighten the Subcommittee on that topic.

There was much discussion at last week's hearing about the proposal to change the way IDA gives aid to developing countries to a mixture of both loans and grants. It is an idea I support wholeheartedly, and I look forward to hearing how it will work in practice.

I want to welcome our distinguished witness, who is no stranger to this Committee, and I look forward to your testimony.

Statement of the Hon. John J. LaFalce
Subcommittee on International Monetary Policy & Trade
Hearing on Replenishment of the International Development Association
July 25, 2002

Thank you Mr. Chairman and welcome back Mr. Taylor. I want to commend you for accomplishing two particularly notable outcomes in the IDA-13 Replenishment Agreement. First, you committed the United States to a substantial increase in its 3-year contribution to the IDA. I realize there has been a lot of back and forth during the past year over the level of Official Development Assistance provided by the U.S., and I may disagree with you and Secretary O'Neill about the adequacy of overall ODA. Nonetheless, this commitment to fund the IDA marks a substantial increase in U.S. support, and for that you should be commended. During last week's hearing, we heard from NGO representatives about the need for donor aid coordination, and it seems obvious in this context that more reliance on institutions like the IDA will go a long way toward reducing the inefficiencies and burdens of overlapping and redundant bilateral aid projects.

Second, you deserve credit for striking a reasonable compromise on the grants issue. Greater reliance on grants within the IDA is an essential complement to the HIPC debt relief initiative, and I am pleased that you had some success in convincing the other donors on this point.

But enough with the compliments. Let me turn to the issue of debt relief for the HIPC countries, all of which are also IDA countries. In fact, the vast majority of debt incurred by the HIPC's is the result of past IDA lending. The shift to grants will help alleviate this problem in the years ahead. But I would also like to see a greater commitment to build on the successes of the HIPC Initiative with additional debt forgiveness. I understand that Treasury officials do not share this view.

We now know that the HIPC initiative will require additional funds simply to achieve the existing commitment to the eligible HIPC countries. I think the effort to secure these funds should also occasion the consideration of other refinements to the program. I have joined my colleague Chris Smith in introducing H.R. 4524, the Debt Relief Enhancement Act, which would deepen debt relief for the HIPC countries by introducing an additional consideration for determining the level of debt forgiveness: the amount of a poor country's budget that is consumed by debt service.

We can debate the merits of this particular formula relative to others, but my goal is to introduce enough flexibility into the HIPC program so that we can achieve the desired goals – debt sustainability and poverty reduction. Beyond this effort, I think there is a good case to be made for bringing more countries into the multi-lateral debt relief program.

These proposals will cost money, though I think that at least in the case of H.R. 4524, the costs are modest. Let me be clear that in my desire to improve and expand the HIPC program, I am sensitive to actions that would undermine the World Bank's ability to fund existing programs. If donor countries want more debt relief through the multi-lateral institutions, and I think they should, then these countries should be willing to pay for it through higher contributions to the effort. We should also be willing to open the door to greater use of the IMF's gold reserves, as well as higher interest charges on IBRD lending, the World Bank's middle-income country lending program.

And of course, as Mr. Frank has pointed out repeatedly, if the multi-lateral debt were accounted for realistically, the cost of additional debt relief would shrink considerably. OMB has discounted bi-lateral debt forgiveness at 92 cents on the dollar. Yet, IDA debt is recognized at face value when we account for the cost of forgiveness. Some counter that most IDA debt is

repaid, but we all know that the only thing ensuring repayment is a steady flow of new lending. This cycle should be broken.

Finally, I am troubled by Treasury's apparent attitude on expanding debt relief. In public and private statements, Treasury officials seem to treat the debt relief program, not as a model on which to build, but as yesterday's news, a program that had its moment in the sun and is best put to rest quietly as quickly as possible. That is most certainly not my view, nor is it the view of the bi-partisan group of Members who were instrumental in securing funding for the existing HIPC program.

STATEMENT BY REP. BERNARD SANDERS ON THE WORLD BANK

I would like to thank Chairman Bereuter for holding this important hearing on the World Bank and other Multi-Lateral Development Banks, and thank Treasury Undersecretary John Taylor for being here today.

As we all know, the International Development Association, the poor country lending arm of the World Bank, is up for re-authorization this year and I look forward to working with Chairman Bereuter and the other Members of this Subcommittee on that legislation.

The World Bank was originally set up to end global poverty. Unfortunately, many economists, labor unions, NGOs, religious groups and others have strong concerns that the policies of the World Bank and the International Monetary Fund which often support unfettered free trade, privatization, and slashing social safety nets of countries in order to balance their budgets has contributed to increasing global poverty.

Mr. Chairman: It is my view that the United States and the other wealthy industrialized countries must radically change their attitude and policies toward the developing countries. It is neither moral nor in the long term best interests of the United States that millions of poor people around the world lack health care and medicine and die from preventable diseases. It is neither moral nor in the long term best interests of our country that large sections of humanity are unable to find clean water to drink, or schools that can teach children how to read or write.

Ultimately, in my view, a global situation in which a few countries have enormous wealth while a billion people live on less than a dollar a day is not sustainable. Public policies that enable huge multi-national corporations to exploit and control the poor of the world cannot be allowed to continue. International

financial organizations, controlled by the wealthy countries, cannot be allowed to continue undermining democracy and the interests of indigenous people.

Here are some facts:

** According to the President of the World Bank, James Wolfensohn, "global poverty is getting worse. Some 1.2 billion people now live in extreme poverty."

** In 1999, the world's poorest 400 million people lived on an average of just 78 cents a day or less which represents an actual reduction in living standards from 1990. At the same time, the world's 200 richest people have doubled their wealth in the last four years.

** According to former Chief World Bank economist Joseph Stiglitz, "although world income increased 2.5% a year in the '90s, an additional 100 million people fell below the poverty line. A growing divide between the haves and have-nots has left increasing numbers in the Third World in dire poverty, living on less than a dollar a day."

** According to a recent study by the United Nations, more than 100 million people in the world's poorest countries will be dragged below the basic subsistence level of a dollar a day by 2015 due to globalization. However, the U.N. study concluded that if countries were allowed to abandon the economic adjustment programs they were forced to adopt in the 1990s by the IMF and the World Bank, and instituted other reforms, widespread poverty in the least developed countries could be cut by two-thirds over the next 15 years.

Even, the World Bank has admitted to its failures to reduce poverty in Africa. According to an April 22, 2002 front page story in the *Washington Post*, "40 countries south of the Sahara have over the past two decades adopted the free-market reforms -- "structural adjustment programs" in development

jargon -- prescribed by such lenders as the World Bank and International Monetary Fund. But in the generation since independence, sub-Saharan Africa has never been so poor. Since Zambia's leaders embraced free-market policies in the 1990s, the country's manufacturing base has been eviscerated, leaving the government buried in more debt than it can repay and gradually replacing a full-time workforce with a growing informal economy that offers low wages, no benefits and no job security. World Bank officials acknowledge that the collapse of Zambia's textile industry is an unintended and regrettable consequence of the free-market policies promoted by the organization."

And, according to Foreign Policy in Focus, "The policies dictated by the World Bank and IMF exacerbated poverty, providing fertile ground for the spread of HIV/AIDS and other infectious diseases. Cutbacks in health budgets and privatization of health services eroded previous advances in health care and weakened the capacity of African governments to cope with the growing health crisis. Consequently, during the past two decades the life expectancy of Africans has dropped by 15 years."

It is my strong belief that while the current processes involved in the global economy may be working for multi-national corporations, they are not working for the poorest people around the world and, in many instances, are not working for middle class and lower income families in the United States.

Last Congress I introduced the Global Sustainable Development Resolution. This resolution has been endorsed by more than 70 NGO's.

It calls for the people and governments of the United States and other nations to establish democratic control over the global economy.

It calls for the United States to adopt policy goals to reduce the threat of financial volatility and meltdown; institute democracy at every level from the local

to the global; respect human rights for all people; and pursue environmental sustainability worldwide.

It calls for a series of Bretton Woods-type conferences, with representation from civil society, to negotiate a Global Sustainable Development Agreement.

It calls on the United States, in cooperation with other nations, to tax foreign currency transactions; reduce the destabilizing effects of short-term, international financial flows; and establish international public investment funds for sustainable development.

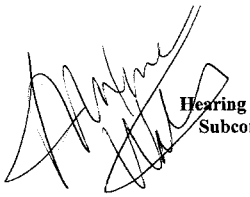
It calls for the United States to work with other nations to write off the debts of the poorest countries in the world.

It calls for the United States to condition funding for the IMF, the World Bank and other International Financial Institutions on support for labor rights, environmental protection, decent living standards, and support for small and medium-sized local enterprises.

It calls on the United States to establish with other countries a binding Code of Conduct for transnational corporations, and hold U.S. corporations liable in American courts for harms they cause abroad.

And, it calls for enforceable labor and environmental protections in all trade agreements.

As we move forward on the re-authorization of Multi-Lateral Development Banks, I look forward to working with Chairman Bereuter and other Members of this Subcommittee on these issues.



Hearing on the World Bank and the African Development Fund
Subcommittee on International Monetary Policy and Trade
Statement by Rep. Maxine Waters
July 25, 2002

I would like to thank Chairman Doug Bereuter for organizing this hearing on the reauthorization of U.S. participation in the World Bank's International Development Association (IDA) and the African Development Fund.

I have been watching with horror the developing famine in Southern Africa. Thirteen million people in Southern Africa are in danger of starvation. The crisis is widespread, affecting the people of Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe. On July 18, the Secretary-General of the United Nations launched the Consolidated National Appeals for the Humanitarian Crisis in Southern Africa. The United Nations is requesting $611 million over the next two months for food, medicine and other emergency assistance to respond to this crisis.

Over the last three years, I have been working with members of the Financial Services Committee and supporters of the worldwide Jubilee 2000 Debt Relief Movement to end the crushing burden of poor country debts. Unfortunately, our efforts have only been partially successful, and international debts have left several Southern African countries unable to respond to crises such as this one.

Zambia provides an excellent illustration of why deeper debt relief is necessary. Even before the current famine began, Zambia was a deeply impoverished country with a per capita income of only $330. The infant mortality rate exceeded one percent of live births, and 27 percent of Zambian children under five were malnourished. Almost 10% of the population is infected with the AIDS virus, and 650,000 children have been orphaned by AIDS. Yet after Zambia received debt relief and its total debt stock was reduced, Zambia's debt payments were actually increased. Furthermore, Zambia still spends more than twice as much money on debt payments as it does on health care.

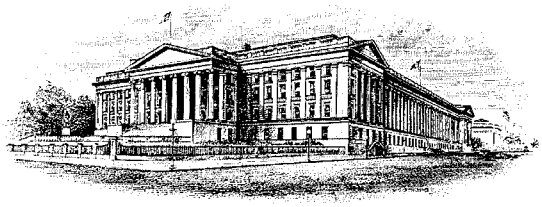
In the case of Malawi, there is evidence to indicate that the policies of the International Monetary Fund (IMF) and the World Bank actually contributed to the famine. Malawi enjoyed bountiful harvests in 1999 and 2000. As a result, Malawi's Strategic Grain Reserve (SGR) was stocked near its full storage capacity. By July of 2000, the SGR contained 174,000 metric tons of grain reserves. The IMF argued that storing that much grain was too expensive and risked distorting the market. The World Bank agreed with the IMF that smaller reserves would be preferable. So the IMF urged Malawi to sell some of its grain reserves to service its debt. Some of the grain was sold domestically in 2000 while domestic supplies were plentiful and prices were depressed. An additional 35,000 tons was exported in 2001 to Kenya and Mozambique. Even in the face of the current food crisis, the IMF continues to view the SGR as a drain on Malawi's budget and a source of funds for making debt payments -- and not as a source of desperately needed food for Malawi's starving citizens.

Last year, 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% of the debts owed to them by impoverished countries. Over eighty Members of Congress representing both political parties have cosponsored this bill.

Earlier this year, ***H.R. 4524, The Debt Relief Enhancement Act of 2002***, was introduced by a bipartisan group of Members of Congress, including Christopher Smith, John LaFalce, Spencer Bachus and myself. This bill would require the IMF, the World Bank and other creditors to provide significantly deeper debt relief to impoverished countries. Several members of the Financial Services Committee have cosponsored this bill.

I look forward to hearing the testimony of Mr. John Taylor, the Undersecretary for International Affairs at the U.S. Department of the Treasury. I am especially interested in hearing whether the U.S. Department of the Treasury is willing to support deeper debt relief within the context of World Bank IDA reauthorization. I am also interested in hearing his views on the extent to which IMF and World Bank policies and international debts contributed to the current famine in Southern Africa.

I thank the Chairman for the time.



DEPARTMENT OF THE TREASURY
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**TREASURY UNDER SECRETARY JOHN B. TAYLOR
TESTIMONY BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE OF THE
HOUSE COMMITTEE ON FINANCIAL SERVICES**

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

Reform of the MDBs has been one of the highest priorities of the Bush Administration's international economic agenda. The MDBs are important instruments in helping to raise economic growth and prosperity around the world. But the effectiveness of the institutions in making a difference in the lives of the poor can be substantially improved. The MDBs can and must do a better job. From the start of the Administration, three hallmark reforms have been pursued – a greater focus by the institutions on increasing productivity growth; an insistence on measurable results; and an increased proportion of assistance to the poorest countries delivered in the form of grants rather than loans.

Steady progress has been made on all these fronts since the start of the Administration, and this progress provides the grounds for today's request for authorization to replenish the International Development Association (IDA-13) and the African Development Fund (AfDF-9). An authorization request is pending for the replenishment of the Asian Development Fund (AsDF-8) and negotiations are still underway for replenishment of the Global Environment Facility (GEF-3), for which authorization is provided by prior legislation. The Administration is also seeking authorization to implement certain reforms of the North American Development Bank (NADBank), along the lines agreed by Presidents Bush and Fox.

President Bush's appropriations request for the MDBs in FY03 totals $1.437 billion. In the case of the increment for IDA, the authorization request is an 18% increase over prior replenishment requests. Importantly, the requested increase entails a new focus on measuring and achieving results from IDA funding. In fact, for the first time ever, part of the replenishment is contingent

on achieving real results on the ground. Absent achievement of progress towards stated objectives, the Administration will not seek appropriations for that additional funding.

IDA-13: Reforms to Raise Economic Growth in Poor Countries

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

As part of the IDA replenishment, the United States achieved three sweeping reforms fully reflective of the Bush Administration's MDB reform priorities:

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

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

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

While an increase in the amount of grants will mean a reduction in IDA repayments over the next 40 years, it is important to note that for the recipient countries, these additional saved "costs" – which are better referred to as "foregone debt repayments" – provide real and material benefits. Even in terms of foregone repayments, the amounts are modest and spread out over an extended period of time. Given the grace period attached to regular IDA funding, there is

virtually no reduction in the amount of IDA resources available to support borrowing countries over the first ten years.

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

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

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

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

- *Education:* Increase in aggregate primary school completion rates across IDA countries as well as an increase in the number of countries that have raised their completion rates.

- *Health:* Increase in measles immunization coverage across IDA countries as well as an increase in the number of countries with 80 percent coverage.

- *Private Sector Development:* Reductions in both the number of days and the official costs required to start businesses in IDA countries.

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

It is important to keep in mind that this is just the start of a fundamental shift of focus in the MDBs to measurable results. A new measurement system must be created to implement the results approach; it will begin with a small but important set of indicators. And it will evolve

over time as the quality of data and evaluation systems in recipient countries are strengthened and as the MDBs, other shareholders, and developing countries realize that the U.S. priority on measuring results reflects a genuine desire to ensure that the lessons – both successes and failures – of 50 years of development assistance result in more effective assistance and less poverty around the world.

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

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

African Development Fund

Negotiations for the ninth replenishment of the African Development Fund (AfDF-9) are not yet complete. With strong U.S. leadership, the AfDF negotiators have already agreed on an important set of policy reforms including an enhanced focus on measurable results, an improved link between financial support and results, and deepened coordination with the World Bank and bilateral donors. The AfDF has a good record of providing information, and Management has committed to improving disclosure policies. The institution is also developing specific expertise in the areas of regional integration and governance, and will be adopting a new private sector strategy this year.

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

The AfDF has been using its comparative advantage as a regional MDB to participate actively in the on-going elaboration of the New Partnership for African Development (NEPAD) initiated by African Heads of State. The NEPAD framework contains a peer review mechanism to assess individual country performance. However, since the specific modalities of a performance-based

or competitive ranking system do not yet exist, they could not inform the AfDF replenishment negotiations.

Asian Development Fund

Important achievements were made during the last replenishment negotiations on the Asian Development Fund (AsDF), including a performance-based system for allocating resources and a Memorandum of Understanding with the World Bank to strengthen collaboration and minimize duplication.

The AsDB, including the AsDF, has moved quickly to assist Afghanistan, by participating in the multi-donor trust fund and by pledging support to finance the country's urgent reconstruction needs. AsDB has approved $15 million in grants to support critical capacity-building in key ministries, such as health, education, and agriculture, and to assist with disaster preparedness.

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

Global Environment Facility

Negotiations for the third replenishment of the Global Environment Facility (GEF) are currently scheduled to conclude in Washington next month. As contained in the President's Budget for FY2003, the United States is prepared to pledge $430 million over four years for the replenishment, or $107.5 million per year, which is equal to our GEF-2 commitment. The FY03 budget request includes the first installment of this pledge. In addition, the Administration proposed a three-year plan to clear $210.9 million in U.S. arrears to GEF, and requested $70.3 million for the first payment in FY03. The U.S. is the largest contributor to the GEF, but also the only donor with substantial arrears to the institution, and it is very important to meet our commitments in order to continue to exercise effective leadership and pursue our interests.

The GEF is an effective institution that fills an important niche. An independent review concluded that the GEF has produced significant positive impacts and has laid the foundation for even more substantial results in the future. The Administration is trying to improve the effectiveness of GEF assistance, including agreement to establish a transparent performance-based allocation system that emphasizes country policies and institutional structures essential to effective assistance. Currently, such an allocation system does not exist. Consensus has also been reached on the use of measurable results over the replenishment period. There is also a consensus in the negotiations on the need to develop a private sector strategy, create an independent monitoring and evaluation unit, and open competition for GEF projects by providing implementing agencies with direct access to GEF funding. Finally, agreement was reached to fully segregate Kyoto Protocol funds from the regular GEF programs funded by U.S. contributions.

These reforms, if fully implemented, will sharply improve the impact of GEF projects, thereby providing donors with greater confidence that GEF funds are being used effectively.

North American Development Bank

In March, President Bush and President Fox agreed to reforms to improve the ability of the North American Development Bank (NADBank), and its sister institution, the Border Environment Cooperation Facility (BECC), to address the environmental infrastructure needs of U.S. and Mexican communities along the shared border. These reforms were developed through a broad consultation process and include measures to allow NADBank to increase its low interest rate lending and grant-making activities, to expand the geographic scope for BECC-NADBank operations in Mexico, and to replace the separate BECC and NADBank Boards of Directors with a single board, including federal and non-federal representation. Both presidents also agreed that a comprehensive "business process review" should be conducted to identify ways to improve the overall project design, certification, and implementation process.

These reforms will improve the performance of both institutions in several ways. The financial reforms will make NADBank financing more affordable and thus promote an increase in the Bank's project financing activities. The geographic expansion will give NADBank opportunities to address a greater scope of important environmental issues that affect communities on both sides of the border. The single Board of Directors should improve coordination and accountability in NADBank and BECC.

Implementation of these reforms is moving forward. Congressional authorization is needed to implement two key reforms – the ability to use NADBank's paid-in capital for grants and expansion of the institutions' geographic scope of operations in Mexico. The Administration hopes that the Congress will act on this legislation quickly to enable both governments to implement the agreed reforms and improve the ability of BECC and NADBank to address the serious environmental needs of the people of the border region.

Conclusion

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

GENERAL COUNSEL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 18, 2002

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I am pleased to transmit herewith a draft bill, "To authorize the United States participation in and appropriations for the United States contribution to the ninth replenishment of the resources of the African Development Fund."

The bill would authorize the Secretary of the Treasury, as United States Governor of the African Development Fund ("Fund"), to agree to the United States participation in the ninth replenishment of the resources of the Fund and to authorize appropriations of $354 million for the United States contribution to the replenishment.

The United States led a successful effort to secure important reforms at the Fund through negotiations of the Fund's ninth replenishment of resources. At U.S. urging, the Fund made significant commitments, particularly with regard to enhancing the Fund's development effectiveness. For example, the Fund pledged to significantly increase its proportion of resources to the health, education and agriculture sectors and to continue to make development of the private sector a priority. The Fund also agreed to expand its leadership role in promoting good governance practices and regional integration, and to develop a role for itself, in coordination with the World Bank and IMF, in assisting countries in post conflict crises.

Also, during the negotiations for the Fund's ninth replenishment, the Fund agreed to increase the transparency of its performance-based allocation system for assistance and to consider options for increasing the weight assigned to governance policies and practices of borrowing countries. The Fund agreed to use measurable performance indicators in all of its project activities and establish a results-based management system to measure more effectively the impact of Fund activities on improving people's lives. The Fund also agreed to improve its information disclosure practices. Finally, there will be an independent evaluation of the Fund's performance in implementing the agreements reached under this replenishment and the two previous replenishments.

We are also negotiating an increase in the level of Fund grants to the poorest countries, in a manner similar to the agreement reached during negotiations for the thirteenth replenishment of the International Development Association.

It would be appreciated if you would lay the draft bill before the House of Representatives. An identical draft bill has been transmitted to the President of the Senate.

This proposal is consistent with the President's FY 2003 budget proposal. The Office of Management and Budget has advised that there is no objection to the presentation of this draft bill to the Congress and that its enactment would be in accordance with the President's program.

Sincerely,

David D. Aufhauser
General Counsel

Enclosure

A BILL

To authorize the United States participation in and appropriations for the United States contribution to the ninth replenishment of the resources of the African Development Fund.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 *That*
4 The African Development Fund Act, Pub. L. 94-302, as
5 amended (22 U.S.C. 290g *et seq.*), is further amended by
6 adding at the end the following new section:
7 "Sec. 217. Ninth Replenishment
8 "(a) The United States Governor of the Fund is
9 authorized to contribute on behalf of the United States
10 $354,000,000 to the ninth replenishment of the resources of
11 the Fund, subject to obtaining the necessary appropriations.
12 "(b) In order to pay for the United States contribution
13 provided for in subsection (a), there are authorized to be
14 appropriated without fiscal year limitation $354,000,000 for
15 payment by the Secretary of the Treasury.".

GENERAL COUNSEL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

July 18, 2002

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

I am pleased to transmit the enclosed draft bill "To authorize the United States participation in and appropriations for the United States contribution to the thirteenth replenishment of the resources of the International Development Association."

The bill would authorize the Secretary of the Treasury, as United States Governor of the International Development Association (IDA), to agree to the United States participation in the thirteenth replenishment of the resources of IDA and to authorize appropriations of $2,850 million for the United States contribution to the replenishment.

IDA is an instrument for promoting the basic policy reforms necessary for market-oriented growth to reduce poverty in the world's poorest countries. Authorization of the United States commitment, which constitutes an 18 percent increase over the level of our participation in the twelfth replenishment, is vital to permit IDA to continue its mission.

With U.S. leadership, the thirteenth replenishment will carry two hallmark reforms. The first is the expansion of grants in IDA. For the first time in its history, IDA will be given authority to significantly expand its grant program beyond the small post-conflict program it has in place. Consistent with Congressional desires, the Administration was able to negotiate an IDA agreement where over the next three years roughly one-fifth of IDA's resources will be made available to the poorest countries, in grant form, for key sectors such as education, health, water and sanitation, and HIV/AIDS. In addition, grants will be provided for post-conflict situations, natural disaster recovery and for the poorest countries most vulnerable to external shocks.

The second major reform is the establishment of a monitoring and evaluation system that measures IDA borrowing countries' progress against a set of key development indicators. The measurement system serves two important functions to improve development effectiveness: an accountability function to better position the institution to demonstrate more precise results from resources invested, and a learning function to improve project design and to direct resources to what works. In recognition of the importance of this initiative, the U.S. will condition a portion of its assistance – $100 million during the second year and $200 million during the third year of the replenishment period – satisfactory progress toward select, high-development impact objectives in areas such as health, education and private sector development.

It would be appreciated if you would lay the draft bill before the House of Representatives. An identical draft bill has been transmitted to the President of the Senate.

This proposal is consistent with the President's FY 2003 budget request. The Office of Management and Budget has advised that there is no objection to the transmittal of this draft bill to the Congress and that its enactment would be in accord with the Administration's program.

Sincerely,

David D. Aufhauser
General Counsel

Enclosure

A BILL

To authorize the United States participation in and appropriations for the United States contribution to the thirteenth replenishment of the resources of the International Development Association.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 *That*
4 The International Development Act, Pub. L. 86-565, as
5 amended (22 U.S.C. 284, *et seq.*), is further amended by
6 adding at the end thereof the following new section:
7 "Sec. 22. Thirteenth Replenishment
8 "(a) The United States Governor of the International
9 Development Association is authorized to contribute on
10 behalf of the United States $2,850,000,000 to the thirteenth
11 replenishment of the resources of the Association, subject to
12 obtaining the necessary appropriations.
13 "(b) In order to pay for the United States contribution
14 provided for in subsection (a), there are authorized to be
15 appropriated, without fiscal year limitation, $2,850,000,000
16 for payment by the Secretary of the Treasury.".

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SECTION: LETTER FROM **BOLIVIA;** Pg. 43

LENGTH: 7149 words

HEADLINE: LEASING THE RAIN;
The world is running out of fresh water, and the fight to control it has begun.

BYLINE: WILLIAM FINNEGAN

BODY:
In April of 2000, in the central plaza of the beautiful old Andean city of Cochabamba, **Bolivia**, the body of Victor Hugo Daza lay on a makeshift bier. Daza, a seventeen-year-old student, had been shot in the face by the Army during protests sparked by an increase in local water rates. These protests had been growing for months, and unrest had also erupted in other parts of the country. The national government had just declared martial law. In Cochabamba, a city of eight hundred thousand, the third largest in **Bolivia,** a good part of the population was now in the streets, battling police and soldiers in what people had started calling la guerra del agua-the Water War. Peasants from the nearby countryside manned barricades, sealing off all roads to the city. The protesters had captured the central plaza, where thousands milled around a tiled fountain and the catafalque of Victor Daza. Some of their leaders had been arrested and taken to a remote prison in the Amazon; others were in hiding. The chief demand of the water warriors, as they were called, was the removal of a private, foreign-led consortium that had taken over Cochabamba's water system. For the Bolivian government, breaking with the consortium-which was dominated by the United States-based Bechtel Corporation-was unthinkable, politically and financially. **Bolivia** had signed a lucrative, long-term contract. Renouncing it would be a blow to the confidence of foreign investors in a region where national governments and economies depend on such confidence for their survival. (Argentina's recent bankruptcy was caused in large part by a loss of credibility with international bankers.) The rebellion in Cochabamba was setting off loud alarms, particularly among the major corporations in the global water business. This business has been booming in recent years-Enron was a big player, before its collapse-largely because of the worldwide drive to privatize public utilities.

For opponents of privatization, who believe that access to clean water is a human right, the Cochabamba Water War became an event of surpassing interest. There are many signs that other poor communities, especially in Third World cities, may start refusing to accept deals that put a foreign corporation's hand on the neighborhood pump or the household tap. Indeed, water auctions may turn out to test the limits of the global privatization gold rush. And while the number of populists opposing water privatization seems effectively inexhaustible-the leaders of the Cochabamba rebellion included peasant farmers and an unassuming former shoemaker named Oscar Olivera-the same cannot be said of the world's water supply. There was a great deal more than local water rates riding on the outcome of this strange, passionate clash in **Bolivia.**

The world is running out of fresh water. There's water everywhere, of course, but less than three per cent of it is fresh, and most of that is locked up in polar ice caps and glaciers, unrecoverable for practical purposes. Lakes, rivers, marshes, aquifers, and atmospheric vapor make up less than one per cent of the earth's total water, and people are already using more than half of the accessible runoff. Water demand, on the other hand, has been growing rapidly-it tripled worldwide between 1950 and 1990-and water use in many areas already exceeds nature's ability to recharge supplies. By 2025, the demand for water around the world is expected to exceed supply by fifty-six per cent.

Some of the resource depletion is visible from outer space. The Aral Sea, in central Asia, was until recently the world's fourth-largest lake. Then Soviet planners dammed and diverted its source waters for cotton irrigation. The Aral has since lost half its area and three-fourths of its volume. Its once great fisheries have vanished; all twenty-four species native to the lake are believed to be extinct. The local climate has changed, and dust storms now plague the region.

Aquifer depletion, though less visible, is an even more serious problem. There is sixty times as much fresh water stored underground as in lakes and rivers aboveground. And yet parts of northern China, to take one example, are approaching groundwater bankruptcy. Beijing's water table has dropped more than a hundred feet in the past forty years. In the United States, the Ogallala Aquifer, which reaches from Texas to South Dakota and is indispensable to farming on the Great Plains, is being drained eight times faster than it can naturally recharge. In vast areas of India, Mexico, the Middle East, and California's Central Valley the story is the same.

Meanwhile, more than a billion people have no access to clean drinking water, and nearly three billion live without basic sanitation. Five million people die each year from waterborne diseases such as cholera, typhoid, and dysentery. This enormous, slow-motion public-health emergency is, in large measure, a result of rapid, chaotic urbanization in the nations of the Global South. Traditional water sources have been polluted, destroyed, overtaxed, or abandoned.

Annual rainfall is not always a measure of water wealth. Poland, for instance, gets plenty of rain, but its lakes, rivers, and groundwater are so polluted that it has as little usable water as Bahrain. Arid regions with the means to pay (Southern California, the Persian Gulf States) already pipe water in from wetter areas. New technologies are being hurriedly developed: huge fabric bags holding millions of gallons of fresh water are being hauled by barges across the Mediterranean, and there are businessmen in Alaska who believe that the state's earnings from fresh water will eventually dwarf its earnings from oil.

For strategic planners at some of the world's largest corporations, the global freshwater shortage coincides opportunely with privatization. According to Johan Bastin, of the European Bank for Reconstruction and Development, "Water is the last infrastructure frontier for private investors." In the past fifteen years, municipal and regional water systems have been steadily coming onto the international market. Two French corporations, Vivendi Environment and Suez, lead the industry: Vivendi runs eight thousand systems in a hundred countries; Suez has operations in a hundred and thirty countries. The biggest American player, Bechtel, whose directors include former Secretary of State George P. Shultz, has always been notable for its political connections. The United States is itself a field for direct foreign investment in water. Suez is running Atlanta's water system, and Vivendi recently bought U.S. Filter, a national water-services group, for more than six billion dollars.

But the main push is in the Global South, where, over the past twenty years, the World Bank and the International Monetary Fund have effectively taken control of the economies of scores of nations that are heavily in debt. The Bank and the I.M.F. have been requiring these countries to accept "structural adjustment," which includes opening markets to foreign firms and privatizing state enterprises, including utilities. The Bank once had a quite different approach to public works: it was an enthusiastic financier of monumental projects, and would typically lend the money to build large dams. Many of the dams were spectacular failures, delivering few, if any, benefits (except to politicians and construction firms) while displacing millions of people and leaving behind environmental destruction and public debts. The Bank is now getting out of the dam business and into water privatization. It often works closely with the conglomerates, helping them to acquire the water assets of debtor nations.

The idea behind privatization is to bring market discipline and efficiency to bear on a crucial and frequently corrupt sector. Supporters argue that only private capital-which means, in practice,

multinational corporations-can afford to expand water and sanitation networks sufficiently to reach the underserved poor. Since corporations are in business to make money, they often increase water rates. But, in theory, higher water rates can also help to promote conservation. Indeed, privatization advocates say, any valuable commodity-and this includes health care and education-that is provided free eventually gets taken for granted and wasted. According to this argument, turning water into a tradable commodity may even be the only practical way to avoid worldwide shortages and environmental disasters. Public subsidies for essential services such as water may sound like humane policy, but in the real world subsidies benefit the powerful, because they have the resources to manipulate them.

In Cochabamba, which has a chronic water shortage, this unintended consequence was grotesquely clear. Most of the poorest neighborhoods were not hooked up to the network, so state subsidies to the water utility went mainly to industries and middle-class neighborhoods; the poor paid far more for water of dubious purity from trucks and handcarts. In the World Bank's view, it was a city that was crying out for water privatization.

I went to Villa San Miguel, a ramshackle settlement on an arid hillside a couple of miles south of Cochabamba, to find out how the global water business looks from the ground. My guide was a student named Fredy Villagomez, who grew up in Villa San Miguel and helped organize an independent water cooperative for the barrio. The cooperative is one of dozens that have been formed in recent years, in part with international aid. We rode out of the old city in a clattering down a road jammed with trucks, buses, minivans, donkeys, and pedestrians. It was a hot, clear afternoon; Mt. Tunari, a seventeen-thousand-foot peak, glittered in the northwest. Cochabamba sits in a wide, fertile valley at eight thousand feet-only a middling elevation in **Bolivia,** where the capital, La Paz, is at twelve thousand feet. To the east, beyond the mountains, lies the Amazon rain forest. Cochabamba is more than four hundred years old, but a recent influx of migrants from the countryside has caused its population to quadruple since 1976. Today, Cochabamba is ringed by dozens of barrios marginales-dusty, impoverished settlements that have sprung up to house the newcomers. Basic services-electricity, transportation, sanitation, water-are catch-as-catch-can in the barrios marginales.

"We started digging our well in 1994," Villagomez told me. Stocky, soft-spoken, with Indian features and thick eyeglasses, he was leading me down a rocky path to a small cinder-block pump house. "The planning took years. It was an expensive project, and a lot of work. All the residents helped, and we finished in 1997." The cooperative received technical assistance from Danish aid workers; there is a dirt road in the barrio-the Avenida Dinamarca-named for them. Villagomez urged me to peer into the dim pump house, which contained a single electric pump. "The well is a hundred and twelve metres deep," he said.

I thought that sounded awfully deep. Villagomez agreed. "Before, the water under this valley was at only twenty metres."

The well made a major difference to Villa San Miguel. Clean water was suddenly plentiful and relatively cheap-households paid the water cooperative between two and five dollars a month to cover the costs of running the pump and maintaining the system. "It gives water to two hundred and ten families," Villagomez said. "We felt a lot of pride in this achievement."

Then, in 1999, the Bolivian government conducted an auction of the Cochabamba water system as part of its privatization program. The auction drew only one bidder: a consortium called Aguas del Tunari. The controlling partner in the consortium was International Water, a British engineering firm that was then wholly owned by Bechtel. (An Italian company later bought a half interest.) But the government, unfazed by its own weak bargaining position, decided to proceed.

The terms of the two-and-a-half-billion-dollar, forty-year deal reflected the lack of competition for the contract. Aguas del Tunari would take over the municipal water network and all the smaller

systems-industrial, agricultural, and residential-in the metropolitan area, and would have exclusive rights to all the water in the district, even in the aquifer. The contract guaranteed the company a minimum fifteen-per-cent annual return on its investment, which would be adjusted annually to the consumer price index in the United States. On cooperative wells such as Villa San Miguel's-which the government hadn't even helped build-the new water company could install meters and begin charging for water. Residents would also be charged for the installation of the meters. These expropriations were legal under a new water law that had been rushed through the Bolivian parliament.

The first Cochabambinos to question the terms of the water privatization were not the small water cooperatives that faced expropriation and crushing bills but local professionals-mainly engineers and environmentalists-and a federation of peasant farmers who rely on irrigation. They began calling public meetings to air their concerns. The government ignored them. At a contract-signing ceremony, the President of **Bolivia** and the mayor of Cochabamba drank champagne with consortium executives. The news of impending expropriations and rumors of big water-price hikes began to circulate. The list of alarmed groups-neighborhood associations, water cooperatives, the labor unions-grew. There were street protests, and a broad coalition emerged, called the Coordinator for the Defense of Water and Life, or simply La Coordinadóra, led by Oscar Olivera.

Olivera, who is forty-six, at first seems an unlikely leader. He wears a black leather-billed cap, which makes him look like a gentle, would-be street hood from the Beat era. He is small and sad-faced, and he often looks downward, inward-as if he were thinking extremely hard about unpleasant. It's an especially striking manner in **Bolivia,** where virtually everyone presents a placid, reserved face to the world. Olivera's grandfather worked in **Bolivia's** huge tin mines; his father went to work as a carpenter when he was a child. Olivera started out as a machinist in a shoe factory, then went on to work for the factory's union. He is now the head of a confederation of factory workers' unions. Oddly, his air of distraction doesn't seem to unsettle anyone around him. Working people volubly engage him wherever he goes, calling him Oscarito.

"Companeros," Olivera would tell crowds. "It's become a fight between David and Goliath, between poor people and a multinational corporation. They have a lot of money, and they want to take away our water."

The World Bank warmly calls **Bolivia** an "early adjuster." Other poor, indebted countries have had to be forced to accept structural adjustment, but in **Bolivia** the World Bank and the I.M.F. have enjoyed a deep understanding with successive governments since 1985. Public enterprises-the railways, the telephone system, the national airlines, the great tin mines of Oruro and Potosi-have been sold, mainly to foreign investors. (This fire sale goes on: a Bolivian government Web site lists dozens of factories, refineries, cement plants, paper mills, and municipal utilities that are still available.)

The tin mines, as it happens, had been nationalized after a popular revolution in 1952, which also destroyed the semi-feudal hacienda system that had been in place in **Bolivia** for centuries. The United States played an unlikely role in that revolution. The Eisenhower Administration, already busy undermining left-wing governments in Guatemala and Guyana, accepted the new government's plea that it was not Communist (even if some of its allies were) while demanding, and getting, a new investment code that permitted American companies to start operating in **Bolivia's** eastern oil fields. The United States increased food aid to help the new government survive, and saw to it that "state capitalism" became the official economic model.

An Army coup overthrew the elected government in 1964, leading to the first in a long string of military regimes. (Many of the officers involved had received "counter-insurgency" training in the United States.) They were not, except during a period in the late nineteen-seventies, as violent as those in Chile, Argentina, and Brazil. The unions and the left were repressed, but not so severely as to engender a guerrilla movement. By 1982, however, when civilian rule was finally restored, the

Bolivian economy, plundered by the generals, was in ruins, and hyperinflation soon took hold, hitting an annual rate of twenty-five thousand per cent in 1985.

Enter "the Boys," also known as "the Chicago Boys," after a group of economists, educated at the University of Chicago, who implemented free-market policies (known in Latin America as neoliberalism) in Pinochet's Chile. In **Bolivia** they were led by Gonzalo Sanchez de Lozada, a wealthy mine owner who was then Minister of Planning (he was later President). Sanchez worked closely with Jeffrey Sachs, the Harvard economist who became famous for the "shock therapy" he designed for post-Communist Poland.

Bolivia's shock treatment was ferocious. The currency was devalued, all price and wage controls were abolished, government spending was cut, and the state-owned tin mines were effectively closed. The economy went into instant recession; unemployment soared. The inflationary spiral, however, was broken, and good relations between the government and the I.M.F. were restored, initiating a new flow of foreign investment and loans.

And for the past sixteen years **Bolivia** has dutifully followed the dictates of the World Bank and the I.M.F. Most of its people, however, have nothing to show for it. Poverty was never significantly reduced. This is not unusual in Latin America, where the poverty rate is higher today than it was in 1980-after a full generation of nominal democracy and ever-increasing free trade. But **Bolivia,** like Argentina, really put on what Thomas L. Friedman, the Times columnist, calls "the golden straitjacket" of liberalized economic policies. The predicted foreign investment materialized, but the prosperity did not. Landlocked, with a population of eight million and a wretched infrastructure, **Bolivia** remains the poorest country in South America.

Hugo Banzer, who was **Bolivia's** military dictator in the nineteen-seventies, became President again after the last election, before stepping down last August in favor of his Vice-President, Jorge Quiroga, because of illness. Quiroga now sits at the head of a "megacoalition." The political class in **Bolivia** has always been small, rich, and overwhelmingly white, but rarely have the major parties, all business-aligned, shared a ruling philosophy so peaceably as in recent years. The consensus that nothing and no one should be exempt from the discipline of the market. Then Bechtel came to Cochabamba and, as the local peasants put it, tried to "lease the rain."

When the first monthly bills from Aguas del Tunari arrived, in January, 2000, stunned business owners and middle-class householders began to join the Coordinadora's protests. Some bills had doubled, and ordinary workers now had water bills that amounted to a quarter of their monthly income.

Aguas del Tunari seemed to have given little thought to how its plans would be received in Cochabamba. The International Water executives who were actually doing the work in the city were engineers, not marketers, and, being newly arrived from abroad, they were not attuned to the problems or passions of the Bolivian public. Geoffrey Thorpe, the company's manager, simply said that if people didn't pay their water bills their water would be turned off.

In truth, the price hikes were not as arbitrary as they seemed. The consortium had agreed, in its contract, to expand the city's water system. This was going to be expensive, as was the large-scale repair job required by the deterioration of the existing system. "We were confident that we could implement this program in a shorter period of time than the one required by the contract," Didier Quint, the managing director of International Water, said. He added, however, "We had to reflect in the tariff increase all the increases that had never been implemented before." The consortium had also agreed to finish a stalled dam project known as Misicuni, which would pipe water through the mountains. This aspect of the deal seemed to make little sense-the World Bank had commissioned studies that pronounced Misicuni uneconomic. But the dam project had less to do with how privatization works in theory than with the reality of how multinational corporations must come to terms with local politics.

Plans for the Misicuni Dam have been around for decades. The mayor of Cochabamba, Manfred Reyes Villa, had campaigned hard to complete it and was undeterred by questions about whether it was worth building. Reyes Villa was a popular mayor. People liked to say that his good looks got him the women's vote-he is better known by the nickname Bombon (Sweetie)-but his political instincts are sharp. Despite the widespread poverty in his city, he had pulled off major vanity projects, including a gargantuan white statue of Christ on a hilltop. (This Cristo de la Concordia is supposedly six feet taller than its rival in Rio de Janeiro.) Reyes Villa had been a real-estate developer before he became mayor, and everyone in Cochabamba was quick to note the proximity of most new roads and parks to Bombon's properties. His political party, the New Republican Force, was a personal vehicle as well as a formidable municipal patronage machine, and people said that N.F.R., its Spanish abbreviation, stood for "Nueva Forma de Robar" ("New Form of Robbery"). Reyes Villa lived in conspicuous splendor, and when I visited, soldiers were guarding his estate. There was a wall-size oil painting of his family. "Poverty is growing here, with wealth being concentrated in very few hands," he told me earnestly while we sat in his mansion. Still, Bombon won elections, his party was in President Banzer's megacoalition, and he had national ambitions. More to the point, some of his main financial backers stood to profit fabulously from the Misicuni Dam's construction. When the central government first tried to lease Cochabamba's water system to foreign bidders, in 1997, and did not include Misicuni in the tender, Bombon stopped it cold. It was only the inclusion of the project in the Aguas del Tunari contract that got the Mayor on board.

The Water War began in earnest in February, 2000. "The people went to the plaza to demonstrate against the contract," Fredy Villagomez told me. "The young men were in the city center, trying to hold the plaza. Others were here, maintaining a barricade across the highway. The women were cooking for those on the barricade. There were many campesinos passing by, walking to Cochabamba to join the rebellion." Crowds of regantes-peasant irrigators-arrived in the city, marching under village banners, or wiphala. The women, cholitas, wore fine straw hats and shimmering pleated velvet dresses, and their black hair was braided in long pigtails woven together in back with bright ribbons.

Most of the troops that Oscar Olivera could personally call out for demonstrations were jubilados-retired factory workers, old union men shuffling under battered fedoras, like faded figures on a postcard from some antipodal workers' state of another era. For a great many Bolivians, the labor unions retain an association with a time when workers were organized and proud, and when **Bolivia's** railroads and airlines and mines belonged to Bolivians. It made symbolic sense, then, that Olivera, the leader of the Cochabamba rebellion, was a union man, even though only a minority of Cochabamba's factory workers are still union members. (In the union confederation's dingy offices on the corner of Cochabamba's central plaza, soccer trophies fill the shelves, but when I asked about them the receptionist explained that the unions could no longer field a team.)

The growing crowds of Coordinadora supporters were drawn instead from the informal sector of pieceworkers, sweatshop employees, and street venders that has expanded enormously since the advent of structural adjustment and the closing of the tin mines. These men and women, most of them young, had more flexible schedules than workers in regular factories. Students from the University of Cochabamba, some of them middle-class anarchists, also joined in, carrying banners denouncing the World Bank, the I.M.F., and neoliberalism. But the front-line troops, particularly after the conflict sharpened and the authorities began to fire live bullets, proved to be the city's street children-an adolescent army of the homeless which has been growing in recent years.

The government's response escalated steadily. After the first protests, a ministerial delegation was sent to Cochabamba. By the end of the month, the water-price hikes had been rolled back, but the protests continued. Then the government sent in troops from Oruro and La Paz. Nearly two hundred protesters were arrested, and seventy civilians and fifty-one policemen were wounded. The Catholic archbishop of Cochabamba tried to mediate. In March, the Coordinadora held an unofficial referendum, counted nearly fifty thousand votes, and announced that ninety-six per cent

favored the cancellation of the contract with Aguas del Tunari. "There is nothing to negotiate," the government replied.

In April, protesters again occupied Cochabamba's central plaza, and when the Coordinadora's leaders, including Oscar Olivera, arrived at the governor's office for a meeting they were arrested. After they were released the following day, some went into hiding. Then more leaders were arrested, and some were taken to a jungle prison in the Amazon. The house of Oscar Olivera's parents was searched four times.

Protests had begun to break out in other parts of the country-in La Paz, Oruro, and Potosi, and in many rural communities-and national peasant organizations held demonstrations. By this point, most of the country's major highways were blocked.

Bolivia's rulers have always harbored a deep fear that the country's Indian majority might one day rise up and kill them in their beds-or, more realistically, trap them in their cities. In 1781, an rebel army, having killed all the Spaniards in a regional capital, laid siege to La Paz for several months. The rebellion was ultimately defeated by troops brought from Buenos Aires, but white **Bolivia's** fear of a horizon suddenly filling with angry Indians has never fully dissipated, and on April 8, 2000, the Banzer government declared a national state of siege. This meant martial law, and it allowed for mass arrests. The minister who announced the decree also said-in a remark that Bechtel's spokesman in London quickly picked up-that the uprising in Cochabamba was being financed by narcotraficantes.

The state of siege, along with the comments about drug traffickers, backfired in Cochabamba. The small coca-leaf farmers, known as cocaleros, from the lowlands east of Cochabamba, had indeed joined the protesters, but ordinary Bolivians draw a sharp distinction between cocaleros and the wealthy, Army-bribing, customs-bribing narcotraficantes. Many of the cocaleros are ex-miners. Water is not their issue-they are more concerned about a coca-eradication program sponsored by the United States-but their natural sympathy was with the protesters. And the cholitas in their velvet dresses, and the jubilados marching in their rumpled fedoras, and the water warriors in their bandannas did not appreciate the suggestion that they were insincere.

The day the state of siege was declared, the main plaza in Cochabamba was filled with people. The Army fired tear gas into the narrow streets of the old city, where protesters had built barricades. Demonstrators blocked all roads into the city; the government cut off power to local radio and television stations. Middle-class matrons took wounded protesters into their homes and beauty salons to nurse them, and bowls of vinegar mixed with water and baking powder-useful for soaking bandannas for protection from tear gas-appeared outside a thousand respectable doorways.

Then, from behind a line of military police, a sharpshooter in civilian clothes fired a rifle into a crowd of unarmed civilians. He was caught on video by a Bolivian television crew, and was later identified as Robinson Iriarte de la Fuente, a Bolivian Army captain who had been trained in the United States. Victor Hugo Daza, the seventeen-year-old student, who was on his way home from a part-time job, was, according to eyewitnesses, among the crowd that Iriarte fired into. He was hit in the face and died instantly. Dozens of other people were treated for bullet wounds. By the time Daza had been raised onto his bier and the police and the Army had been repeatedly prevented from seizing his body, there was clearly no future for Aguas del Tunari in Cochabamba.

The company's executives were told that the police could no longer guarantee their safety, and fled Cochabamba for the lowland city of Santa Cruz. They may have noted that, several weeks earlier, Mayor Reyes Villa had left their side. When the people took to the streets en masse, Bombon had assessed their mood and stepped away from Aguas del Tunari so fast that it was as if he had never seen these foreigners before. He was not the only one trying to distance himself; when water privatization collapsed in Cochabamba, the World Bank's representatives insisted that the fiasco had nothing to do with them. The government informed Aguas del Tunari that, because the

company had "abandoned" its concession, its contract was revoked. (The company argued that it had not left voluntarily but had been pushed out.) The day after Victor Hugo Daza's funeral, Oscar Olivera announced the consortium's departure to thousands of exhausted, disbelieving demonstrators from the balcony of his union's offices above the plaza.

The Coordinadora had swept the field so completely that a new national water law was immediately passed-"written from below," as the water-rights campaigners say. Banged together by parliamentarians and water specialists from the Coordinadora who gathered in La Paz, the new law gave legal recognition to usos y costumbres-traditional communal practices-by protecting small independent water systems, guaranteeing public consultation on rates, and giving social needs priority over financial goals. This triumph seemed to the water warriors too good to be true, and it was. Laws in **Bolivia** are implemented-if, indeed, they are ever implemented-only after bylaws have been attached and approved, and the government soon made it clear that, in the case of the new water law, this process could take years.

After the Bechtel consortium's exit, the management of Cochabamba's water was returned to the old public utility known as SEMAPA, which was thoroughly overhauled. The new board of directors included Coordinadora representatives, who vowed to treat water as a "social good" and not as an ordinary commodity. But so far the fervently envisioned transformation of Cochabamba's water system has been fitful at best. Service is still poor. Even within the existing network, many neighborhoods have service only occasionally, and the valley's aquifer continues to sink. Corruption has reportedly been reduced, but an intolerable situation persists: the poor in Cochabamba, those who are not on the network and who have no well, pay ten times as much for their water as the relatively wealthy residents who are hooked up. The new SEMAPA, having driven away international capitalists, desperately needs new capital. Since simply raising water rates across the board is politically impossible, that means new partners or new loans.

The Bolivian government has little interest in seeing the new SEMAPA succeed. Neither is it likely to get much help from the World Bank. In recent years, the Bank has been widely accused of not fulfilling (or even seriously pursuing) its self-proclaimed mission of fighting poverty, and, in response, has changed its description of its mandate, emphasizing "empowerment" and "pro-poor coalitions" over fiscal discipline. What its officials do when confronted by an actual pro-poor coalition is, of course, another matter. In **Bolivia**, its representatives have never met with the leaders of the Coordinadora.

The Coordinadora's leadership knows that an old-fashioned state-centered solution to Cochabamba's water crisis would be unsatisfactory. The new SEMAPA has not won the hearts of many in Cochabamba-it is, after all, still the water company. But, its supporters point out, at least it is Bolivian.

"The tragedy is that the solution to Cochabamba's water problem has been pushed off for at least another five years," Michael Curtin, a Washington-based executive who became president of Aguas del Tunari after its removal from Cochabamba, told me. Curtin had been involved in the deal as a consultant for International Water, and represents the interests of Bechtel and its partners in talks with the Bolivian government. In November, 2001, after negotiations had deadlocked, the consortium filed a complaint against the Bolivian government in a World Bank trade court in Washington. The complainant was Aguas del Tunari, but the political weight was supplied by Bechtel. The company's claim is being made under a bilateral investment treaty between **Bolivia** and, of all places, the Netherlands. It seems that International Water, which was originally registered in the Cayman Islands (which has no comparable investment treaty with **Bolivia)**, moved its registration to Amsterdam soon after the Cochabamba contract was signed. Bechtel and its partners are demanding at least twenty-five million dollars in compensation for the broken contract. While trade-court proceedings are notoriously slow, nobody seems to believe that the Bolivians can afford that kind of money.

Still, the prospect of one more financial burden is the least of the government's worries in connection with what people in **Bolivia** refer to as the Bechtel case. The truly frightening part is the impact that the Water War has had on the foreign-investment climate. "Right now the situation is 'You can't trust **Bolivia,**' " Curtin said. The United States Embassy agrees. "It was a pretty significant blow," an Embassy official told me. A subsequent auction to sell the La Paz telephone company drew no bidders at all. The United States has not yet decided, the official added, whether to formally designate the breaking of the contract in Cochabamba an expropriation. That will depend on the settlement, if there is one, that is reached in the case. Having the United States label the episode an expropriation would be a blow to **Bolivia's** hope of seeing any new foreign investment in the near future.

And yet Jorge Quiroga, **Bolivia's** new President, is bullish on his country's prospects. Quiroga, who is forty-one, is tall and fair. He graduated in 1981 from the University of Texas, where he studied industrial engineering, and worked for I.B.M. in Austin as a self-described "corporate yuppie" before moving back to **Bolivia** with his American wife, Virginia. "We will be the vital heart of South America," Quiroga predicted repeatedly when I visited him in his ornate, republican-era office in La Paz. Gas exports will lead the way. A long-awaited transcontinental highway connecting Brazil and Chile will pass through Cochabamba. Fibre-optic cables will be laid. One of the biggest things delaying **Bolivia's** economic progress? The hypocrisy of the United States and Europe on free trade. "**Bolivia** is the most open economy in Latin America," Quiroga said. Meanwhile, American and European farm subsidies, along with tariffs on textiles and agricultural products, make it impossible for **Bolivia** to sell its exports in the Global North. "They tell us to be competitive while tying our arms behind our backs."

When I asked him about the Water War, he looked uncomfortable. "A lot of things certainly could have been different along the way, from a lot of different actors," he said. But, like Michael Curtin, he was certain of one point: "The net effect is that we have a city today with no resolution to the water problem." In the end, he said, it will be "necessary to bring in private investment to develop the water."

Quiroga insists that the World Bank and the I.M.F. are not running **Bolivia.** If it sometimes looks as if they are, that is because technocrats in the government (he has been one) use what he calls "the I.M.F. blackmail" on politicians-warning them that loans will stop if hard fiscal choices are not made, and thus giving them some cover, when in truth there have been no direct threats from the Bank or the I.M.F.

The World Bank now requires all its client governments to submit a "poverty-reduction strategy," and Quiroga gave me a sketch of **Bolivia's.** He had recently been to a meeting of the World Economic Forum-he goes almost every year-and his remarks struck me as having an up-to-the-minute cosmopolitan gloss. The Bolivian state has "socialized" its spending away from production toward education and health, he said, because that's the one sure route to real development. Quiroga sighed. "But we'll still be talking about poverty reduction twenty-five years from now, when one of my daughters is sitting here being interviewed."

Some things, certainly, never change. Last month, Captain Robinson Iriarte was acquitted of all responsibility for the death of young Victor Hugo Daza. The case had been transferred from the civilian criminal-justice system-no judge was willing to hear it-to a military tribunal, which has final jurisdiction over the cases it hears. Upon his acquittal, Iriarte was promoted to the rank of major.

Claudia Vargas, a lawyer in La Paz who worked for **Bolivia's** fledgling utility-regulation body, travelled often to Cochabamba. The leaders of the new SEMAPA, she told me, were unnecessarily preoccupied with the idea that the central government was going to make another attempt to privatize the city's water. "I tell them, 'Don't worry. Nobody is going to try that again for a long time.' Really, they have a lot of problems in Cochabamba now, and that is not one of them."

Vargas is young and chic, and she had recently finished a postgraduate course in development administration in thoroughly deregulated Britain. She nonetheless has an unfashionable enthusiasm for regulation. It's still poorly understood in **Bolivia,** she thinks, and it got a very bad name in Cochabamba when her boss (now retired) appeared to shill both for the government and for Bechtel's consortium, which he was supposed to regulate. Vargas was appalled both by the Aguas del Tunari contract and by the consortium's performance. She thinks that the members of the Coordinadora "are still the good guys in the film," but that some of them are, at best, misguided. "In the name of usos y costumbres, a lot of terrible things are done." Water-truck operators, for instance, "drill polluted water and sell it. They waste a lot of water. But the world is changing. Within five years, they will be charged for water-and they will be regulated."

Trying to find a path outside the binary of state or market control, the Coordinadora has no model. Its leaders vow to treat water as a "human right," and yet they know it cannot be provided free. They also know that their water company-and **Bolivia** generally-cannot survive without foreign investment. Meanwhile, Manfred Reyes Villa has started making his move to regain control of SEMAPA. In elections to be held soon, his party will run candidates for all the seats on the water company's board that are now occupied by the Coordinadora. Their campaigns will be far more extravagant and crowd-pleasing than anything Oscar Olivera and his colleagues are likely to stage. Bombon knows his constituency. He has also announced his candidacy for President.

The juggernaut of water privatization has hardly slowed. Bechtel, through International Water, has closed two major water deals in the past year, winning a thirty-year concession for the port city of Guayaquil, in Ecuador, and a controlling stake in the water company of Tallinn, the capital of Estonia. Many water privatizations seem likely to deliver eventually on their backers' promises of improved service. In Chile, fierce opposition to concessions has been overcome in several cities by innovative price structures, including water vouchers, that assure poor residents of an adequate supply of clean water.

At the same time, water privatizations have been backfiring all over Latin America. In Panama, popular anger about an attempted privatization helped cost the President his bid for reelection. Vivendi, the French multinational, had its thirty-year water contract with the Argentine province of Tucuman terminated after two years because of alleged poor performance. Major water privatizations in Lima and Rio de Janeiro have had to be cancelled because of popular opposition. Trinidad recently allowed a management contract with a British water giant to expire. Protests against water privatization have also erupted in Indonesia, Pakistan, India, South Africa, Poland, and Hungary.

One large-scale Bolivian water privatization that the World Bank still points to with pride took place a few years ago in La Paz. The concession was awarded to Suez, which honored its commitment to expand the La Paz water network to several poor neighborhoods just outside the city. This area, known as El Alto, is home to nearly three quarters of a million people, virtually all of them Indians recently arrived from the countryside. But a problem emerged. It seemed that the people in El Alto weren't using enough water. Accustomed to Andean peasant life, they were extremely careful with water, never wasting a drop, and they continued to be so even after they had taps installed in their homes. This was good conservation, but it was bad for Suez's bottom line, and the corporation was disappointed in the return on its investment. After it appeared to raise its rates, which were pegged to the dollar, when the local currency was devalued the general happiness with the contract evaporated and residents began to complain about the service. When I was in La Paz, the people of El Alto were marching against Suez. When I asked a World Bank official about the situation, she agreed that there was a basic problem: those Indians needed to learn to use more water. (c)

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