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IDA-14—HISTORIC ADVANCE OR INCREMENTAL CHANGE IN DEBT AND DEVELOPMENT POLICY

HEARING

BEFORE THE

SUBCOMMITTEE ON
DOMESTIC AND INTERNATIONAL
MONETARY POLICY, TRADE AND TECHNOLOGY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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IDA-14—HISTORIC ADVANCE OR INCREMENTAL CHANGE IN DEBT AND DEVELOPMENT POLICY

Tuesday, September 27, 2005

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

The subcommittee met, pursuant to call, at 2 p.m., in Room 2128, Rayburn House Office Building, Hon. Judy Biggert presiding.

Present: Representatives Biggert; Manzullo, Neugebauer, Oxley (ex officio), Maloney, Waters, Moore and Frank (ex officio).

Mrs. BIGGERT. This hearing of the Subcommittee on Domestic and International Monetary Policy will come to order. Without objection, all Members' opening statements will be made part of the record.

And I would like to welcome everyone here today. And today's hearing will review recent developments for debt relief to heavily indebted poor countries.

First of all, let me thank Chairman Pryce for holding this hearing. And I would also like to thank my colleagues from this side and the other side of the aisle for their support on this historic decision to provide debt relief to the world's poorest countries.

Canceling Cold War debts is a major step towards integrating the poorest countries on Earth into the global economy. But for these indebted and impoverished countries, many a loan has never been the answer. Without good government, better education, and sound business practices, the indebtedness and poverty only grow deeper. This time we have a chance to get it right. The administration has taken a bold and long and overdue step in proposing responsible and sustainable debt relief and development, including the complete cancellation of debt for many of the world's poorest nations.

This hearing is timely as it follows this weekend's World Bank meetings where the U.S. committed in writing to the debt relief deal. I am pleased that this committee will work again this year to exercise its jurisdiction and authorize the funds that we have committed to the debt relief, which comes in the form of U.S. contributions to the International Development Association. The first disbursement of these funds is due by the end of this calendar year, so it is now up to Congress to ensure that we deliver on this historic commitment.

America has proven time and time again that it is one of the most generous countries in the world both on the domestic and international fronts. I reiterate my full support for the administration's leadership in crafting the successful and historic IDA-14 and debt relief agreement. I am committed to working with the Department of Treasury again this year as our country moves towards delivering on its promise.

I might add that in July, the Group of 8 Gleneagle communique also highlighted global goals for climate change, energy, and sustainable development, and aid to Africa. Through meetings the group addressed issues relating to the global economy, oil trade, intellectual property rights, regional issues, post-tsunami recovery, counterterrorism, safety, nonproliferation, and reform in the broader Middle East. It is my hope that this committee will take an active role in the coming months to examine the U.S. position and role in promoting many of these initiatives that further impact the developing world and the United States. In particular, I support further discussions on the relationship between development, trade and energy policy.

So I would like to welcome the witnesses today, and I would now recognize the ranking member for 5 minutes.

[The prepared statement of Hon. Judy Biggert can be found on page 26 in the appendix.]

Mrs. MALONEY. Thank you, Congresswoman Biggert, and I thank also Chairwoman Pryce. This is a very important moment for debt relief and development funding, and I would like to take a moment to thank Under Secretary Adams and Deputy Assistant Secretary Pittman for their dedication and work in this cause of debt relief for the HIPC countries. I am sure many of my colleagues, especially those who, like myself and Mr. Frank, have been strong supporters of the JUBILEE bills introduced by Congresswoman Waters, I am sure that they all join us in appreciation for your contributions and for this very historic agreement.

It is not too much to say that we stand at the threshold of a new day for HIPC nations. Freed of the crushing burdens of debt, they will be able to fund social initiatives such as health and education that their people desperately need. It is not too much to hope that with some trade and tariff assistance, some of these nations will move out of acute poverty and be able to stand on their own. If we want to spread democracy, we need also to spread economic freedoms as well, and this is one critical way to begin.

Debt forgiveness is a global cause. It has been compared to the civil rights movement of the 1960s and the antiapartheid movement of the 1980s, and I would say it is just a matter of doing what is right.

But we still have more work to do. The debt forgiveness agreement by the International Monetary Fund and the World Bank reached this weekend was made possible by the pledge of the G-8 countries, including, and very crucially, the United States, to cover the loan payments lost by debt forgiveness dollar for dollar.

For the U.S. to live up to that commitment requires congressional authorization of the U.S. contribution to the replenishment of the ID-14 and the African Development Fund, and I understand

the first payment is due in November, so we need to move promptly.

It is not an option for the United States to be the first country to renege on its commitment towards debt forgiveness. The agreement has been made. Now it is time for Congress to do its part and to appropriate the necessary funding.

I look forward to your testimony. Thank you.

[The prepared statement of Hon. Carolyn B. Maloney can be found on page 29 in the appendix.]

Mrs. BIGGERT. I am very pleased that the ranking member of the Financial Services Committee is here. Now I recognize Mr. Frank.

Mr. FRANK. Thank you, Madam Chair. I continue to regret that this very important issue draws little interest from the membership and the—I guess we have—we have—we get slightly more people when we talk about housing for poor people, but if we would talk about real money, this place would be filled. And I regret the fact that we don't have that same interest.

I do appreciate the movement by the administration—and this is a subject which I began to talk about with Mr. Adams's predecessor, Under Secretary Taylor, and, in fact, had a breakfast at Treasury, and the one issue which seemed to some of us to be a concern is one that has now been resolved, and that is the reflow issue, the commitment to replace the money that was coming in with new money. And I have always strongly agreed with the administration's—this administration's position—that we should not just be doing debt relief, but we should be doing grants rather than loans going forward. I don't understand why some of my friends on the liberal side sort of resisted that. It almost seemed to me to be guilt by inartful association.

If you recognize the importance of debt relief now, why would you think that generating new debt was a useful thing, except, of course, for the fact that this was a question about where the new money would come from. So I am very pleased that we have done that.

And I would hope—well, Madam Chairwoman, let me ask that we make the letter from the G-8 finance ministers to President Wolfowitz from September 23rd a part of the record in which our Government, as one of the G-8, reaffirms our commitment, namely that we will, as I understand it, and they will, and we will, I hope, agree, appropriate or provide new money sufficient to offset whatever losses would have come from the repayments, and enough so that we can do grants going forward in the amount of, I guess, 30 percent.

Mr. FRANK. And I—I would say this to the administration: As long as we replace the money that would otherwise be coming in debt repayments, I am in complete agreement with you about going forward with grants, and I very much appreciate that.

One other point I would like to mention, and I would like to put it into the record at this point, too, Madam Chair, a letter from the group of the responsible organizations, nongovernment organizations, that have been monitoring this process, Care USA, Catholic Relief Services, Environmental Defense, Human Rights Watch, and a number of others.

And what this letter does is to support language in the Senate version of the foreign operations bill for reforms, transparency and accountability. And it is really building on work that this committee did in the previous session, and our committee and the staffs of our committee worked very closely with Treasury previously to get language. And frankly, I know there are people who don't want to see us undermine the work of the banks, and neither do I. I believe this strengthens it.

One of the problems we have had is—and I have heard this from officials at the banks—we get recipient countries basically saying, "Give us the money, but what we do with it is none of your business." and you have the leadership of the banks and the staff of the banks running a resistance. I am not talking about dictating budgetary choices to them. I think there was an era when the IMF did that in late 1990s, which was a mistake. We are talking about openness and accountability.

And what we do with the language that is in the Senate is strengthen the ability of the banks to impose on the expenditures of these funds not substantive choices, but accountability, openness, and transparency. I think these are very important.

So I am urging the Senate to adopt it. It is actually within our jurisdiction technically, but I would hope we would say to the Senate it does build on stuff we have done before. I would hope that the conference committee in foreign ops would adopt this language because it is not adversarial to the banks, but, in fact, strengthens it. And to the extent that these policies are implemented, you will avoid the kind of bad news from the banks that would undercut our ability to continue to support it.

So I congratulate the administration for resolving the problem of the reflows of the continued revenues. I think it is very important that we commit ourselves to supporting the implementation of that. And remember, all of this is conditional, obviously, on this happening.

And I also will be following up on this with our colleagues on the conference committee, House and Senate, to urge them, and I know there are negotiations going on with Treasury, to build on this. I really believe that this strengthens the work of the international banks.

Thank you, Madam Chair.

Mrs. BIGGERT. Thank you.

It is not only a pleasure to have the ranking member here from full committee, but also being joined by the chairman of the full committee. Mr. Oxley is recognized.

Mr. OXLEY. Thank you, Madam Chairwoman. I am delighted to have a chance to discuss today what has turned out to be an historic agreement to retire Third World debt which originated in the Cold War. The Bush administration deserves a great deal of credit for its leadership in crafting this agreement, and I am delighted that the new Under Secretary of the Treasury for International Affairs will testify to us today for the first time on this topic.

And I also thank the subcommittee Chairwoman Pryce for holding the hearing, and the Vice Chair Biggert for your work, in recognition for all the years that you have been working on development issues and your leadership regarding these issues.

It is particularly relevant that we should receive testimony on this issue now. The Financial Services Committee is responsible for authorizing U.S. participation in and funding for various multilateral development institutions, and this committee's views are therefore indispensable to and must be reflected in any discussion of U.S. support for developmental assistance through these entities. Our role takes on heightened importance now when the mechanism for U.S. Participation in debt cancellation for the poorest nations on Earth flows through the International Development Association, the International Monetary Fund, and regional development banks.

Over the weekend the Boards of the IMF and World Bank approved an historic package crafted by the Group of 8 countries to eliminate the debt burden of highly indebted poor countries which they were unlikely ever to pay back. The deal also eliminates the debilitating round trip of lending to finance interest payments rather than real development in these countries. It uses the existing HIPC framework to ensure that only countries that make real reforms qualify for that debt relief. This means that governments must demonstrate commitment to meaningful dialogue with their citizens and invest in developing the human potential of their citizens in order to qualify for a fresh start.

The Treasury Department also deserves credit for finding a way to fund the U.S. share of debt cancellation in a way that will no doubt will not unduly burden U.S. taxpayers. As I understand it, the U.S. usually disburses its contribution to the International Development Association on an as-needed basis. Delivering our contribution through a mechanism known as accelerated encashment will permit the interest earnings to accrue to the benefit of IDA.

I look forward to hearing more about how this mechanism will work to fund debt cancellation. The Treasury has been working hard to secure the global consensus on how to make debt cancellation a reality. With this weekend's historic agreements with the Boards of the IMF and World Bank, it is now time to work with Congress, which has the constitutional responsibility to guide the appropriations process on this deal.

In this context I would like to signal two questions for consideration as we start the discussion for how to authorize the U.S. contribution to IDA and debt cancellation. First I refer to a letter from the Group of 8 finance ministers to the President of the World Bank, dated September 23, which Mr. Frank has already made part of the record and is the exact letter I referred to.

Finance ministers say they, quote, will make available immediately additional funds to cover the full cost during the IDA-14 period. And these funds will be fully additional to the resources already agreed during the IDA-14 replenishment, endquote. It would be good to know whether that text covers accelerated encashment or whether additional funds are expected by the international community from the United States in the future.

Secondly, I note that little has been said so far in the debt cancellation discussions about the role that anticorruption programs and trade promotion can have to breaking the lend and forgive cycle and to promote democracy. I would look to underscore the importance that ensuring that any continued U.S. participation in IDA be paired with continued and meaningful reforms to fight cor-

ruption in development. We must do everything we can to make sure that development funds reach the communities and entities that need it most rather than corrupt contractors and local government officials. We must do everything we can to promote local capacity for individuals and firms to tap the benefits of the global market and increase their standard of living through trade rather than aid.

I look forward to hearing how the Treasury Department plans to move the ball forward on these issues in IDA-14 and beyond. With that, the Chair just yields back the rest of his time.

Mrs. BIGGERT. Thank you very much.

The gentlelady from Wisconsin. Do you have an opening statement?

Recognized for 3 minutes.

Ms. MOORE. Thank you, Madam Chair. And it is certainly an exciting period of history for me to be a member of the Subcommittee on the Domestic and International Monetary Policy when I have spent so many years watching with feeling helpless and frustrated about dealing with this problem.

Really, everything has been said. I just wanted to add my voice to those of the ranking member of our committee, Barney Frank, and others who have talked about the importance of the grants in eliminating the debt cycle so there can, in fact, be reinvestments in poverty reduction, health education, and other programs that we need to reinvest in, quite frankly, in this country as well because it doesn't do enough, as the academic research points out, to merely cancel the debt unless, in fact, you can build those other institutions to make sure that people have the proper educational opportunity and health delivery systems that they can indeed create businesses and increase their trade capacity.

It is very, very exciting, and I am very pleased that the United States has stepped up its initiatives in this area and look forward to monitoring these funds and making sure that we get the desired results. Thank you, and I yield back.

Mrs. BIGGERT. Thank you.

We are fortunate to have with us today the U.S. Treasury experts who were on the front lines negotiating this weekend's historic debt and development deal. Congratulations, gentlemen, and I am eager to hear your testimony today and anticipate that it will give us a detailed account of what happened and outline our role in helping you to deliver on the U.S. Financial commitment to IDA-14.

So our witnesses today are Mr. Tim Adams, Under Secretary for International Affairs at the Department of Treasury. Mr. Adams was sworn in 2 months ago, but he is no stranger to this field. He held several policy-related positions in the administration of President George H.W. Bush, including positions at the Export-Import Bank, the Treasury Department, and the House of Management and—Office of Management and Budget. Most notably he served in the White House Office of Policy Development working on a broad range of economic issues. A native of Kentucky, he holds undergraduate and graduate degrees from the University of Kentucky. Welcome.

Also sitting at the table is another gentleman who also hails from the Department of Treasury, Mr. Bobby Pittman, Deputy Assistant Secretary For Multilateral Development Institutions and Policy. Mr. Pittman served as Director for African Affairs at the National Security Council, worked as an economist for the CIA, and worked as a consultant with RCF Economic and Financial Consulting. Mr. Pittman graduated first in his class from Florida State University and received an MA in economics from, and did doctoral work at, the University of Chicago.

Please welcome both of our witnesses.

What happens now is we recognize you for 5 minutes, and we will certainly be lenient on the time since we don't have that many witnesses or that many people that will be asking questions. So—but if you can keep your oral testimony close to 5 minutes, and with that—and then we will ask questions for 5 minutes. And your statements will be made part of the record.

So without objection, your witness statements will be made part of the record. So ordered.

So I will turn to Under Secretary Adams for your testimony.

STATEMENT OF TIMOTHY D. ADAMS, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, DEPARTMENT OF THE TREASURY

Mr. ADAMS. Thank you, Chairman Pryce, Vice Chairwoman Biggert, Ranking Member Maloney and members of the subcommittee. I am very pleased to be here today to talk to you about the key elements of the Bush administration's international development agenda, including the historic debt relief initiative that was just agreed to over this past weekend.

The President's vision, his approach on development which gained international consensus in Monterrey in 2002, focuses on results, not just inputs, not just the resources spent. It recognizes that developing countries must take a primary responsibility for their development. This vision affirms private sector activity as the primary engine of poverty reduction and growth and accordingly supports reforms and policies that promote trade and investment.

Some of the highlights of this agenda include a $15 billion emergency plan for AIDS relief launched in 2003, 1.2 billion over 5 years to help eliminate malaria as a major killer of children in Africa, the Millennium Challenge Account that now the President is leading the charge on the Doha round for multilateral trade.

Building on this strong track record of achievement, the President launched an ambitious proposal for 100 percent debt cancellation to the eligible heavily indebted poor countries, known as HIPCs. For many of the poorest countries, there has been a history of repeated lend and forgive cycles. HIPCs alone have accounted for nearly 250 debt relief treatments in the Paris Club for over the last 25 years. This means that many countries have been getting debt restructurings or partial debt reduction every 2 or 3 years. At the same time, the international financial institutions have been increasing their lending volume to fill up any space created by the temporary debt treatments. Between 1989 and 2002, debt relief to HIPCs totaled $40 billion, while new loans totaled more than twice that, close to 100 billion.

Shifting to grants going forward helps to break this cycle, but there also needs to be a cleaning up of the balance sheets so that future generations can work to achieve higher economic growth, and we can alleviate poverty without the burden of unsustainable debt.

In early June of this year, President Bush and Prime Minister Blair reached an agreement to launch a comprehensive debt package. This led to an agreement at the G-8 heads of state meeting at Gleneagles in July.

There are four key elements of this historic proposal. The first is 100 percent cancellation of the debt stock held by IDA, the African Development Fund, and the IMF.

Two, it concerns additional donor contributions to IDA and the African Development Fund. Donors will provide additional contributions based on agreed burden shares to offset foregone debt repayments to IDA and the African Development Fund. Additional funds will be made available immediately to cover the IDA-14 and African Development-10 period and through regular replenishments for subsequent periods. For IDA-14 and the Africa Development Fund-10, the U.S. will fulfill this commitment to the MDBs by utilizing flexibility in the timing of planned annual payments and will not require appropriations in addition to those already requested.

Three, focus on strong performance. The additional donor contributions will be allocated to all IDA-only countries based on the existing IDA and African Development Fund performance-based allocation system. This approach ensures equity between the HIPCs and the non-HIPCs, and creates an incentive for countries to pursue responsible pro-growth policies.

Four, utilize grant financing for IDA and African Development Funds to ensure that countries do not immediately reaccumulate unsustainable external debts.

Under this historic plan, 18 HIPC countries will be immediately eligible for IDA, African Development Fund, and IMF debt forgiveness. The remaining 20 will also become eligible as they reach their HIPC completion point.

The total amount forgiven for the 18 HIPC completion point countries will be $40 billion. The full application of the cancellation of existing debt repayments could amount to as much as $60 billion as countries complete this process.

At the World Bank and IMF annual meetings that ended just a few days ago, shareholders strongly endorsed this important initiative.

The debt relief alone is not enough. We must also ensure that aid is effective. IDA-14, which the U.S. has pledged 2.85 billion over the next 3 years, establishes a two-tiered system to monitor results. One includes country outcomes, and two is the IDA's contribution to country outcomes.

Not only will IDA-14 focus on achieving results, it will also deliver significantly more assistance to countries that are well governed and enact pro-growth policies. The Bank's strategy, the World Bank's strategy, for fiscal year 2006 through 2008 envisions providing the top 10 percent of country performers with nearly

seven times as much assistance on a per capita basis as the lowest 10 percent.

In addition to the emphasis on results, IDA-14 also marks a significant increase in the grant share of IDA. About 31 percent of IDA-14 resources and 45 percent of assistance to the very poorest IDA-only countries will be provided in the form of grants. This represents a 60 percent increase over the IDA level 13. Recognizing that growth is the key to poverty reduction, IDA-14 also encompasses a private sector growth strategy that includes improving the investment climate, especially for micro, small, and medium-sized enterprises, and improving access to basic infrastructure and social services through private sector participation.

Finally, allow me to address the issue of fighting corruption which I have heard about here today. IDA-14 represents great strides in improving transparency. Tranparency is an essential ingredient in fighting corruption because it places accountability with countries and institutions alike. The IDA-14 agreement helps reinforce the World Bank's accountability by calling on the World Bank Board to do such things as disclose Board minutes and strengthen procedures for documenting public consultation processes.

We are firmly committed to every possible effort to help prevent, detect, and punish corruption associated with the development assistance provided by the MDBs. Our efforts to strengthen anticorruption efforts are focused on three levels. First, at the institutional level, we are focused on improving the functioning of MDB internal control processes and increasing the disclosure and accountability of MDB operations.

Second, at the project level, we are focusing on encouraging the MDBs to conduct analysis and design projects that help reduce opportunities for corruption. We want to strengthen the fiduciary standards and help ensure that MDB funds will be well spent.

Third, at the country level, we will focus on enhancing the transparency and accountability of recipient countries' governance systems and disclosure in MDB operations and analysis, and to channel MDB resources toward countries that have good governance in place. Treasury reports annually to the Congress on the country-specific anticorruption programs supported by each MDB and actions taken by recipient countries.

Overall, the MDBs have taken important steps to combat corruption, and the United States is at the forefront of continuing efforts to broaden and deepen those initiatives.

In conclusion, I want to once again thank the subcommittee for giving me the opportunity to testify and for its past support—enthusiastic support, I might add—for this administration's international development programs. We believe we have built a recent record that merits your continued support.

Our collective efforts have a concrete impact on the ability of the poorest countries to generate economic growth and reduce poverty. I look forward to continuing those efforts in this position and will be pleased to answer any questions you may have. Thank you.

Mrs. BIGGERT. Thank you.

[The prepared statement of Timothy D. Adams can be found on page 36 in the appendix.]

Mrs. BIGGERT. Mr. Pittman, you are here to answer questions, also.

Thank you. All right, with that, then, we will go to questions from the committee. Now I will recognize myself for 5 minutes.

I understand that before this weekend, there was some concern that debt cancellation could weaken the ability of the World Bank to fund development because the loss of interest income associated with HIPC debt and because of concerns that donors over time would pledge less money to IDA.

Could you let us know what percentage of IDA resources is represented by the interest payments commonly referred to as the reflows?

Mr. ADAMS. It is about 3 percent of disbursements. If you look at the 2004 numbers, that is about 300 million per year. The disbursements to HIPC was about 3-1/2 billion per year, and total disbursement was about 9- to 10 billion per year. So it is about 300 million per year.

Mrs. BIGGERT. All right, then, could you tell us whether, in fact, the development resources available to all the countries within IDA will shrink following this weekend's debt cancellation agreement?

Mr. ADAMS. Madam Vice Chairman, the additional funds that we put in to compensate for these reflows actually go in for all of IDA, so it is available for HIPCs and non-HIPCs alike, and that was one of the concerns that many of the non-HIPCs had is that they felt that they weren't getting equal treatment. But the additional funds going in to compensate will actually be available, and it is based on performance. So the good performers, irrespective of HIPC or non-HIPC, will have access to this new funding.

Mrs. BIGGERT. And how are those countries chosen, like the non-HIPC countries, or the HIPC; in other words, about approximately how many countries will receive this?

Mr. ADAMS. Of the HIPC?

Mrs. BIGGERT. Yes.

Mr. ADAMS. Well, it is 18 immediately and another 20 that are in the process, that are between the decision point and completion point. Probably about 9 or 10 of those 20 that are in the process could come through in the next year or so. The remaining remains to be seen. It depends on good performance on behalf of those in the HIPC process.

Mrs. BIGGERT. And the other countries that are involved in this right away are countries that pay back their loans or part of their loans?

Mr. ADAMS. Those countries that are not a part of HIPC only benefit because of additional flows that go into the full IDA pot which makes additional money for the non-HIPCs, too. So they also benefit. Again, that is distributed—it is allocated based on a performance system. So the good performers, irrespective of HIPC or non-HIPC, will see additional resources.

Mrs. BIGGERT. Thank you.

I noted that the World Bank's 2006 world development report makes the case that inequality of opportunity sustains extreme deprivation and often weakens prospects for overall prosperity and economic growth. And I might add that this also increases the opportunity for corruption to thrive. So the report goes on to rec-

ommend that increased access by the poor to education, among other things, can reduce poverty. And I think that World Bank President Wolfowitz in his first address to the IMF World Bank annual meeting said this weekend emphasized the importance of improved women's access to education, health, and credit as a key component to fostering sustainable development.

Could you provide your perspective on the role that increased education development assistance can play in fostering economic growth and decreasing the local government corruption?

Mr. ADAMS. Indeed, education is a critical catalyst for development, and it is an issue which this administration is focused on. The First Lady in a recent trip to Africa focused on the issue of young women's education in Africa, and I suspect that we will be hearing more from the First Lady on these issues.

I am firmly committed to women's education, education generally. And, in fact, I was just joking with my staff, I recently sat down with Gene Sperling, who is across the aisle from me and someone who I had many debates with last year during the election year. But there is one thing that Gene and I firmly believe in, and that is education for young women globally and especially in Africa. So I think you will find in the Treasury Department, and me specifically, someone who is very interested in this issue.

Mrs. BIGGERT. Thank you.

My time is about to expire, so I will recognize the gentlelady from New York, Mrs. Maloney.

Mrs. MALONEY. I thank the lady for yielding, and I want to note that Maxine Waters, the author of the debt relief bill, has been a leader on this in Congress, has joined the panel now.

Mr. Adams, Mr. Wolfowitz has stated that fighting corruption will be one of his top priorities at the World Bank, and what reforms does Treasury believe are needed to make the multidevelopment banks' anticorruption units more effective? Specifically does Treasury support the two key reforms in Title 7 of the Senate ops bill that would require, number one, that the MDBs must undertake independent forensic audits when corruption is suspected in their programs or projects; and number two, that the multilateral development banks must cross debar sanctioned firms across all the MDBs and coordinate their sanction and debarment procedures to publicly list debarred firms or individuals? Does Treasury specifically support these two requirements that are in the Senate ops bill, and also, does Treasury support additional funding for the anticorruption units of the MDBs?

Mr. ADAMS. Thank you for the question. I am going to respond generally, and then I am going to ask my colleague to respond to your specific questions. As I said in my opening statement, we are firmly committed to strengthening efforts to eliminate corruption, and I mentioned three aspects of our focus. One is at the institutional level, the other is at the project level, and third is at the country level. And I think prior to my recent arrival to the Treasury, there has been great leadership out of this institution. And I pledge to you here today that you will see additional leadership on fighting corruption.

Mr. PITTMAN. I would just add additionally, I mean, building on Section 581 legislation, which we have been working on for the last

2 years, which we have implemented a number of key reforms. I think the Senate legislation that currently exists intends to build on that. I would say that the cross disbarment is an example of something that we very much agree with, something that we just even this last weekend talked with all of the new heads of the institutions about.

On the forensic audits, the only thing I would say is again, as part—as we put in place all these different pieces, one of the constraints on some of the pieces is the costs to the institution and the trade-offs of the different costs. And so it is just something we have to look at. We have certainly been pushing for transparency and outside auditing. But on some of the specifics, the only possible constraint at times is the cost of additional measures.

Mrs. MALONEY. Mr. Adams and Mr. Pittman, specifically does Treasury support the reform in the Senate foreign ops bill that requires companies and governments to disclose the payments they make, the revenues they receive, and the contracts showing amounts owed to the government by any oil, gas, or mining projects supported by the multidevelopment banks? Those transparency measures—instead of a general statement, can you say specifically, do you support that which was in the Senate bill?

Mr. PITTMAN. I think we are continuing to work with the Senate staff to come up with legislation that we think is consistent with some of our domestic regulations on transparency in the energy sector. One of our concerns—I mean, again, this is something that we have been pushing quite forcefully on. I think if you look at our record of voting, we have not been afraid to vote against many projects because we don't think the tranparency pieces are in place, especially on energy. But what we want to make sure is that when we get into a spot that we are not able to vote for any projects, which essentially locks us out of the discussion at the Board and with some of the different actors and institutions—so, again, it is just a—it is just a question of what we think is the most effective way to implement, I think, what are our shared goals.

Mrs. MALONEY. Specifically does the Treasury support the reform in the Senate foreign ops bill that requires evaluations of MDB personnel to include a factor reflecting the quality of the lending operations they are designing and supervising? In other words, what reforms does Treasury need to combat the oft-cited pressure to lend problem at the MDBs and ensure that projects are better designed and more effectively supervised so that, in fact, the help gets to the people and not some special interest?

Mr. PITTMAN. Again, this particular piece that we have been quite passionate on I think links to something that was mentioned earlier, which is measurable results on the ground of the dollars. And it is true that historically a number of these institutions in terms of the performance evaluations for many of the staff have been based on lending volumes, which we—I think we all agree is the wrong goal. And so one of the things in IDA-14 which we just recently completed negotiations on is now these measurable results will be incorporated into each staff person's review and benefits. And, of course, what that really helps is it also pushes staff away from middle-income countries. You know, you get the best staff then going to work on Niger to work on developmental impacts in

a very difficult environment instead of going to easier countries in the middle-income areas and working on my high-volume lending.

So this is something that we have been very focused on.

Mrs. MALONEY. My time is up, but I certainly hope that other countries that are outside of the HIPC definition that have huge debts will also be considered for debt cancellation.

Mrs. BIGGERT. Ranking Member Mr. Frank is recognized.

Mr. FRANK. Thank you, Madam Chair.

One of the things that is really, I think, not fully recognized is the extent to which we have made real progress here in a very bipartisan way. I know agreement is not news. Unfortunately things get into the media because of their controversial nature, not their inherent importance, and then the public gets the wrong view.

Obviously there are areas where we have some disagreement. Unless you have reversed Mr. Taylor's position, I continue to think that making it a condition of every free trade agreement that people foreswear forever any capital control is a great mistake.

And there also is great agreement. I was especially pleased, Mr. Adams, in your testimony in page 2 your very gracious note acknowledging the work of this committee, members of this subcommittee. The gentlewoman from California has been in the lead on this. We had a bipartisan coalition of myself and—me and the gentleman from Iowa, Mr. Leach; the gentleman from Alabama, Mr. Bachus; and this has really been a case going back to the previous administration, frankly, where first we took the lead in the previous administration, and we have had great mutuality here, and this is a great success, I think, for public policy achieved in a wholly bipartisan way. And again, it is one of these things that hasn't yet been notified—noticed, and that includes the current Chairman of the committee, the previous Chairman of the committee. We have all worked very well together on this.

In fact, I was going to suggest to the Chairman that I think, frankly, this is a time when this subcommittee can take a lot of credit for it. Much of this initiative to both the debt relief and the efficiency improvements, transparency, et cetera, came out of this committee. And so while we are in a situation now where it is important for the Appropriations Committee to move, I am going to suggest to the Chairman of the full committee that we send a letter to the appropriators acknowledging our agreement with what they are doing just to remind people that this is still something within our jurisdiction.

I just have a couple questions for Mr. Adams. And I think it is very important for us to reaffirm here and elsewhere that we agree with your commitment that we will make up whatever loss comes. And as the Chairman's question elicited it is not a huge amount of money. It is well within our capacity to do it. So I think we should make that very clear.

The one question I had on page 2 of the letter to Mr. Wolfowitz, the first paragraph referring to our commitment, U.S.'s commitment, it says you support a congressional bill that would approve the initiative, et cetera. I assume that would be covered by the appropriation; that is, it does not seem to me that we would need a special piece of legislation to carry out our commitments. I wouldn't want us to have unnecessary obstacles. So is it—you would agree

that this is something that you would have the authority to do, as long as we provide the funding?

Mr. ADAMS. Yes. Congressman, your reference to that letter and actually a letter from the subcommittee that was extremely important as we went around both within the G-7 and outside the—within the G-8, I should say, and outside the G-8 to show that we speak with one voice across the aisle and up both ends of Pennsylvania Avenue, that we are committed to doing this. And I will say that it was very important——

Mr. FRANK. So the way in which we carry out is not important. We are committed to do it, and I think that is very important.

Let me ask a question that arose, Mr. McGlinchy noted in this the CRS report. I am sure there is an answer. You just don't want to give it to me. It says in the—we got a CRS report on page 4, which IDA countries are eligible for grants depends on their level of debt distress.

Well, I wonder—I hope you can explain to me how we can avoid a circularity here, because the purpose of this is to take debt distress off these countries. So if we, in fact, make them not debt-distressed by forgiving their debt, do we then penalize them because they are not eligible for the grants? How do we prevent this from being kind of a closed loop? Mr. Pittman.

Mr. PITTMAN. This has actually been one of the most difficult points for us in the last 6 months because 6 months ago we had this agreement on increasing the amount of grants before the debt relief agreement, and that agreement was based on debt levels for many of these countries.

And so we wanted to make sure that the debt relief didn't result in a number of countries that we just gave debt relief to getting grants. And I think the biggest piece is that in the new system at work at the institutions is a forward-looking component of 20 years forward, including sensitivity analysis that includes historic shocks and all these other things. And if in any of those projections going forward 20 years they reach any of these what are relatively conservative levels of debt, they are given grants. And so I think because—the point you raised is quite critical. The grant is the piece that——

Mr. FRANK. The fact is that countries will not find themselves ineligible for grants because they were the beneficiary of debt cancellation. It would obviously be paralyzing if the poorest countries were in that. The ways in which you worked that out we don't have to deal with directly here because—but that reassurance is very helpful.

Thank you, Madam Chair.

Mrs. BIGGERT. Thank you.

Mr. Frank is absolutely right, Mr. Under Secretary, we all—and this is such a bipartisan issue; this is a nice warm-up for your future testimony.

With that, Ms. Moore is recognized for 5 minutes.

Ms. MOORE. Well, thank you so much, Madam Chair.

I was very curious, Mr. Adams, about your testimony. I listened very carefully when you talked about conditions for this debt relief as being countries that were willing to undergo pro-growth strategies and improving the investment climate, and those are very

laudable goals. But I am reminded of how people see these initiatives very differently.

Sometimes when people talk about pro-growth strategies and improving investment climates, they are talking about things like not having a minimum wage to discourage investment, or not allowing union activity, or having lax environmental standards, or privatizing many services that would otherwise be government-related. That country might choose, for example, to have national health care. Would these be barriers? The devil is always in the details. So I am just wondering, where are we going to start in our negotiations with these countries in terms of requiring pro-growth strategies and improving the investment climate?

Mr. ADAMS. Thank you, Congresswoman Moore.

That is meant to look at issues that attract capital, because capital formation, especially private capital formation, is really the key to growth. We can only give so much in aid to countries around the world, but to really put them on a sustainable path, they need to create their own engine of growth. And if you are talking about the elements of that, it really is things that we actually just take for granted here, which are property rights and enforceable contracts, a legal system which is dependable, absence of corruption, so that, as the old saying goes, capital is a coward; it goes where it is treated well, and it flees where it is treated poorly. And we need to make sure that there is an appropriate investment climate that attracts capital and in a sense retains capital.

You know, in many emerging markets around the world, capital is leaving. Some of it is coming to the United States. But it is not being put to work at home. And we need to make sure there is an appropriate climate there so local capital stays locally and is put to work creating jobs and building businesses.

Ms. MOORE. So I am really comfortable if you are talking about some broader things like institutions, like courts and enforceable contracts versus really interfering with those things like labor organizations and things that a country may choose to engage in with its private citizenry.

I do appreciate your testimony, and I want to congratulate you all for your involvement in developing these benchmarks back in July and coming to these agreements over the weekend.

Madam Chair, I yield back.

Mrs. BIGGERT. Thank you for all that you have done on this issue.

The gentlewoman from California is recognized.

Ms. WATERS. Welcome. Welcome. As Barney said, this has been a true bipartisan effort. It has been a pleasure to work with my colleagues from both sides of the aisle for debt relief. And I want to thank Carolyn Maloney along with Barney Frank for their work on this issue. They have been consistent. They have been knowledgeable. And really Barney is one of those Members of Congress that really got me interested when I came here on this issue.

And I would like to thank them for their support on the JUBILEE Act. Again, while we are kind of basking in the glow of success on something around here, let me mention Mr. Leach and Mr. Bachus as being real leaders and original cosponsors of my JUBILEE Act.

You know, Barney, I was thinking about all of the discussion about faith-based initiatives, and a lot of it is very political. But the involvement of the church community, the international church community, the year of the JUBILEE was something to behold. Not only did they weigh in very heavily, they gave such credibility to the work that I give them great credit for the point that we have reached today.

Mr. FRANK. If the gentlewoman would yield, it is the very concept of the Jubilee year comes out of the Bible, and it is one where they really did put their energy where the doctrine was.

Ms. WATERS. That is right. And I learned a lot from that also. So we are on our way. And we have all these people to thank. I even want to thank Bono today, because Bono was in there and had people who never thought they would stand in the same room with him embracing. They talk to me from afar. But it was a sight to behold.

I have just a few comments. It is very difficult to work complicated agreements, and I think we have covered 18 countries in this agreement, and there are about 20 more that could be covered. And I think in my JUBILEE Act I am asking for 50 countries to be covered because I think that we have these other countries who are very, very poor, very much in need, and very debt-laden.

I need to ask a little bit about Haiti and why Haiti was not included in the agreement; the countries Haiti, Kenya, South Africa, Bangladesh, Philippines, Nigeria. And I can see a little bit and I understand a little bit about South Africa and maybe Nigeria, but Haiti I just don't understand, as poor as it is, as debt-ridden as it is, why we can't include them in the agreement. And would you please help me with that?

Mr. ADAMS. Congresswoman, Haiti actually stands a very good chance of being included. There are about a handful of countries that are so-called sunset countries that will very likely qualify for HIPC. Haiti is one of those, and we should know in about 6 months. We are waiting on the data and a number of reports. But we included in a group of countries that we expect and certainly will plan for to be a part of the HIPC process.

Ms. WATERS. So does this mean that Haiti could be included no matter what happens politically, whether or not the elections take place, whether or not there is a new Prime Minister? Is that true?

Mr. ADAMS. They would still—Congresswoman, they would still have to go through the same process that all of to other HIPCs have gone through, or are going through as we speak. But indeed they would be eligible for debt relief, and, again, we should probably know early 2006 on a handful of other countries based on end-of-2004 data.

But I think it is a high likelihood that they will be part of the process.

Ms. WATERS. All right. Speaking of 2006, I have concern that the G-8 finance ministers' agreement will not be implemented immediately. It was reported that IMF debt will not be canceled to the end of the year, and World Bank debt will not be canceled until July of 2006, the start of the World Bank's financial year in July of this year. After the agreement was announced, the Government of Zambia announced plans to use their savings to provide AIDS

drugs to almost 100,000 infected people this year. If the implementation of the agreement is postponed, thousands of Zambians will be unable to receive treatment for HIV at least until next year.

Would you clarify for me the timing of debt cancellation, and will all 18 countries see their IMF debts canceled and thus their debt service payments suspended beginning in January 1 of 2006? Will all 18 countries see their World Bank debts canceled and thus their debt service payments suspended beginning on July 1st, 2006?

Mr. PITTMAN. Congresswoman, I would say this has been a big concern for us for many months now and the different timing at the IMF and the World Bank, and, of course, there is also the African Bank which would be implemented on January 1st, or the African Fund, and that is tied to their fiscal years.

In fact, many—for the World Bank now they have already done their country allocations to the countries for this fiscal year. And so to adjust those allocations which the deal needs to do, they have to wait for the next fiscal year, but frankly, and more importantly, it was to get all the shareholders to agree. We still need to get final votes in both the Boards. That is something we are working very actively on. We would have liked to have seen the agreement be implemented this past July 1st, but at that point it was only a G-8 agreement, so we had to get buy-in from the other shareholders, and that is one of the pieces that has delayed the implementation date.

Mr. FRANK. Would the gentlewoman yield?

Ms. WATERS. Yes.

Mr. FRANK. This is an important point I have not fully focused on, and I will say this: They may be unable to do that, but one of the fall-backs would seem to me to be if any of those countries were in—technically in default, the institutions could simply not take any adverse action. I would assume they have the power so that if they, in fact, don't make the payments, that they could see that nothing bad happened to them.

Mr. PITTMAN. I mean, I think the important piece in terms of the immediate fiscal year is that the 18 countries that we are talking about, and even, in fact, the further 9 that we expect to come in within the next 12 months, their payment to the World Bank is on average less than 10 percent of what they will be getting from the Bank this fiscal year. So, in fact, you know, we will be able, I think, to manage with each country on an individual basis to make sure that you have a smooth transition, and, of course, the complete financial transaction would take place on July 1, 2006. That is certainly our hope as the next target date to get this done.

Ms. WATERS. Thank you very much.

Mrs. BIGGERT. Gentlelady yields back.

The gentleman from Illinois, Mr. Manzullo, is recognized for 5 minutes.

Mr. MANZULLO. Thank you. I think I have more of a comment than a question, but you could comment on my question—on my comment—or question my comment.

I am just wondering what type of a signal it sends to a recipient country of foreign aid that if they fail, that somewhere down the line forgiveness of the debt is available.

I am sure you have thought about that, Mr. Pittman. You are an economist. And I know you think about lots of stuff like that. That is more of a social question, I guess, than a financial question. Either of you care to take a stab at that?

Mr. ADAMS. Yes, Congressman. You know, it is an issue that we actually spent a lot of time this past weekend during the bank fund meetings talking about, among the 20 or 30 different countries around the table. You know, the issue is many of these loans were made decades ago, and the individuals who took out those loans or who were responsible for them at the time have long gone. And in the meantime there have been wars and famines and a variety of other exogenous shocks that have hurt many of these countries such that they simply can't repay. Also, many of these loans aren't really loans in the sense that you and I might think of one. They are highly concessional long-term low interest; in a sense they are grants, but we just call them something else. And part of this process is just recognizing them for what they are and also recognizing the fact that they are unlikely to ever be repaid.

But it is a concern of ours, the signals we send. And it is—we are also accountable for the money we are writing off. It is close to $50 billion. And as one of my colleagues put it this weekend, where did all that money go? Well, unfortunately, some of it was lost to corruption. Some of it was just simply lost to bad projects and bad timing and some of the events I described. But we have to put in place a system that builds positive incentives, not negative incentives. But sir, I certainly share your concern.

Mr. MANZULLO. We—about, I think it was 3 years ago, when there was the coup in Nigeria, and I can't think of the new President of Nigeria, came into a room. Is he—is Nigeria one of the countries seeking debt relief?

Mr. ADAMS. Nigeria actually has a separate debt relief package that we are doing through the Paris Club. They are going to prepay or buy back approximately $12 billion worth of their debt at a 60 percent discount, which is what the market is trading the debt at. It has no cost to the United States. But they have been able to take some of the resources they have earned from oil revenues to essentially buy back their debt at market rates. And we thought this was a pretty good deal for the creditor community to take.

Mr. MANZULLO. Well, you answered the second question on it.

Mr. ADAMS. I am sorry, sir. What was the second question?

Mr. MANZULLO. My second question would have been, why would we give relief to Nigeria when they belong to OPEC and have all the oil reserves? So essentially they are discounting at a fair market price the value of their obligation and buying it back.

Mr. ADAMS. Yes, sir. Well, despite being an oil producer, they are an extremely poor country. They have a population of about 130 million. They have a GDP per capita of probably 360, $350, so it makes them an extremely poor country. They also have a difficult time, a real challenge in getting their oil to market and capitalizing on that natural resource. And as you noted, they have had periods of instability, and so the creditors, the G-8, and others, thought it was an appropriate policy for them to essentially recognize——

Mr. MANZULLO. Get your money while you can.

Mr. ADAMS. To recognize what the marketplace is saying.

Mr. MANZULLO. Thank you. Appreciate it.

Mrs. BIGGERT. Thank you. I think we will go for a second round if people have questions.

Ms. WATERS. I did have a question, if I may.

Mrs. BIGGERT. Okay.

Ms. WATERS. Is it timely? Is that okay?

Mrs. BIGGERT. The gentlelady from California is recognized.

Ms. WATERS. Thank you very much. I am concerned about the conditions—the International Monetary Financial Committee communique mentions the importance of poor countries following sound policies in order to remain eligible for debt cancellation. I am concerned that this could mean that the 18 countries included in the agreement may be required to comply with additional conditions in order to receive debt cancellation. These 18 countries have already implemented economic and governance reform policies in order to qualify for debt relief. They should be able to receive debt cancellation without additional requirements. Are we going to pile on some additional requirements and new hoops to jump through?

Mr. PITTMAN. I think it is a very good question, and frankly, this is something that once again I think in our conversations here in Congress and our conversations with civil society, I think we have all been very much agreed that if a country has made it through the HIPC process and we do in addition the debt relief, that is enough. I mean we certainly want to give new resources based on performance, and that is a key piece of this initiative, is that new resources will be based on performance. But we fought very hard, along with the British Government, to make sure that there was 100 percent cancellation based on the previous conditions that were put in place under HIPC.

Now, that said, there will be kind of a diagnostic taken just to see where countries are at. You do have one or two countries that have had a fundamental change since they got their debt relief under the HIPC initiative. But it is certainly our expectation that that will affect a very small, if any, number of these countries that have already made it through the HIPC process. But we do think it is important to take stock of where the country is, since maybe 2 years ago it was decided that they reached their completion point under the HIPC initiative. But—so there won't be a continual monitoring process, to answer your question, or that is certainly not our expectation and certainly not how we see the agreement.

Ms. WATERS. Well, if I can just continue, despite the fact that you are very much on top of it and aware of what I am talking about, this communique that I am made aware of, somewhat aware of, what were they talking about in terms of other conditions?

Mr. PITTMAN. I think the important piece is that—I mean this isn't a secret—that there were many nonG-8 countries that wanted the debt cancellation to be conditional each year, basically progressive cancellation. Basically, each year you would review and turn the spigot on or off, and this is something that we definitely didn't like. I mean if you think about it, if a country is having problems and having problems meeting conditions, then all of a sudden they have a shock of 500 million which is all of a sudden due in debt as well, that is certainly not the way we saw the program.

That said, it was important for many of these other countries to highlight that we will be continually engaging with these countries and will be monitoring their performance and their governance over time, and I think that is certainly something that we agree with. It is just that we don't agree that the debt relief would be turned on and off as a result of it. So I think it is highlighting the importance without actually linking it to the debt relief.

Ms. WATERS. I see.

Mr. FRANK. Would the gentlewoman yield?

Ms. WATERS. Yes.

Mr. FRANK. You said that was in the IMF. Whose communique was that? Can you tell us? The IMF? So these were IMF member countries, IMF donor countries outside G-8 that had raised this concern? I think you should tell them that that is a not a good way to win friends around here.

Mrs. BIGGERT. Mr. Under Secretary, recent research from the Institute of International Economics indicates that global free trade and the elimination of tariffs would confer income gains of at least $90 billion annually in developing countries, and at that pace the GDP growth is positively correlated with export growth. And this means that, on the average, a 1 percent growth in GDP can translate into a 2 percent decrease or reduction in the number of poor people. So with the progress in achieving free trade through the Doha Round could free an estimated 110 million people from poverty, and related productivity gains could lift an additional 200 million people out of poverty, how do you review the relationship of—between the multilateral development assistance debt cancellation and trade policy?

Mr. ADAMS. Thank you, Vice Chairman. I think the trade agenda is the next chapter in our approach toward development. You know, the President laid out in his speech of about 2-1/2 weeks before the U.N. General Assembly an extremely visionary approach to trade, and that is we would be willing to drop all tariffs and all subsidies if everyone else would too. And the biggest beneficiaries of that would be the poor and developing countries, not only because it allows them to export into the developing world, but to export next door. Some of the highest tariffs and barriers to trade are internal to some of these regions; for example, Africa.

So we will continue to press for another historic agreement following on this historic agreement to do what we have done with debt, to do the same thing with trade.

Mr. FRANK. There goes bipartisanship.

Mrs. BIGGET. Oh, by then I am sure there will be some changing of minds maybe.

Gentleman from Massachusetts?

Gentlelady from—well, I guess we have exhausted our questions so I would like to really thank the panel for being here. Thank both of you, and certainly for your expertise in this issue, and I am sorry it wasn't more controversial. But maybe next time.

So the Chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to

place their responses in the record. So without further ado, this hearing is adjourned.

[Whereupon, at 3:12 p.m., the subcommittee was adjourned.]

A P P E N D I X

September 27, 2005

Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

During a hearing entitled
"IDA-14: Historic Advance or Incremental Change in Debt and Development Policy"
September 26, 2005

Good afternoon. I am delighted to have a chance to discuss today what has turned out to be an historic agreement to retire third world debt which originated in the Cold War. The Bush Administration deserves credit for its leadership in crafting this agreement. I am delighted that the new Undersecretary of the Treasury for International Affairs will testify to us for the first time on this topic. Let me also thank subcommittee Chairman Pryce for holding this hearing on such a timely basis. Subcommittee Vice Chairman Biggert also deserves a great deal of recognition for her years of work on development issues and for her leadership regarding these issues.

It is particularly relevant that we should receive testimony on this issue now. The Financial Services Committee is responsible for authorizing U.S. participation in, and funding for, various multilateral development institutions. This Committee's views are therefore indispensable to, and must be reflected in, any discussion of U.S. support for development assistance through these entities. Our role takes on heightened importance now, when the mechanism for U.S. participation in debt cancellation for the poorest nations on earth flows through the International Development Association (IDA), the International Monetary Fund (IMF), and regional development banks.

Over the weekend, the Boards of the IMF and the World Bank approved an historic package crafted by the Group of Eight countries to eliminate the debt burden of Highly Indebted Poor Countries (or "HIPCs"), which they were unlikely ever to pay back. The deal also eliminates the debilitating round trip of lending to finance interest payments rather than real development in these countries. It uses the existing HIPC framework to ensure that only countries that make real reforms qualify for debt relief. This means that governments must demonstrate commitment to meaningful dialogue with their citizens, and invest in developing the human potential of their citizens in order to qualify for a "fresh start."

The Treasury Department also deserves credit for finding a way to fund the U.S. share of debt cancellation in a way that will not unduly burden U.S. taxpayers. As I understand it, the United States usually disburses its contribution to the International Development Association (IDA) on an as-needed basis. Delivering our contribution through a mechanism known as "accelerated encashment" will permit the interest earnings to accrue to the benefit of IDA. I look forward to hearing more about how this mechanism will work to fund debt cancellation.

The Treasury Department has been working hard to secure global consensus on how to make debt cancellation a reality. With this weekend's historic agreements at the boards of the IMF and World Bank, it is now time to work with Congress which has the Constitution responsibility to guide the appropriations process on this deal. In this context, I would like to signal two questions for consideration as we start the discussion for how to authorize the U.S. contribution to IDA and debt cancellation. First, I have here a letter from the Group of Eight

Finance Ministers to the President of the World Bank, dated September 23, which I would like to introduce into the record. The Finance Ministers say they "will make available immediately additional funds to cover the full cost during the IDA-14 period and these funds will be fully additional to the resources already agreed during the IDA 14 replenishment." It would be good to know whether that text covers accelerated encashment or whether additional funds are expected by the international community from the United States in the future.

Second, I note that little has been said so far in the debt cancellation discussion about the role that anti-corruption programs and trade promotion can have to breaking the lend-and-forgive cycle and to promoting democracy. I would like to underscore the importance of ensuring that any continued U.S. participation in IDA be paired with continued, meaningful reforms to fight corruption in development. We must do everything we can to make sure that development funds reach the communities and entities that need it most, rather than corrupt contractors and local government officials. We must do everything we can to promote local capacity for individuals and firms to tap the benefits of the global market and increase their standard of living through trade rather than aid. I look forward to hearing how the Treasury Department plans to move the ball forward on these issues in IDA-14 and beyond.

OPENING STATEMENT
Vice Chairman Judy Biggert (R-Il-13th)
DIMP Subcommittee Hearing on
"IDA-14: Historic Advance or Incremental Change in Debt and Development Policy"

September 27, 2005

Vice Chairman Biggert: The hearing will come to order.

Good afternoon, and welcome, everyone.

Today's hearing will "review recent developments for debt relief to Heavily Indebted Poor Countries (HIPCs)."

First of all, let me thank Chairman Pryce for holding this hearing. And I would also like to thank my colleagues from this side and the other side of the aisle for their support on this historic decision to provide debt relief to the world's poorest countries.

Canceling Cold War debts is a major step towards integrating the poorest countries on earth into the global economy. But for these indebted and impoverished countries, money alone has never been the answer. Without good government, better education, and sound business practices, the indebtedness and poverty only grow deeper. This time, we have a chance to get it right. The Administration has taken a bold and long overdue step in proposing responsible and sustainable debt relief and development, including the complete cancellation of debt for many of the world's poorest nations.

This hearing is timely, as it follows this weekend's World Bank meetings where the U.S. committed in writing to the debt relief deal. I am pleased that this Committee will work again this year to exercise its jurisdiction and authorize the funds that we have committed to the debt relief deal, which comes in the form of U.S. contributions to the International Development Association (IDA). The first disbursement of these funds is due by the end of this calendar year, so it is now up to Congress to ensure that we deliver on this historic commitment.

America has proven time and time again that it is one of the most generous countries in the world, both on the domestic and international fronts. I reiterate my full support for the Administration's leadership in crafting a successful and historic IDA-14 and debt relief agreement, and I am committed to working with the Department of the Treasury again this year as our country moves toward delivering on its promises.

I should add that in July, the Group of Eight *Gleneagles Communiqué* also highlighted global goals for climate change, energy and sustainable development, and aid to Africa. During meetings, the Group addressed issues related to the global economy, oil, trade, intellectual property rights, regional issues, post-tsunami recovery, counter-terrorism, safety, non-proliferation, and reform in the Broader Middle East. It is my hope that this Committee will take an active role in the coming months to examine the U.S. position and role in promoting many of these initiatives that impact the developing world and the United States. In particular, I support further discussions on the relationship between development, trade, and energy policy.

Two years ago, I offered the authorizing language for IDA-13, which received bi-partisan support and the House adopted by voice vote. The U.S. fund contributions to multilateral financial institutions were provided for in the fiscal year 2004 Foreign Operations Reauthorization bill and are, again, provided for in the fiscal year 2006 bill. For the record, I would like to express my continued support for the U.S.'s financial commitment to IDA, as well as the Asian and African development funds, and for the U.S. position on this year's debt relief and development agreement. In addition, I support the U.S. front-load payment plan for IDA-14, also known as "accelerated encashment." I am interested in learning more details about this elaborate finance plan during today's hearing.

I would like to highlight some of the landmark reforms in IDA that the United States achieved with the leadership of President Bush and the Administration. This year, we witnessed a major breakthrough when world leaders, in addition to continuing to support the use of IDA grants, agreed to finance 100% debt cancellation for the world's poorest countries. The debt forgiveness plan will enable eligible, poverty stricken nations to work toward lifting their people out of poverty, disease, illiteracy, and corruption into an environment that promotes health, education, and equal rights for women.

However, the U.S. financial commitment to this agreement, and future agreements, should not be a blank check. U.S. taxpayers sit on a deficit that was projected to decline before this month's tragic Gulf coast hurricanes. Now, the Federal government's hemorrhaging tab for hurricane relief could reach $200 billion, and rebuilding costs are still unknown. It is therefore important that as we unify to deliver on the U.S.'s commitments to IDA and to debt cancellation, we work toward requiring institutional, project, and country reforms and monitor economic and social progress through measurable results. Now, more than ever, we need to be sure taxpayers funds are being used well.

The World Bank must create a more sound and honest institution by, for example, increasing transparency, public disclosure of documents and policies. Projects and countries receiving IDA funds evaluated by "performance indicators" are now seeking to reduce corruption, increase transparency and accountability, and promote good governance. I believe that it is essential to provide funds for debt relief for the world's poorest countries but only if those countries are also encouraged to meet established goals for the betterment of their citizens, economies, and the world.

Finally, in IDA, the U.S. supports including private sector development initiatives in country assistance strategies. I strongly support this component because it means that private capital flows will be encouraged and spur additional economic growth for developing countries.

WITNESS INTRODUCTION

Mrs. Biggert: We are fortunate to have with us today the U.S. Treasury experts who were on the front lines negotiating this weekend's historic debt and development deal. Congratulations, gentlemen. I am eager to hear your testimony today and anticipate that it will give us a detailed account of the deal and outline our role in helping you to deliver on the U.S. financial commitment to IDA-14. Our witnesses today are:

Mr. Tim Adams, Undersecretary for International Affairs at the Department of the Treasury. Mr. Adams was sworn in two months ago, but he is no stranger to this field. He held several policy-related positions in the Administration of President George H.W. Bush, including positions at the Export-Import Bank, the Treasury Department, and the Office of Management and Budget. Most notably, he served in the White House Office of Policy Development, working on a broad range of economic issues. A native of Kentucky, he holds undergraduate and graduate degrees from the University of Kentucky.

Our second witness, who also hails from the Department of the Treasury, is **Mr. Bobby Pittman**, Deputy Assistant Secretary for Multilateral Development Institutions and Policy. Mr. Pittman has served at Treasury since 2004. Prior to joining Treasury, Mr. Pittman served as Director for African Affairs at the National Security Council, worked as an economist for the CIA, and worked as a consultant with RCF Economic and Financial Consulting. Mr. Pittman graduated first in his class from Florida State University, and received an M.A. in economics from and did doctoral work at the University of Chicago.

Opening Statement
Rep. Carolyn Maloney
Financial Services Committee
Subcommittee on Domestic and International
Monetary Policy, Trade, and Technology
September 27, 2005

I would like to thank our chairman and welcome the witnesses to this hearing.

Mr. Wolfowitz has stated that fighting corruption will be one of his top priorities at the World Bank. The Senate has recently addressed this important question in the foreign operations bill as well. Yet the Administration has remained silent on these key issues. I would like to take the opportunity presented by this hearing to learn Treasury's views on the specific reforms proposed in the Senate bill and to ask what reforms Treasury believes are needed to make the MDBs' anti-corruption efforts more effective.

Specifically, I would like to know whether Treasury supports the two key reforms in Title VII of the Senate foreign ops bill that require:

(1) That the MDBs must undertake independent forensic audits when corruption is suspected in thier programs, projects or portfolios; and

(2) that the MDBs must cross- debar sanctioned firms (across all the MDBs) and coordinate their sanction and debarment procedures to publicly list debarred firms or individuals.

These reform provisions are in my view key to fighting corruption.

Also, I would like to know whether Treasury supports additional funding for the anti-corruption units of the MDBs. In my view, these units are the front line in policing the MDBs and money spent on them represents a sound investment.

Similarly, the Senate foreign ops bill requires evaluations of MDB personnel to include a factor reflecting the quality of the lending operations they are designing and supervising. Does Treasury support that reform? If not, what reforms does Treasury believe are needed to combat the oft-cited "pressure to lend" problem at the MDBs, and ensure that projects are better designed and more effectively supervised?

The World Bank plans to dramatically increase its support for infrastructure projects, by about $1 billion/year, so that infrastructure will account for 40% of World Bank lending (up from 33% in FY 05). Infrastructure, which -- according to the World Bank's definition -- includes energy and mining projects, is a sector that is particularly prone to corruption. The Senate foreign ops bill requires companies and governments to disclose the payments they make, the revenues they receive and the contracts showing amounts owed to the government for any oil, gas,or mining projects supported by the MDBs. Does Treasury support this provision? What transparency and anti-corruption measures does Treasury believe are needed to ensure that an increase in World Bank-lending for infrastructure does not translate into an increase in diverted or stolen development funds?

I look forward to the opportunity to address these issues in the hearing.

Opening Statement
Subcommittee Hearing on Domestic and International Monetary Policy, Trade, and Technology
September 27, 2005
Chairman Deborah Pryce

The Subcommittee on International Monetary Policy, Trade, and Technology meets today in open session to examine the fourteenth replenishment of the International Development Association (IDA). IDA is the concessional facility of the World Bank and is funded with periodic contributions from donor countries. IDA was last replenished in 2002, with nearly $9 billion from donors and another $6.6 billion from the World Bank's resources. Congressional authorization is required for U.S. participation in each IDA replenishment agreement and I am pleased that we have such distinguished witnesses at this hearing to help us fulfill this responsibility.

This hearing builds on a series of hearings held by this Committee on the subject of international development. Most recently, on June 8, 2005, this Subcommittee heard testimony from the Center for Global Development, Jubilee Network and the Bretton Woods Committee on the subject of providing efficient, effective assistance to the world's poorest countries. IDA is an integral part of providing that assistance. In 2004, IDA provided $9 billion in financing for 158 projects in 62 low-income countries and today, we will hear from a distinguished panel of witnesses from the Treasury Department on how IDA can be used to more effectively help the world's most impoverished people.

In our previous hearings, we heard about how IDA projects help curb global unrest by fighting poverty, the leading cause of upheaval and mass migration. Projects funded by IDA also help prevent the spread of diseases, such as HIV/AIDS. By making it possible for people to confront their problems within their own borders, IDA projects help maintain global stability. We also heard how IDA lending advances U.S. trade and economic goals by increasing productivity and improving access to basic education, training, health care, clean drinking water, and other basic necessities. These activities help promote economic stability and ultimately help countries grow to a point where they can become active participants in the world economy and valued trading partners.

IDA's work in developing countries has created new markets for some U.S. goods like food grains, capital equipment, and technology. IDA requires that foreign suppliers to projects it finances be chosen by international competitive bidding. This fair bidding structure has helped U.S. firms sell equipment to World Bank and IDA- financed projects. Over the years, such sales have nearly matched total direct U.S. contributions made to the World Bank and IDA. We are proud of the work done by IDA and we look forward to working on legislation to replenish this institution to allow it to continue channeling vital assistance and enable the United States to keep faith with its commitments and obligations as the world's leading economy.

I was encouraged by the news over the weekend that the World Bank Development Committee endorsed the proposal for 100 percent cancellation of the multilateral debt held by the Heavily Indebted Poor Countries (HIPC). After the executive boards of the IMF and World

Bank approve this historic agreement, we can move forward to implement it and provide relief to the world's neediest people. The approval of this agreement does not mark the end of the process, but is only a big first step. We must work together with the multilateral lending institutions, other donor countries as well as the recipient countries to ensure this debt relief helps alleviate the poverty of so many poor people.

Before I introduce our distinguished witness panel, I would just like to make a brief comment on IDA and some of the reforms the U.S. is pushing for in order to make it more effective.

Loans-to-Grants Debate

With respect to the issue of loans-to-grants, the U.S. has been advocating for more grants rather than loans at the Multilateral Development Bank concessional lending facilities because we feel that grants can be more effective in helping to end the lend-and-forgive cycle. So I was pleased to see in the IDA – 14 agreement that 30% of total IDA assistance will be in the form of grants, representing an 8% increase from IDA – 13.

Performance Measures

The Bush Administration has been advocating performance based criteria for the multilateral development institutions for many years now, at least since the G-8 Summit in Genoa, Italy back in 2000. Thereafter, world leaders have been studying performance standards at their regular meetings. 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. Indeed, it is often unclear what our assistance has accomplished due to vague objectives and too much emphasis on the volume of aid rather than actual improvements in say poverty reduction for example.

To help alleviate this concern, the IDA-14 agreement will assess both progress on aggregate country outcomes, and IDA's contribution to country outcomes. To assess this performance, the World Bank will monitor a set of 14 country indicators and analyze IDA's contribution in the health, education, water supply and transportation sectors. The IDA – 14 agreement also stipulates that World Bank management will work to ensure that 100% of IDA investment projects and development policy loans include indicators connected to a timeline with baseline data and periodic assessments of project and program performance. Using this data, the U.S. would like to channel more IDA resources to the strongest performing countries.

Finally, increasing transparency and public disclosure of World Bank documents and policies has been a longstanding priority of the U.S. The World Bank should be congratulated in its efforts already. For example, the World Bank is beginning to make certain reports available to the public, such as Country Assistance Strategies, Project Appraisal Reports, and other reports along these lines. The IDA – 14 agreement builds on this openness by ensuring that even more reports are available to the public. Reports such as disclosure of the numerical ratings for the Country Policy and Institutional Assessments ratings will be now be available to the public in an easy to understand format. This is important because these assessments are a main component for

determining IDA lending allocations and in the past, these reports were criticized for not revealing how the ratings were calculated. Now, countries will be able to see what areas they need to improve upon and in what areas they are showing improvement.

Perhaps even more important than public disclosure of these reports, the IDA – 14 agreement calls on the World Bank Executive Board to disclose Board minutes; strengthen procedures for documenting public consultation; make interim results of projects during their execution publicly available; and requires an independent audit of internal management controls.

Increasing transparency at the multilateral banks will go a long way toward reducing corruption. Having access to more information will enable outside groups to more closely monitor the flow of funds from the Bank. It is vitally important that we do everything we can to fight corruption in international development because corruption impedes development in so many ways. Not only can bribes affect important decisions made at the lending institutions, but misuse of funds denies the assistance to the people it is meant to help and then, in a final insult; these people are asked to pay back the funds that they never received because of corruption. This Committee, and indeed, Congress is ready to stand with you to assist in any way possible to eliminate the scourge of corruption.

Before the witnesses testify, I now turn to the distinguished representative from New York, the Ranking Member of the Subcommittee (Ms. Maloney), for any comments she may have.

Statement by Rep. Maxine Waters

Hearing on IDA-14 and Debt Cancellation
Subcommittee on Domestic and International Monetary Policy
Committee on Financial Services
September 27, 2005

I would like to thank Chairman Deborah Pryce for organizing this hearing on debt cancellation and the 14th replenishment of the World Bank's International Development Association (IDA). I would also like to thank Under Secretary of the Treasury for International Affairs Timothy D. Adams and Deputy Assistant Secretary of the Treasury for Multilateral Development Institutions and Policy Bobby J. Pittman, Jr., for their willingness to testify today.

In June of this year, the G-8 Finance Ministers reached a bold agreement to cancel the debts of the world's most impoverished countries. I have been working to wipe away the debts that burden poor countries for many years, and I was delighted by the G-8 Finance Ministers' agreement. I joined with several of my colleagues on the Financial Services Committee and wrote to President Bush to congratulate him when this agreement was announced.

The G-8 Finance Ministers' agreement is expected to eliminate an estimated $40 billion in outstanding debts owed by 18 of the world's poorest countries and save them $1 billion in annual debt service payments to the IMF, the World Bank and the African Development Bank. Debt cancellation will allow these 18 countries to reduce poverty and improve health and education for their people. The agreement could be expanded to include as many as 20 other heavily indebted poor countries, if these countries successfully implement economic and governance reforms approved by the IMF.

This past weekend, the IMF and the World Bank endorsed the G-8 Finance Ministers' agreement at their 2005 Annual Meetings. While I am pleased that the IMF and the World Bank endorsed the agreement, I do have some concerns about the implementation of the agreement.

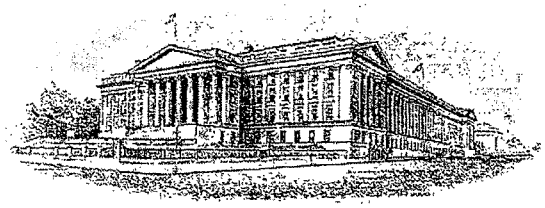
The International Monetary and Financial Committee (IMFC) communiqué mentions the importance of poor countries following "sound policies" in order to remain eligible for debt cancellation. I am concerned that this could mean that the 18 countries included in the agreement may be required to comply with additional conditions in order to receive debt cancellation. These 18 countries have already implemented economic and governance reform policies in order to qualify for debt relief. They should be able to receive debt cancellation without any additional requirements.

I am also concerned that the agreement will not be implemented immediately. It has been reported that IMF debt will not be canceled until the end of this year, and World Bank debt will not be canceled until July of 2006, the start of the World Bank's financial year. In July of this year, after the agreement was announced, the government of Zambia announced plans to use their savings to provide AIDS drugs to almost 100,000 infected people this year. If the implementation of the agreement is postponed, thousands of Zambians will be unable to receive treatment for HIV at least until next year.

I am also concerned about the reforms imposed by the IMF on poor countries as conditions for becoming eligible to receive debt cancellation. While certain conditions such as eliminating corruption and improving transparency are important reforms, other conditions imposed by the IMF may be unnecessary and even harmful for low-income people. Cameroon, for example, has not reached the "completion point" of its IMF-imposed reform program because it has not privatized its water supply. Water privatization is now widely considered to be harmful for low-income people who cannot afford to pay higher prices for clean water. The people of Cameroon should not be denied the benefits of debt cancellation because of their government's unwillingness to sell their water supply system to a multinational corporation.

The G-8 Finance Ministers' agreement, if it is fully and expeditiously implemented, has the potential to wipe away billions of dollars in debts that have impeded the development of poor countries for decades. I appreciate the work of the Treasury Department in the development of this historic agreement, and I am committed to its successful implementation. I look forward to the witnesses' testimony, and I hope they will clarify some of the remaining details of the agreement and address the concerns I have outlined.

I yield back the balance of my time.



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Statement of
Under Secretary of the Treasury for International Affairs Timothy Adams
House Committee on Financial Services
Subcommittee on Domestic and International Monetary Policy, Trade and Technology

Thank you Chairman Pryce, Vice Chairman Biggert, Ranking Member Maloney, and members of the Subcommittee. I am very pleased to be here today to talk about key elements of the Bush Administration's international development agenda, including the historic G8 debt relief initiative and the recent replenishment of the International Development Association.

Before getting into the details, I would like to put the debt relief proposal and the IDA14 replenishment agreement into perspective. Since the beginning of President Bush's time in office, he has pursued an aggressive agenda on development. This agenda is comprehensive and contains key themes, such as a commitment to increase aid, but only with a clear purpose and in countries where it could be most effectively used to stimulate growth and reduce poverty. The agenda also recognizes that the single most important factor to lift vast numbers of people out of poverty is increased trade.

President's Vision for Development

The President has charted a new, exciting course for international development. His groundbreaking approach, which gained international consensus in Monterrey in 2002 by developing and developed countries alike, focuses on results achieved, not on resources spent. It recognizes that developing countries must take primary responsibility for their development by encouraging the sources that produce wealth: economic freedom, political liberty, the rule of law and human rights. Developed countries' assistance plays an important role, particularly in the fight against hunger and disease and in reinforcing political and economic reform. The vision affirms private sector activity as the primary engine of poverty-reducing growth, and accordingly supports reforms and policies that promote trade and investment, which provide the vast majority of financing for development.

To realize this vision, President Bush has delivered concrete results. To fight the scourge of disease, he established a $15 billion Emergency Plan for AIDS Relief in 2003 to treat 2 million sufferers of the disease, prevent 7 million new infections, and provide care for 10 million affected individuals, including orphans. He has pledged $1.2 billion over five years to help eliminate malaria as a major killer of children in Africa, seeking to reach more than 175 million people in at least 15 countries and cut mortality from the disease in half. He has launched an initiative to address Humanitarian Emergencies

in Africa and Break the Cycle of Famine. He established the Millennium Challenge Account to deliver assistance to those countries that are helping themselves – by investing in the health and education needs of their people, fighting corruption, and demonstrating a commitment to economic freedom. Finally, the President has been a champion of opening markets abroad to ensure that American farmers, workers, and business can compete on a level playing field. Through his work and vision, the U.S. has taken a leadership role under the multilateral WTO Doha round negotiations, has passed numerous bilateral and multilateral free trade agreements, and secured the passage of trade promotion authority. An ambitious and successful Doha trade round will spread economic gains – and the developing world stands to gain the most. Historically, developing nations that open themselves up to trade grow at several times the rate of other developing countries. The elimination of barriers to trade and services, including financial services, could lift hundreds of millions of people out of poverty over the next fifteen years.

Debt Relief for the Poorest Countries – Time for Bold Action

Building upon this strong track record of achievements, the Administration launched an ambitious proposal for 100 percent debt cancellation to eligible Heavily Indebted Poor Countries (HIPCs).

For many of the poorest countries, there has been a history of repeated lend and forgive cycles. The HIPCs alone have accounted for nearly 250 debt relief treatments in the Paris Club over the last 25 years. This means that many countries have been getting debt reschedulings, or partial debt reduction, every two or three years. At the same time, the international financial institutions (IFIs) have been increasing their lending volumes to fill up any space created by the temporary debt treatments. Between 1989 and 2002, debt relief to HIPCs totaled $40 billion while new loans totaled more than twice that – $93 billion.

Shifting to grants going forward helps to break this cycle – and this Administration has led a very successful initiative in the IFIs to do this over the last few years. However, there also needs to be a correction of history, a cleaning of the balance sheets so that future generations can work to achieve higher economic growth and poverty alleviation without the heavy burden of unsustainable debt.

To achieve this objective, the President publicly proposed last year a complete write-off of all official debt to the poorest countries. We were the first country to do so. This included as much as $60 billion in HIPC countries' debt owed to the IDA, the AfDF and the IMF.

I want to stress that many Members of Congress, including Members sitting in this subcommittee, along with NGOs, have been extremely supportive and helpful in this campaign from the start. Thus, the U.S. has presented a very united front to the world on this issue, and that has been critical in convincing other countries to join us.

The Historic Agreement

In early June, President Bush and Prime Minister Blair reached agreement on a comprehensive debt relief package, including both the U.S. proposal for 100 percent debt cancellation of debt obligations owed to the World Bank, the AfDF and the IMF for eligible HIPC countries and a commitment to maintain the financial strength of the IFIs. This agreement represented a critical breakthrough in the fight to cancel the debt for the poorest countries. This led to an agreement on June 11th by G8 Finance Ministers, endorsed by Heads of State at the Gleneagles Summit in July, on a debt relief plan that largely reflects the one we began to discuss one year ago. As Treasury Secretary John Snow has stated, "President Bush's commitment to lift the crushing debt burden on the world's poorest countries has been achieved. This is an achievement of historic proportions."

The four key elements of the G8 proposal include:

1. ***100 percent IDA, AfDF, and IMF Debt Stock Relief.*** For International Development Association (IDA) and African Development Fund (AfDF) debt, 100 percent stock cancellation for eligible HIPC countries will be delivered by offsetting gross assistance flows by the amount forgiven. IMF debt relief for eligible countries will be financed from existing IMF resources, not through gold sales.

2. ***Additional Donor Contributions to IDA and AfDF.*** Donors will provide additional contributions, based on agreed burden shares, to offset foregone debt repayments (principal and interest) to IDA and AfDF. Additional funds will be made available immediately to cover the IDA-14 and AfDF-10 period and through regular replenishments for subsequent periods. For IDA-14 and AfDF-10, the U.S. will fulfill this commitment to the MDBs by utilizing flexibility in the timing of planned annual payments and will not require appropriations in addition to requests for those payments.

3. ***Focus on Strong Performance.*** The additional donor contributions will be allocated to all IDA-only countries based upon the existing IDA and AfDF performance-based allocation systems. This approach ensures equity between HIPCs and non-HIPCs – since all countries receive additional assistance commensurate with performance – and creates an incentive for countries to pursue responsible, pro-growth policies. Based upon existing performance levels, we estimate that roughly half of the additional contributions will be allocated to non-HIPC countries.

4. ***Utilize grant financing from IDA and AfDF to ensure that countries do not immediately re-accumulate unsustainable external debts.*** IDA and AfDF donors will develop a forward-looking debt sustainability framework that will determine grant allocations for poor countries. This framework will help ease HIPCs into new borrowing over time based upon their capacity to repay.

Under the plan, 18 HIPC countries will be immediately eligible for IDA, AfDF, and IMF debt forgiveness: Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. The remaining HIPCs will also become eligible as they reach their HIPC Completion Point.

The total amount forgiven for the 18 HIPC completion point countries will be $40 billion in nominal terms, of which IDA accounts for $30 billion, the AfDF $6 billion and the IMF $4 billion. The full application of the cancellation of existing debt repayments could amount to as much as $60 billion as countries complete the process.

At the World Bank and IMF Annual Meetings this past weekend, shareholders strongly endorsed this important initiative. While several technical details, such as the dates for implementation and the cut-off for eligibility, will need to be resolved in the coming weeks, the broad-based support will allow implementation to move forward as envisioned.

Improving Development Effectiveness – IDA-14 Replenishment

Debt relief alone, however, will not be enough to ensure that highly indebted countries jump start growth and meet their development objectives. We must also ensure that the aid architecture effectively helps countries accomplish the goal of lasting poverty reduction through sustainable economic growth. Shaping the financial, policy, and program parameters of the MDB concessional assistance windows is one of the most effective ways to accomplish this. The achievements of the IDA-14 agreement resulted directly from strong U.S. leadership. This is also the case for the recent replenishments for the African Development Fund and the Asian Development Fund for which authorizations are currently pending before Congress. By focusing consistently – even stubbornly – on a few basic principles since the first days of the Bush Administration, the U.S. has advanced the reform agenda to new frontiers on results

management, grants, accountability, and transparency. IDA is one of the most effective delivery mechanisms for assistance to poor countries, and we are encouraged by the strides IDA and the other MDBs have made in recent years to improve their effectiveness.

From a financial perspective, the U.S. pledged to IDA-14 a total of $2.85 billion over three years, representing a $100 million annual increase over the IDA-13 base level. While the U.S. share declined from 20 percent in IDA-13 to 13 percent in IDA-14, the U.S. remains the largest cumulative donor to IDA at 22 percent of total contributions.

The focus on measurable results builds on the progress made in IDA-13. Specifically, IDA-14 established a two-tiered system to monitor results: (1) country outcomes, and (2) IDA's contribution to country outcomes. Tier one captures how IDA is helping countries meet their development objectives on the basis of 14 country outcome indicators, such as under-5 child mortality, time required to start a business, and access to roads, compared to only three under IDA-13. Tier two measures institutional effectiveness to ensure that IDA country strategies are tied to specific results, and that project monitoring and portfolio quality are maintained.

Not only will IDA-14 focus on achieving results, but it will also deliver significantly more assistance to countries that are well governed and enact pro-growth policies. This means that the additional money IDA receives from the G8 debt deal will be allocated according to IDA's performance allocation system, which has one of the most selective systems of any donor in the world, thereby rewarding the strong performers. The Bank's strategy for FY06-08 envisions providing the top 10 percent of country performers with nearly seven times as much assistance on a per capita basis as the lowest 10 percent.

In addition to an emphasis on results, IDA-14 also marks a significant increase in the grant share of IDA. About 31 percent of IDA-14 resources – and 45 percent of assistance to the very poorest IDA-only countries – will be provided in the form of grants. This represents a 60 percent increase over the IDA-13 level. An agreement on very similar grant levels was achieved in the African Development Fund replenishment as well, and a substantial grant window was established for the first time in the Asian Development Fund agreement.

Recognizing that growth is the key to poverty reduction, IDA-14 also encompasses a private-sector growth strategy. The strategy entails two broad objectives: 1) improving the investment climate – especially with respect to micro, small, and medium enterprises; and 2) improving access to basic infrastructure and social services through private sector participation.

As stated in the September 23, 2005 letter from the G8 finance ministers to the President of the World Bank, Paul Wolfowitz, "funding for IDA will continue to depend on donors' convictions of IDA's effectiveness in delivering development assistance, IDA reflows, performance, financing needs, and absorptive capacity of poor countries."

Fighting Corruption

IDA-14 also represents great strides in improving transparency – recognizing that transparency improves development effectiveness by fostering accountability for results, and can aid in donor coordination and donor participation. Transparency is an essential ingredient in fighting corruption because it places accountability with countries and institutions alike. The IDA-14 agreement helps reinforce the World Bank's accountability by calling on the World Bank Board to: (1) disclose Board minutes; (2) strengthen procedures for documenting public consultation processes; (3) make interim results of projects during their execution publicly available; and (4) require an independent audit or assessment of internal management controls and procedures for meeting operational objectives. Following an earlier decision by the Bank's Board, all the scores for IDA's Country Performance and Institutional Assessments (CPIA), by which IDA's allocations are determined, will be made publicly available in 2006.

More broadly, fighting corruption at and through the MDBs is an issue we take very seriously. We are committed to every possible effort to help prevent, detect, and punish corruption associated with development assistance provided by the MDBs. Such corrupt acts are intolerable and, as custodians of taxpayer dollars intended to stimulate economic growth and alleviate global poverty, we have the obligation to help ensure that the MDBs take all the steps necessary to have an effective anti-corruption apparatus.

Our efforts to strengthen anti-corruption efforts are focused on three levels. First, at the institutional level, we are focused on improving the functioning of MDB internal control processes for internal auditing, investigative mechanisms, whistleblower protections, and corporate procurement – and increasing the disclosure and accountability of MDB operations.

Second, at the project level, we are focused on encouraging the MDBs to conduct analysis and design projects that help reduce opportunities for corruption, strengthen fiduciary standards, and help ensure that MDB funds will be well spent.

Third, at the country level, we focus on enhancing the transparency and accountability of recipient countries' governance systems and disclosure in MDB operations and analysis, and to channel MDB resources toward countries that have good governance in place. Treasury reports annually to the Congress on the country specific anti-corruption programs supported by each MDB, and actions taken by recipient countries.

Overall, the MDBs have taken important steps to combat corruption and the United States is at the forefront of continuing efforts to broaden and deepen those initiatives, including ensuring the full effectiveness of new anti-corruption units. The managements of the MDBs are to be commended for the positive steps they have taken in recent years to fight corruption, following the example set by the World Bank. Clearly more needs to be done, however, and we are fully dedicated to these efforts.

Conclusion

I want to once again thank the subcommittee for giving me this opportunity to testify and for its past support for the Administration's international development programs. As I hope my testimony today demonstrates, we believe we have built a recent record that merits your continued support. Our collective efforts have a concrete impact on the ability of the poorest countries to generate economic growth and reduce poverty. I look forward to continuing those efforts and will be pleased to answer any questions you may have.

-30-

September 9, 2005

Support Reform of the Multilateral Development Banks

Dear Foreign Operations Subcommittee Conferees:

We are writing to commend members of the House and Senate Foreign Operations Subcommittees for the important steps taken in H.R. 3057, the FY 2006 Foreign Operations Appropriations bill, to promote critical reforms at the World Bank and regional multilateral development banks (MDBs). We urge you to adopt the Senate bill's extractive industries transparency requirements and Title VII, which establishes accountability and transparency policy goals and requires a report from Treasury on additional means of helping poor countries fight corruption, in the final Foreign Operations conference report.

Leadership by the House of Representatives was critical in adopting important MDB transparency and accountability reforms during the last Congress. This year, bi-partisan support has elevated the importance of effective anti-corruption procedures at the MDBs. In turn, thorough investigative work by the Senate Foreign Relations Committee (SFRC) led the Senate to adopt provisions by unanimous consent that set out policy goals for the U.S. Treasury Department to encourage increased MDB accountability and improved anti-corruption coordination among the relevant institutions. These measures would help to ensure better alignments between staff incentives and project quality, stronger whistleblower protection consistent with the Sarbanes-Oxley Act of 2002, and public cross-debarment of firms and individuals that engage in corrupt or fraudulent activity in MDB-supported projects. Additionally, the Senate bill calls for borrowing countries seeking budget policy support to have transparent budgets and procurement processes, promotes independent forensic audits of MDB projects where fraud is suspected, and states that MDB operations should include "code of conduct" contracts with each borrower, grantee, and contractor that embodies the relevant standards of section 104 of the Foreign Corrupt Practices Act.

The reforms in the Senate bill would also promote the transparency of budgets and revenues derived from natural resources extraction in borrowing countries, facilitating public scrutiny and better citizen participation. Revenues from natural resource extraction often have been misappropriated or mismanaged at the expense of development and poverty reduction; transparency of resource revenues is crucial to combat corruption and ensure that citizens are better able to hold their governments to account for the use of natural resource revenues. Section 6074(c) in the Senate bill, (also included in the 2005 Consolidated Appropriations Act), calls upon the MDBs to require governments to disclose accurately and audit independently all payments and revenues for natural resource extraction as a condition for receiving assistance in the extractive industries sector.

Finally, we strongly support two provisions in the Senate bill which provide funding to further promote resource revenue transparency: 1) $1 million to support the Extractive Industries Transparency Initiative (EITI), an international initiative working to ensure that revenues from natural resource extraction promote poverty reduction and sustainable development; and 2) $1 million to strengthen the capacity of the Iraqi government to transparently manage its revenues,

including oil revenues [Section 6093(b)]. We believe these are important provisions to help foster transparency and accountability in the extractive industries.

It is not only the U.S. taxpayers who lose when funding for development assistance is siphoned off by corrupt governments, individuals and institutions, but also the poor in the developing world. When MDB operations are ineffective and/or plagued by mismanagement and graft, it is the citizens of poor countries who are left to pick up the tab in the form of debt repayments. The MDBs have an important role to play in promoting resource revenue transparency in resource-rich countries, both in terms of ensuring high standards from borrowing countries and companies as well as having effective internal controls to combat corruption and mismanagement of public funds. It is clear the House and the Senate are aligned in understanding that MDBs must be held more accountable for the results of their lending and for the management of the funds themselves. The Joint Economic Committee is conducting an investigation into alleged irregularities in the handling of World Bank finances and weaknesses in internal controls and board oversight. The U.S. Treasury Department, with strong direction from Congress, should work actively with other Member nations and stakeholders to ensure that accountability and transparency reforms are enacted at all of the MDBs.

Hundreds of thousands of our members believe that the abovementioned measures represent the minimum reforms necessary to improve transparency and prevent corruption in MDB operations. **We urge you to include all of the Senate's Title VII language on MDB reform provisions and the extractive industries transparency provisions in the FY06 State, Foreign Operations, and Related Agencies conference report.**

Thank you for your consideration.

Sincerely,

ActionAid International USA

Bank Information Center

CARE USA

Catholic Relief Services

Center for Economic Justice

Center for International Environmental Law

Environmental Defense

Development Gap

Earth Rights Institute

Gender Action

Global Witness

Government Accountability Project

Human Rights Watch

International Accountability Project

International Rivers Network

Pacific Environment

Public Citizen

Letter to the President of the World Bank from the G8 Finance Ministers on the G8 Debt Proposal, Washington, 23 September 2005

Dear President Wolfowitz

G8 Finance Ministers have agreed a proposal to complete the process of debt relief for Heavily Indebted Poor Countries by providing additional development resources which will provide significant support for countries' efforts to reach the goals of the Millennium Declaration (MDGs). This proposal was reaffirmed by G8 Heads of State and Government at Gleneagles.

We believe that this proposal will bring major benefits to IDA's membership; that it will preserve and enhance the Bank's key role in supporting low-income countries; and that it will ensure that substantial additional resources are allocated on the basis of need, governance and the ability to use them effectively for poverty reduction and growth.

The key element of the proposal is that debt relief will be fully financed to ensure that the financing capacity of International Financial Institutions is not reduced. For this reason, in IDA and the AfDF, the G8 has committed, based on agreed burden shares, to cover the full cost to offset dollar for dollar the forgone principal and interest repayments of the debt cancelled for the duration of the cancelled loans. This letter reaffirms and sets out the detail of our commitment.

We will make available immediately additional funds to cover the full cost during the IDA 14 period and these funds will be fully additional to the resources already agreed during the IDA 14 replenishment. For the period after IDA 14, we are committed to cover the full costs for the duration of the cancelled loans and we will make contributions additional to regular replenishments of IDA. The G8 has committed, as a whole, to the contribution it made under IDA 13 (70.19%).

In order to create transparency and accountability, we ask that in future replenishment rounds that the costs of the debt relief initiative and the associated donor contributions be reported separately.

We will each implement these commitments expeditiously in line with our individual budgetary and Parliamentary procedures. Indeed, since our

meeting in June, and the meeting of G8 Heads of State and Government at Gleneagles, a number of us have been able to make progress:

- The US Administration has provided clear support for a Congressional Bill that would approve the debt relief initiative and to authorise "such sums as may be necessary for payment" for the full duration of the cancelled loans.

- Japan reaffirmed its commitment to cover its share of the costs of the proposal and to exercise its best efforts to obtain necessary Diet approvals on the occasion of the regular replenishments to fulfil its commitment.

- Canada has already made an allocation to cover its share of total costs over the next five years and is currently seeking Parliamentary approval to disburse these funds. The Canadian Government will seek Parliamentary approval to disburse funds over the life of the agreement following its normal budgetary conventions.

- Germany confirms its commitments undertaken at Gleneagles. In particular, Germany remains committed to offset dollar for dollar, based on agreed burden shares, the foregone principal and interest payments of the IDA debt cancelled, subject to decisions to be taken by the new German Government and Parliament.

- The UK is committed to cover its share of the costs for the full duration of the cancelled loans. It had already budgeted to pay its share of the debt service costs of these countries until 2015, and it will make a firm financial commitment to the cover its share of the full cost to IDA for the next ten years through a formal Parliamentary process.

- France is committed to cover its share of the costs for the full duration of the cancelled loans. It will seek in 2005 Parliamentary appropriations for commitment for the financial compensation of the lost reflows covering the period to 2015.

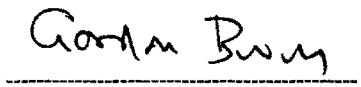
- Italy is committed to bring forward legislation that will authorise payments of its share of the cost for the full duration of the cancelled loans.

- The Russian Federation confirms its commitment to cover its share of the cost for the full duration of the cancelled loans. Necessary steps will be taken by the Government to ensure the budget appropriations will be made in a timely manner.

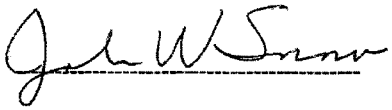
In addition, we reaffirm our commitment to the long-term role of IDA in the international development architecture and in financing development. In doing so we recognise that IDA will utilise a contribution baseline of the real value of donor contributions under IDA 14 as a means of assessing additionality. We also note that funding for IDA will continue to depend on donors' conviction of IDA's effectiveness in delivering development assistance; IDA reflows; and the performance, financing needs, and absorptive capacity of poor countries.

On the basis of our commitments, and the actions we have taken and will take, we firmly believe that this initiative will strengthen the financial capacity of IDA. We strongly believe that this initiative represents a historic opportunity and we hope it will be seized by the whole membership at the Annual Meetings.

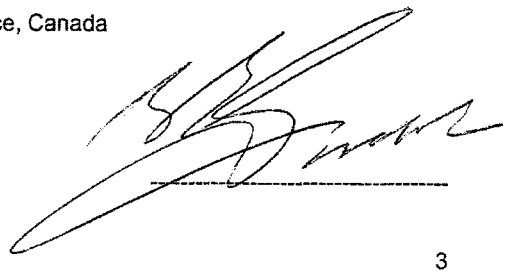
Gordon Brown, Chancellor of the Exchequer, United Kingdom



John Snow, Secretary to the Treasury, United States of America



Ralph Goodale, Minister of Finance, Canada



Thierry Breton, Minister for the Economy, Finance and Industry, France

Caio Koch-Weser, State Secretary, Ministry of Finance, Germany

Giulio Tremonti, Minister of Economy and Finance, Italy

Sadakazu Tanigaki, Minister of Finance, Japan

Alexei Kudrin, Finance Minister, Russia