FY 2002 AUTHORIZATION REQUESTS FOR INTERNATIONAL PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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FY 2002 AUTHORIZATION REQUESTS FOR INTERNATIONAL PROGRAMS

TUESDAY, JUNE 12, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY
AND TRADE,6COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 2:00 p.m., in room 2128, Rayburn House Office Building, Hon. Doug Bereuter, [chairman of the subcommittee], presiding.

Present: Chairman Bereuter; Representatives Roukema, Biggert, Green, Shays, Capito, Sanders, Waters, Frank, Carson, Schakowsky, and C. Maloney of New York.

Chairman BEREUTER. The hearing will come to order.

The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony from the Department of Treasury on the fiscal year 2002 authorization request for the international financial institutions and on activities in Africa of the African Development Bank and Fund, the World Bank, and the International Monetary Fund.

The International Monetary Policy and Trade Subcommittee has jurisdiction over the international financial institutions. The Congress has on its agenda this year the authorization of the following: $165 million in multilateral funding for the Heavily Indebted Poor Countries (HIPC) trust fund, $412 million for the Asian Development Fund, and $30 million for the International Fund for Agricultural Development, (IFAD).

This also will be the third subcommittee hearing this year which will focus significant attention on Africa. The first hearing gave us a private-sector perspective on the activities of the African Development Bank and Fund. The second hearing included a private-sector panel on the World Bank and IMF activities in Africa, with particular emphasis on poverty reduction, debt relief, and HIV/AIDS.

Before introducing our witness from the Department of the Treasury, I'd like to provide the following background on these issues which are important to today's hearing, HIPC debt relief, the Asian Development Fund, IFAD, the African Development Bank and Fund, and HIV/AIDS.

First, the HIPC initiative has provided both bilateral and multilateral debt relief to 18 countries in sub-Saharan Africa. This year, further authorization and appropriation for the multilateral debt is still needed to complete the U.S. pledge of $600 million to the HIPC trust fund.

The Administration has requested $224 million be appropriated in fiscal year 2002, with $165 million to be required for authorization this year.

Second, the Asian Development Fund, of which the United States is a non-regional member, is a concessional arm of the Asian Development Bank. The fund offers loans with a term of 24 to 32 years, with an 8-year grace period. The interest rates are 1 percent to 1½ percent.

This fund is focused on poverty reduction with particular emphasis on health and education. The fund provides loans to 29 borrower countries, including Vietnam, Bangladesh, Sri Lanka, Pakistan, Nepal and Laos. India and China are not allowed access to the fund because of their access to the capital markets and due to the sheer size of their economies.

Last September, the United States agreed to a 4-year, $412 million contribution to the seventh replenishment of the Asian Development Fund. The Administration has requested authorizing legislation for this U.S. commitment of $412 million.

This is approximately 14.3 percent of the total funding of the seventh replenishment.

The Asian Development Fund is capitalized through both contributions from donor countries, as well as loan repayments.

Third, IFAD provides loans and grants for agricultural and rural projects for the world's poor who live in rural areas.

Almost 75 percent of the world's 1.2 billion poorest people live in rural areas.

The mandate of IFAD is to increase the incomes of the small-scale producers and subsistence farmers. Since its founding, IFAD has made $609 billion in commitments to finance 575 projects in 114 countries. Approximately two-thirds of IFAD loans are concessional.

Last year, the U.S. negotiated the fifth 2-year replenishment for IFAD, which required $30 million for contributions as the U.S. share.

The Administration has requested the Congress to authorize this fifth replenishment.

Fourth is the African Development Bank and Fund, which were previously explored, as I mentioned, by the subcommittee in April. The U.S. is, of course, a non-regional member. At the earlier hearing, the subcommittee received testimony that the African Development Bank and Fund are the most fiscally troubled and perhaps the most managerially challenged of all the multilateral development banks.

Since the annual meeting of the African Development Bank and Fund was held at the end of May, the subcommittee is looking forward to the testimony of the Treasury Department on both this annual meeting and to any comments as to how the African Development Bank and Fund is addressing these challenges.

Lastly, the subcommittee conducted a hearing in May which focused on the World Bank and the IMF activities in Africa. Undoubtedly, we will have more hearings on that subject and their activities in other parts of the world.

A critical issue discussed at the hearing was multilateral efforts on HIV/AIDS.

At this hearing, the joint United Nations program on HIV/AIDS estimated that 36 million people are now living with HIV/AIDS. Seventy percent of these people are in sub-Saharan Africa.

We are reminded that on May 11 of this year, the President pledged an initial $200 million to a global trust fund to combat HIV/AIDS, malaria, and tuberculosis. Furthermore, last year, Congress passed legislation, P.L. 106–264, which directed the Secretary of the Treasury to seek to negotiate the creation of a multilateral HIV/AIDS trust fund at the World Bank.

The subcommittee is interested in the status of these negotiations. When Secretary O'Neill testified before the Financial Services Committee on May 22 of this year, he stated that the issue of where this HIV/AIDS trust fund would be housed is still undetermined, or at least it was at that point.

To assist the subcommittee in examining these issues, I'm pleased that we'll have the opportunity to hear from William E. Schuerch.

Mr. Schuerch, is that correct? Schuerch?

Mr. SCHUERCH. Schuerch, yes.

Chairman BEREUTER. The Deputy Assistant Secretary for International Development, Debt, and Environmental Policy for the Department of the Treasury. Mr. Schuerch has served in this capacity since September 16th, 1996, and he has responsibility for formulation of international debt policy and issues pertaining to U.S. participation in the regional multilateral development banks.

Prior to his service at Treasury, Mr. Schuerch was a staff member of the House Appropriations Committee for a lengthy period of time. He received his Bachelor's and Master's degree from the Maxwell School at Syracuse University.

Mr. Schuerch, we welcome you at the hearing. And I'll say that without objection, your written statement will be included in its entirety for the record.

But before your testimony, I turn to the distinguished Ranking Member of the subcommittee, the gentleman from Vermont, Mr. Sanders, for any comments that he might make.

[The prepared statement of Hon. Doug Bereuter can be found on page 30 in the appendix.]

Mr. SANDERS. Thank you very much, Mr. Chairman. And welcome, Mr. Schuerch. It's nice of you to be with us.

Mr. Chairman, as this subcommittee considers the Administration's funding request for various international financial institutions, we should ask whether these institutions are using the funding they receive from American taxpayers as effectively as they should, and whether reforms are, in fact, needed.

I believe there is a growing sense in Congress and the international financial institutions, especially the IMF and the World Bank, that they are not doing the jobs they were established to do, and that they have taken on new jobs and new responsibilities that they are not able to do.

The area of public health and the HIV/AIDS crisis is a case in point.

At a recent hearing of this subcommittee, Dr. Dyna Ahrin of Harvard pointed out that one of the main reasons many poor countries lack the resources they need to fight HIV/AIDS is that for 20 years, the IMF and the World Bank have been forcing poor countries to cut back on spending for public health and that many of their infrastructures for public health are in very bad shape.

Debt relief for the poorest countries in the world is another case in point.

A recent report by the U.S. General Accounting Office found that the IMF and World Bank debt reduction program for heavily indebted poor countries, known as HIPC, is likely to leave these poor countries in just as much debt as when they started the program.

Most of the countries that are now participating in the IMF and World Bank debt reduction program spend more on debt service than they spend on health care for their people and the majority of the people in these countries subsist on less than a dollar a day.

The most urgent needs of the poorest people in the poorest countries are not being met, so that the IMF and the World Bank can get their bad loans repaid.

Might it not be time, Mr. Chairman, to require the IMF and the World Bank to use their own resources to cancel the debts that they are owed by the world's most impoverished countries?

The international financial institutions are among the most powerful institutions in the world, with, in many ways, effective control over the economies of the poorest nations in the world. And yet, these institutions make major decisions that affect the lives of hundreds of millions of the most vulnerable people on our planet, as well as working people throughout the world in total secrecy.

And that's a point that we want to underline.

These organizations meet in total secrecy, making decisions which impact huge numbers of people.

For years, several of my colleagues in Congress and I have offered amendments to legislation calling for the U.S. executive directors of the international financial institutions to use their votes to support reform, only to learn that there are almost never any votes taken at these institutions.

There are no votes and there is little or no accountability.

You can't instruct somebody to use a vote if no votes are taken.

Now it appears that the U.S. executive director at the World Bank and the U.S. Treasury Department may have largely ignored a very specific requirement enacted into law by Congress last year to stop the IMF and the World Bank from imposing user fees on primary health care.

Mr. Chairman, the World Bank continues to support the imposition of user fees for basic health care, despite the fact that this policy has led to a decreased access to primary health care for the poorest people in the poorest countries.

As a result, Congress last year passed legislation requiring the United States executive directors at the international financial institutions to oppose the imposition of user fees on poor people for primary health care and primary education as a condition for World Bank loans and grants.

The conference committee that reported the law also directed that the U.S. Treasury Department notify the congressional committees on appropriations within 10 days if any loans requiring user fees are approved by any of the international financial institutions.

But late last year, the World Bank appears to have approved financing for Tanzania, which included user fees on primary health, albeit, with an exception for poor people.

It also appears that the World Bank did this without opposition from the U.S. executive director at the bank. And it further appears that the U.S. Treasury Department may have failed to notify the appropriations committees that this, in fact, had happened.

Now I say that it appears that these things were done, Mr. Chairman, because, as you know, the proceedings of the board of the World Bank are secret. Their meetings are closed to the public and no minutes of the meetings are publicly available.

Even a summary of the meeting is kept secret.

However, according to a recent report by the Center for Economic and Policy Research, World Bank staff informed the World Bank board that the funding for Tanzania included user fees for health care and no objection was raised by the U.S. executive director at the World Bank, despite the requirement of U.S. law.

And according to the same report, the U.S. Treasury Department failed to notify the congressional appropriations committees of the existence of user fees in the World Bank's financing for Tanzania.

Mr. Chairman, I am troubled that the U.S. executive director at the World Bank and the U.S. Treasury Department may have largely ignored a U.S. law to prevent the imposition of user fees on primary health care in poor countries.

I am also concerned about the entire cloak of secrecy that surrounds decisionmaking at the international financial institutions, which makes it so difficult to know whether U.S. law is, in fact, being followed or ignored.

Perhaps it is time for this subcommittee, Mr. Chairman, to consider what reforms might be necessary to open these institutions to the public and to make these institutions accountabe to the public when we consider the Administration's request for funding.

Thank you very much, Mr. Chairman.

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

Under the subcommittee rules, other Members of the subcommittee are entitled to opening statements of 3 minutes.

Are there Members who wish to be recognized?

The gentleman from Massachusetts, Mr. Frank, is recognized.

Mr. FRANK. Thank you, Mr. Speaker.

I want to focus on what I think is the overriding moral importance of building on the work this subcommittee really initiated in a bipartisan way on the debt relief for the highly indebted poor countries.

Some issues are difficult. Some issues are complex. Taking loan repayments for loans that were imprudently made, sometimes for cold war political reasons, from the poorest people in the world is just wrong. And that's not a complicated question.

I'm glad that we have launched debt relief. Clearly, people are better off with the debt relief than they would have been without it. But I think that is a good argument for going forward with it.

I would ask at this point, Mr. Chairman, to insert into the record a copy of the letter that was sent from the United States Catholic Conference signed by the Cardinal Archbishop of Boston, Bernard

Cardinal Law, who is Chairman of the International Policy Committee, to Secretary O'Neill, urging a better position on debt relief.

Chairman BEREUTER. Without objection, that will be the case.

[The information referred to can be found on page 35 in the appendix.]

Mr. FRANK. Thank you. And I want to stress, we had a debate in this Congress over how much of a tax cut we could afford. Some people wanted to hold it down under a trillion. Some people wanted to go to $2 trillion.

A country which is fortunate and smart and efficient enough to be debating the disposition of a trillion or two dollars, as we legitimately do, oughtn't to be begrudging the relatively small piece of that, a small piece of a small piece of a small piece of that, that would go to alleviating desperate hunger and poverty.

I believe we should be moving to mandate, to the extent that we can, that the international financial institutions get rid of 100 percent of the debt.

I believe that we ought to be getting some of that debt relief done earlier.

People will respond that some of these countries aren't well governed. That is true. But I do not understand how you improve the lot of people unfortunate enough to live in poorly governed countries by taking some of the resources out of those countries and paying off a debt that never should have been contracted in the first place.

That is, I do not understand how it is going to make things better to extract more money from the societies.

I am favor of the policies that try to make sure that we accompany this debt relief with the right kind of guidance. But it is overwhelmingly important that we do this.

We had some skepticism about this. I think those of us who thought that debt relief was morally important and workable have been proven right. It has clearly had some very positive impact. There are some criticisms of debt relief. The criticisms basically come down to, it's not happening quickly enough.

I would note that even as we talk about getting to the 100 percent, the letter from Cardinal Law does mention within the existing framework adopting a principle that has been incorporated into the legislation introduced by the former Chair of this Full Committee, the gentleman from Iowa, Mr. Leach, and the recently retired Senator from Florida, Mr. Mack, which says that in no case should the highly indebted countries be asked to pay more than 10 percent of their government revenues annually for debt relief.

It seems to me that we ought to be able to implement that one right away and, indeed, I think we ought to be able to implement the 100 percent.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you. Are there other Members who wish to be recognized for opening statements.

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

Mr. SHAYS. Thank you. Briefly, Mr. Chairman, I believe that there needs to be debt relief. I don't know if it should be 100 percent, but it should be darned closed to it.

My problem is that we are refinancing loans and extending debt so that they can pay debt. And it strikes me that the IMF must realize that some of this money simply isn't going to be paid.

And I hope we address that.

Chairman BEREUTER. Thank you, Mr. Shays.

Secretary Schuerch, we're ready to hear your testimony. You may proceed as you wish.

STATEMENT OF HON. WILLIAM E. SCHUERCH, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL DEVELOPMENT, DEBT, AND ENVIRONMENTAL POLICY, U.S. DEPARTMENT OF THE TREASURY

Mr. SCHUERCH. Chairman Bereuter, Ranking Member Sanders, Members of the subcommittee, I thank you for the opportunity to testify before you today for the specific authorization requirements requiring action today.

Chairman BEREUTER. Would you pull the mike a little closer, please?

Mr. SCHUERCH. OK.

Chairman BEREUTER. Thank you.

Mr. SCHUERCH. Thank you also for already submitting my written statement for the record.

I'll keep my opening remarks brief and allow time for questions and discussion, a full discussion.

There are three authorizing requests, as you have reiterated, requiring action this year: a contribution to the seventh replenishment to the Asian Development Fund; a contribution to the fifth replenishment of the International Fund for Agricultural Development; a contribution to complete the total U.S. pledge of $600 million to the HIPC trust fund.

We request the authorizations because they represent commitments negotiated by the United States Government that should be adhered to and they support United States' interests.

Secretary O'Neill has said the Administration is working hard to ensure that hard-earned U.S. taxpayers' dollars go to the multilateral development banks (MDBs) more effectively, more efficiently, more accountably, and meet the core objective of improving living standards around the world.

In that regard, you'll see us pushing for more rigorous use of results-based performance indicators, improve coordination among the institutions both at a country level and ensuring the best practice procedures, and better delineation of respective roles of the institutions.

The Administration will strive to focus the banks on a more limited set of activities that yield high-impact productivity and poverty reduction gains.

Now that the Treasury Department's undersecretary for international affairs, John Taylor, has been confirmed, he'll be working closely with the Secretary to develop, implement and coordinate the Secretary's international financial institutions reform agenda.

As many of you on the subcommittee are aware, Africa presents a tremendous challenge in pursuing an effective, efficient, and accountable development agenda. Conflict, natural disasters, the plague of infectious disease, lagging growth, low productivity, unsustainable debt and unfavorable trends in commodity prices are the realities facing the design of a credible assistance program for most of Africa.

But the overall economic picture in sub-Saharan Africa is not all bleak. Average growth in the region was an estimated 3.3 percent in the year 2000, expected to rise to 4.3 percent in 2001.

Those growth rates compare to estimated average growth of 2.6 percent in the 10 years from 1992 to 2001.

The main reason for the improvement appears to be the continuing pattern of reform in many countries, resulting in more flexible exchange rates, better fiscal control, greater economic stability, more open and transparent trade and investment regimes, and further reduction in the direct economic role of governments.

There are still significant challenges, but the Administration is committed to facilitating growth and development in Africa.

President Bush's pledge of a $200 million initial contribution for the new global fund to fight HIV/AIDS and the African Growth and Opportunity Act are important pillars in our partnership with Africa.

Equally important is the continued U.S. leadership in the World Bank and the African Development Bank to shape operations and direct the resources to achieve higher productivity, growth and reduce poverty in the region.

Now that Undersecretary Taylor is confirmed, he'll be striving to achieve the broad goals already laid out by the Secretary, in addition to more detailed policy proposals that are currently being developed and are evolving.

I'm pleased to have the opportunity to hear your views today, provide additional background information that I can, and to stress the Administration's support for the reauthorization request before the subcommittee.

Before closing, I'd also like to apologize for the written testimony's very late arrival.

Thank you.

[The prepared statement of Hon. William E. Schuerch can be found on page 39 in the appendix.]

Chairman BEREUTER. Thank you, Mr. Secretary. We will now proceed under the 5-minute rule.

Mr. Schuerch, you recently led, or at least were involved, I think you perhaps led the delegation at the annual meeting of the African Development Bank group. I'd like to know what you were looking for in the way of results.

But in particular, I wonder if you have any kind of an assessment as to whether or not the reforms undertaken by Bank President Kabbaj have translated into results.

We've had a poor record overall compared to the other funds, but there was some optimism that his leadership would result in positive changes in the management of the bank and in the use of their resources.

What can you tell us in the way of early conclusions about the recent meeting?

Mr. SCHUERCH. Let me directly address the management issues that you've raised at the bank.

First of all, I think we need to recognize that the African bank has a different history than the other institutions. It is one that was created by the regional countries and existed without contribution from developed countries, major developed countries for a considerable period of time.

It got into a situation in the middle 1990s whereby management had got to a state where the major developed countries were unwilling to continue to contribute and, as you know, that resulted in the removal of the president, a modest fund program, and then followed up with significant management reforms.

Mr. Kabbaj was a candidate who came in on a reform agenda. He removed most of the upper management of the institution. He went through a process that scrubbed the bad loans out of the institution, about $2 billion worth of those loans.

And since that point in time, we have moved forward under a new credit policy, one that mirrors the credit policy of the World Bank to support the institution both with a general capital increase for the bank and with a fund increase.

We're now in the process of negotiating and at the annual meeting, or right after the annual meeting, was the first discussion on a new replenishment to be considered for the following budget year.

I think Mr. Kabbaj has been an excellent president of this institution. He had done a very strong job of shaking it up, setting it on a path.

I think the biggest criticism that is there is simply the starting point. It was a very difficult starting point and it takes quite a few years to set an institution on a path in terms of internal governance, but then also to move that forward into assuring that its programs on a country-by-country basis are effective and result in good outcome, development outcomes.

Most of the large development programs take a considerable number of years. So, in fact, many of the early ones under his presidency are only now kicking in.

So I think that, in terms of development outcomes, it is more of a future result that we're looking for, albeit, one that should be starting to kick in now.

In terms of internal governance, I would say that there have been more reforms within this institution than any other development institution and honestly, that they were needed.

I would also tell the subcommittee that he is in the process of looking at a reorganization of the institution to make it further effective.

Thank you.

Chairman BEREUTER. Those are optimistic or encouraging comments. Making reforms at an institution that had been primarily an instrument for distributing money among the African country members is not necessarily a popular move.

To what degree do you think he has gained the support of the African members himself? To what extent do the non-regional members like the United States need to do more to sustain and support and encourage his efforts and make sure that they're not reversed by what might be termed as a tendency to continue to want to go back to the old system of pork barrel distribution, I guess you'd call it?

Mr. SCHUERCH. Let me say that in the capital increase for the bank itself, in the last cycle, we went after something that would assure the donors that we would not have backsliding in this institution.

And in the context of negotiating a capital increase that increased the shareholding of the major donors to 40 percent, we also achieved agreement on what we refer to as a super-majority voting structure.

Basically, any executive director can choose to take advantage of a provision that would require a 70-percent vote of the board.

That basically means that regional countries do not have the capacity within their own votes to change credit policy or push back the major reforms that have occurred.

So I think we have assurance of this very stable base going forward. And, frankly, I think we have less disagreement, more cooperation, and more cohesion and unity in this bank than we have seen in the past by very substantial margins.

This president has been very effective in working his board of governors, but more importantly, on a daily basis, his board of executive directors. And when there are sort of strong initial differences, he goes into individual meetings if that's necessary.

We've seen that happen. We've seen him effective in it.

So I think we actually have not only a change in the bank, but a change in the attitudes from the regional countries.

We have much less contentiousness in terms of, for example, the language of African character of the bank and much more joint dedication toward government structures and performance structures.

In fact, this bank adopted a performance allocation system for its fund very rapidly with strong governance requirements within that allocation system.

Thank you.

Chairman BEREUTER. That's very positive. Thank you very much, Mr. Schuerch.

The gentleman from Vermont is recognized.

Mr. SANDERS. Thank you, Mr. Chairman.

Mr. Chairman, it is more than appropriate that Members of Congress can debate policy and what they believe. But it is not acceptable if Congress passes laws, that those laws not be implemented by this Administration or any Administration.

And for Mr. Schuerch's benefit, let me mention that the issues I'm going to raise right now, I raised quite as strongly several years ago under the Clinton Administration.

So I wonder if you could help me provide us with some information.

Mr. Schuerch, as you know, legislation was passed requiring the Secretary of the Treasury to instruct the United States executive director at each international financial institution to oppose any loan of these institutions that would require user fees or service charges on poor people for primary education or primary health care, and so forth, and so forth.

Mr. Schuerch, to the best of your knowledge, did the World Bank approve funding for Tanzania with a provision calling for user fees on primary health care and did the U.S. executive director do anything to oppose those user fees?

Mr. SCHUERCH. First of all, on the broader issue, obviously, we're in full agreement on the need to comply with legislation as signed into law.

On the specifics of the Tanzania case, as I understand it, the discussion in the bank board was a discussion about the poverty reduction strategy paper.

That document is not a bank document. That document is a document that is a new document that we use for countries themselves to put together their own plans, nationwide plans with a lot of citizen participation for how they want to spend resources from a whole wide range of donors and specifically also savings under the HIPC program.

So there was no vote in the World Bank board on a document that is owned by the government of Tanzania. There was a discussion of that document and I'm told that it does include user fees. But it is not a document or vote, because there was no vote that directly applies World Bank money.

The U.S., discovering the user fees, had a discussion, a bilateral discussion, with the government of Tanzania, I'm told, and raised the questions of the user fees.

The government told us that they permitted and would exempt the poor from the effect of the user fees. And my understanding is that within the context of that planned program, the medical officers that are involved in making the decisions can, in fact, waive those fees.

Mr. SANDERS. We have a couple of problems here. And again, this is not certainly just the work of this Administration, but previous Administrations as well.

As I understand it, Mr. Schuerch, you're telling me there was no vote. But there very rarely is a vote.

Isn't that the problem?

Mr. SCHUERCH. Not in this case. I mean, I'll get to the broader issue of votes and how they do and don't happen.

But in this case, there was no loan from the bank that was directly relevant at this time. There may be one that we will see in the future. But what we had was a planning document of the government of Tanzania that was created and was being discussed.

So there was no financial decisionmaking action related to a lending activity of the bank.

Mr. SANDERS. Because there was no loan at this point.

Mr. SCHUERCH. Yes.

Mr. SANDERS. And will the Administration oppose any loan that includes user fees for health care and education?

Mr. SCHUERCH. This Administration has the same policy as the past Administration and it is consistent with the legislation and with this subcommittee's views on user fees.

The answer is yes.

Mr. SANDERS. The answer is yes. OK. Could maybe you give this subcommittee some advice?

Several years ago, we had the United States executive director to the IMF before the subcommittee. And what we learned there is, in fact, that despite hundreds and hundreds of very important decisions, there were only a handful of votes.

Now can you advice this subcommittee as to how they could get policy implemented at a time, say, with the IMF, where the U.S. has veto power if votes are not, in fact, taken? And further advise this subcommittee, if you might, about the issue of transparency and openness and what the Administration will be doing so that the Congress, the American people, and the people of the world will actually have an understanding of the kinds of discussion that takes place currently behind closed doors.

Chairman BEREUTER. The time of the gentleman has expired. But you may answer fully.

Mr. SCHUERCH. Thank you. I think what I need to say is that before explaining the votes issue, there is a long history of the U.S. Government pushing for transparency in the institutions and there are a lot of specifics.

I'll give you examples right now.

We're starting a new International Development Association replenishment. Those discussions could be characterized by some as private discussions. We've made a new set of decisions. Documents that are provided to the IDA deputies at the request of the deputies are now on the World Wide Web so the public sees precisely what the deputies see.

A summary of each meeting is made public on the World Wide Web as well.

The draft, penultimate version of the draft donors report will go up on the World Wide Web for people to see and comment as well.

I think by any standard, that's extraordinary transparency and openness. Comments that are made by the public on those documents are summarized and brought to the deputies' attention and in a meeting we had in Ethiopia last week, we were told there were 400 sets of such comments on the first set of documents that were made public.

So progress is being made, albeit not in every area. We are pushing forward on a policy that will encourage significant more numbers of policy documents and draft documents and country assistance strategies to also be public.

Let me step back and address the votes issue.

I think it is a little bit of an oversimplification to say that we don't have votes in the institutions. But we certainly don't have votes in the nature that you do on the floor of the House or the Senate, where you have a tote board that has everybody's name and shows their voting on it.

We take seriously all of the legislative directions that exist, and there are now a considerable list of them. I'm sure over 20 or more. And in each case, what happens in the board is there's a discussion about a particular loan.

Each chair in that board is able to express their views. They don't say yes or no, per se. But it is clear from their views as to what their position is pretty much.

So generally, there are not close votes, if you will.

What we do in the institutions is we record a United States vote, even though no other government is recording a vote. So that indicates that we are opposed or an abstention or a pure no vote, in those cases where legislation requires it.

Mr. SANDERS. You record a vote when votes are not being taken. Is that what you're saying?

Mr. SCHUERCH. When there is a discussion on a loan that we have reason to object to because of legislation and for other reasons, we request that the record show that the U.S. is abstaining or voting no, yes.

Mr. SANDERS. I ask the indulgence of the Chair.

How often would you say in the last 5 years will the record show that the United States has voted no?

Mr. SCHUERCH. We give a report to the Congress annually that goes down a long list of these.

I would be shocked if in a 5-year period we're not in the several hundred range.

Mr. SANDERS. That you have recorded votes of no on several hundred occasions?

Mr. SCHUERCH. Over 5 years, yes, I would be sure of that, yes.

Chairman BEREUTER. Thank you very much. The gentleman from Wisconsin, Mr. Green, is recognized.

Mr. GREEN. Thank you, Mr. Chairman.

At the end of May, you led the U.S. delegation to the African Development Bank Group annual meeting.

Could you describe what the objectives were for the Administration at that meeting and what progress was made on those goals?

Mr. SCHUERCH. Let me say that annual meetings are sort of interesting events.

They are, in one sense, business meetings of an institution. But in another sense, they are much broader than that.

So we go to such a meeting. Each government has an opportunity to give an official statement, a speech, usually 5 minutes or so, that gives them the opportunity to present a set of views.

There's not a decisionmaking forum at that point in time. Most decisions that are discreet decisions are made in the boards of executive directors or are made in the context of replenishment increases.

So we went with an agenda to continue to support the President's reform efforts in this institution, to continue to push it to coordinate particularly well with the other institutions. They are working on a further memorandum of agreement. It has been agreed to, and it is being worked on some more with the World Bank.

There is also one being discussed with the International Fund for Agricultural Development.

So to encourage them to continue on their reform program, to consult with them about their reorganization plans, which I think will be voted on the board in later July in the bank, and to push on the performance allocation system and on the sort of improved development effectiveness issues that are there.

Mr. GREEN. You made some reference, as you have elsewhere, to the President's reforms at the African Development Bank.

What tangible results have you seen from those reforms? What can we sort of hang our hat on in terms of progress being made?

Mr. SCHUERCH. You came in a little later. I had mentioned that in the process of reforming this institution, he had basically removed the upper management of the institution and replaced it.

There has also been a considerable staff change since that at lower levels. I also said that they took the portfolio, which included significant numbers of problematic loans and scrubbed it and closed those loans off to the tune of as much as, I think, $2 billion over a several-year period.

He has been very serious about credit policy and has aligned it with World Bank credit policy.

So we no longer have countries who shouldn't be borrowing hard loans, getting hard loans from this institution. We no longer have hard-loan countries getting soft loans from this institution, as did occur in the past.

At this point, he has been more focused on internal management and not on quality of implementation than probably any other president of an institution.

Mr. GREEN. Good. Thank you. Thanks, Mr. Chairman.

Chairman BEREUTER. Thank you, Mr. Green. And the Secretary also mentioned that a super-majority vote can be required by any member, which would then mean that the African members could not carry a vote on their own. They'd have to have the support of at least some of the non-regional members, as I understand it.

The gentleman from Massachusetts, Mr. Frank, is recognized.

Mr. FRANK. Thank you. Mr. Schuerch, as I understand your statement, the position of Secretary O'Neill on behalf of this Administration is to be supportive of the HIPC program, as far as we have approved it, and to hold off on whether or not to go to the 100-percent phase based on, what?

Mr. SCHUERCH. I think you're accurately characterizing where the Secretary is.

He's come in. We have a program that has essentially had about 18 months since its first appropriation. We have now 23 countries to decision points. We only have two countries to completion points.

We have significant success with the help of this subcommittee and this Full Committee to get full funding last year, in particular, and we're moving forward.

We have a request in front of you.

Mr. FRANK. No, no, Mr. Schuerch. Maybe I was inarticulate.

Mr. SCHUERCH. OK.

Mr. FRANK. The question was, what will be the factors that will be taken into account by the Secretary in deciding whether to support an increase in the amount of debt relief?

I'm familiar with the history that you're recounting. You do it well, but this ain't the History Channel.

So what will lead to a decision about whether or not to go further? What factors will he be looking at?

Mr. SCHUERCH. I don't know that I can fully second-guess the Secretary's thinking, personally.

Mr. FRANK. OK. That's a good answer.

Mr. SCHUERCH. But I think that's probably the fairest thing.

I think that as he has focused on implementation, they are committed to the existing program.

Mr. FRANK. No. OK. I don't mean to be rude, but we have 5 minutes and I know what the program is.

I'll tell you, I'm a little troubled by this and I'm glad to hear this affirmation of the existing program, because I read of the appointment of Ann Kruger to be the number-two official of the IMF. And as is appropriately the case, the U.S. Government, in power at a time when such an appointment is made, has some influence over it. And it was represented that Ms. Kruger was appointed with the support of this Administration.

I was troubled to read that she had expressed opposition to the debt relief program. Now that may have been a misreporting. If so, I think it would be useful to clear it up.

But are you familiar at all with Ms. Kruger's position? Was she accurately reported as being opposed to debt relief?

Can you enlighten me at all on this?

Mr. SCHUERCH. I didn't catch that particular article. But if one observes closely, there are differences in views among a range of officials on a range of issues.

That's not surprising.

The President of the United States, however, has expressed himself on the HIPC program with full support.

Mr. FRANK. All right. That's reassuring. I would ask you, if we could, and maybe you can elaborate in writing, what are Ms. Kruger's views.

If, in fact, it is accurate that she has been opposed to this, it would be disturbing to me if the Administration would have sponsored her appointment to the number-two position in the implementation of this.

Let me ask you my final question.

I quoted from a letter that Cardinal Law of Boston has sent on behalf of the Catholic Conference to Secretary O'Neill advocating that even without any upgrade in the amount of debt relief, that we should adopt the principle that Mr. Leach and former Senator Mack put forward, that in no case should there be a greater than 10 percent of government revenues drained from the HIPC countries to debt relief.

What's your response to that proposal from the Catholic Conference?

Mr. SCHUERCH. I've seen the letter and of course it does support, as you said earlier, legislation.

Mr. FRANK. Mr. Schuerch, please don't just restate. We only have 5 minutes.

Mr. SCHUERCH. OK.

Mr. FRANK. I know what the letter said. What do you think about the 10-percent proposal?

Mr. SCHUERCH. We think it is an artificial trigger. There are many poor countries that do not qualify for HIPC that are using more than 10 percent of their debt service.

There are many HIPC IDA countries that you would have to expand. Otherwise, there would be questions of fairness. There are differences among countries about how much revenue they raise out of their populations as well, which directly affects essentially the denominator of that equation.

Mr. FRANK. So you can't support a 10-percent limit on some poor countries, because that would be unfair to other poor countries that aren't getting the benefit of it?

Can't we kind of level it down instead of leveling up?

Mr. SCHUERCH. Yes, there is an equity question among poor countries when we've already given deep debt reduction to sets of countries that get them well below the average for other poor countries on debt service.

Mr. FRANK. Well, but you're comparing the HIPC to the non-HIPC.

I presume by putting people in the HIPC countries, we have all agreed that this is a separate set of countries and the comparisons ought to be made between and among those countries.

So I would differ with your notion that you decide this by looking at the HIPC versus the non-HIPC. We've made a decision as to who ought to be in the HIPC. What about within the HIPC countries?

Is there some great inequity? If you apply the 10-percent limit to all the HIPC countries, how could some of them then be treated unfairly? By definition, they wouldn't be paying more than 10 percent.

Mr. SCHUERCH. Well, we've used three different sets of indicators on how to qualify countries for HIPC. And you could pick any one of them and you would have quite varied performance against that.

So you can pick 10 percent and if you want to align everybody on that basis, you get one result that is different than exports and so forth.

Mr. FRANK. Right. And what the Cardinal is suggesting——

Mr. SCHUERCH. But we've blended it.

Mr. FRANK. What the Cardinal is suggesting on behalf of the conference is that you use multiple criteria, but that in no case would it go above 10 percent.

And again, your comparison of the HIPC to the non-HIPC seems to me, frankly, you're looking for a reason to say no to it, because we all agree that they're going to be treated, the HIPC countries, differently.

And what he's saying is, yes, use whatever criteria you're using, but then put on a kind of a fail-safe—but in no case shall it be more than 10 percent of the government's revenues.

What's the objection to that?

Mr. SCHUERCH. The objection is an inequity objection as we look across the countries.

But, no, we have not supported it. That was put forward in the course of the legislation last year.

Mr. FRANK. Right.

Mr. SCHUERCH. Congress fully considered it and did not include it in the final legislation, either.

Mr. FRANK. I understand that. You're very good at stating facts as an alternative to opinions, and I appreciate that.

But the purpose of this hearing is to try and get some policy opinions. You say it wouldn't be equitable, but——

Mr. SCHUERCH. Well, an example. If you take one country that is raising revenue from its people at a significant rate and actually does the collection on its tax rates, so it has a good revenue flow, you get a very different reaction than one who does not.

Mr. FRANK. So that's why you think it might be a disincentive?

Mr. SCHUERCH. In fact, you end up benefiting the one that fails to collect revenue.

Mr. FRANK. So you think this might be a disincentive in revenue collection?

Mr. SCHUERCH. I'm sorry. I missed that.

Mr. FRANK. Do you think it might be a disincentive with regard to revenue collection? That would be a policy argument I'd be interested in.

Mr. SCHUERCH. I'm not sure I'd argue it that strongly.

Mr. FRANK. All right. I'd appreciate it if you would also in writing elaborate on the reasons for rejecting that suggestion from the Catholic Conference.

Mr. SCHUERCH. We'll come back on the record. In fact, given that you've put his letter in the record, if you'd allow us to put our response to his letter in the record.

Mr. FRANK. Yes, that's why I put it in. At that point, since it is in writing, you can give as long a history as you want. That will be OK. As long as you get to the other point as well.

Mr. SCHUERCH. OK. Thank you.

[The information referred to can be found on page 43 in the appendix.]

Chairman BEREUTER. Thank you, Mr. Frank.

Mr. Shays has returned and he's on the list. Mr. Shays, you're recognized for 5 minutes.

Mr. SHAYS. Pass.

Chairman BEREUTER. Well, then, Ms. Capito is gone. And so, Mrs. Roukema is next.

Mrs. ROUKEMA. Pass.

Chairman BEREUTER. And she passes. Mrs. Biggert?

Mrs. BIGGERT. Thank you, Mr. Chairman.

Mr. Secretary, on page 4 of your testimony, you emphasize the need for multilateral development banks to focus on productivity-led economic growth. And you note that education is a necessary complement to growth.

Can you be specific about what it is that you'd like to see the MDBs do different from what they are already doing relative to education?

Mr. SCHUERCH. I think there's been a fair bit of press on this productivity issue. Some have tried to align it or contrast it to poverty alleviation. In retrospect, we might have written a speech or two slightly differently than they were written so that poverty alleviation words were also in the speech.

We do not see the conflict between the concepts in any sort of extreme way. In Africa, in particular, we're dealing with countries that are under $800 per capita. In many cases, under $400 per capita, very poor areas.

If you look at how one is going to raise people out of poverty, redistribution is simply not a significant way to achieve that result. You have to grow the economy of the country.

There are a fair set of issues about equitable growth that do deserve consideration. But fundamentally, you have to get growth rates up significantly higher than population rates in order to achieve that in Africa.

Education is clearly one of the identified sort of main building blocks of productivity that the Secretary has focused on repeatedly.

Thank you.

Mrs. BIGGERT. Could you just be a little more specific in the kind of education that you envision?

Mr. SCHUERCH. Well, we have always for development purposes, I think you'll find the whole development community primarily focuses on primary education and women and girls' education as the most effective components of where to target in discrete resources.

The other area is obviously, we focused on basic health as well.

Mrs. BIGGERT. OK. So, then, in practical terms, what would an emphasis on productivity mean for future directions of the bank and the fund?

Mr. SCHUERCH. Well, it is an emphasis on working with the core economies to get growth rates up. It does exclude investment in social areas. But one has to get an economy going. That means open trading regimes. That means floating exchange rates. But it also means focusing strongly on performance when one puts resources in, as well as the policy reform structures that are there.

Mrs. BIGGERT. Thank you. Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you.

The gentlelady from Illinois, Ms. Schakowsky, is recognized.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. I have a couple of questions.

But I just want to say, as a relatively new Member of this Congress, it weighs so heavily on me when I realize how little money relative to the wealth of this country and the budgets that we propose and the tax breaks that we give, how relatively little money it would take to address problems that have been acknowledged even as security issues, like the AIDS pandemic around the globe, and that we have to struggle so hard over what are, in fact, minuscule amounts relative to many other things.

Mr. Sanders referred to U.S. law that now requires United States executive directors to the international financial institutions to oppose any loan that includes user fees.

Is there any intention by the Administration to delete Section 596, which does have that requirement?

Mr. SCHUERCH. The appendix of the budget pretty typically goes through and strikes, and has for decades, most of the insertions that are policy-related in the Congress on various provisions. This one, along with, I think, virtually all the others in the foreign aid bill, have been struck in the appendix.

That striking is not reflective of an intent by the Administration to change the policy.

Ms. SCHAKOWSKY. Well, can you declare, then, that it is the intent of the Administration to maintain that policy?

Mr. SCHUERCH. I can declare two things. I cannot declare that we will support it being reinserted. But I can declare that we intend to support that policy, yes.

Ms. SCHAKOWSKY. So, then——

Mr. SCHUERCH. The reason for the two, which seems odd, is simply most administrations desire to have flexibility across a range of policy issues, so don't support inclusion of broadly this kind of directive language.

But it is not indicative of an intent to change the policy.

Ms. SCHAKOWSKY. And how would that policy be played out when there are discussions about user fees, whether or not there are votes?

Does that mean—maybe that question was answered, but I didn't quite get it. Are there instructions for our representatives to proactively argue against those?

Mr. SCHUERCH. We do instructions sort of loan by loan as decisions come up that require a vote.

So there is standing policy instructing executive directors that the policy of the United States Government is against the imposition of user fees for the poor on basic health and education, and we do look at it, when we find strategy papers or policy documents, as well as loans, and do directly talk with EDs and have them intervene, yes.

Ms. SCHAKOWSKY. Although my understanding in the Tanzania case, in fact, there was no effort on the part of the United States that we could see to oppose.

Again, if I'm asking the same question, I'm sorry.

Mr. SCHUERCH. Yes, we're covering some of the same ground, but very quickly, the discussion in Tanzania was not about a loan from the World Bank. It was about a planning document of the government of Tanzania.

So it was not subject to a vote.

Ms. SCHAKOWSKY. No, no, I understand that. I guess I'm trying to understand the difference between the spirit and perhaps the letter, and if we are serious about trying to have a policy for these countries not to impose user fees.

It seems to me so critical. All the evidence is in that when those fees are added, that the access to that particular education or health service plummets.

And so, it would seem if it is part of our furtherance of a policy, that we want to make sure that we advocate at every moment that we can.

And so, I understand the differences that you pointed out. I'm just trying to understand what people are instructed to do.

Mr. SCHUERCH. Let me just have a minute, because not only was it raised in the discussions at the bank in this instance, but the U.S. directly went to the government of Tanzania to have a discussion about this issue, because it was a decision of the Tanzanian government to put it in its planning document. It was not a World Bank document or imposition.

The result of that discussion was they pointed out that user fees in this particular case were waivable by the medical profession for the poor so that the document itself and their plans would enable them to proceed in a way that was totally consistent with the language of the U.S. law.

Ms. SCHAKOWSKY. And getting back to how the language of the law may be changed.

When you say that you want to maintain, or the Administration wants to maintain flexibility, what does that mean vis-a-vis user fees if we don't say it—what is so binding—not so binding, but what is so limiting in terms of applying U.S. policy by including language that says, we're against user fees?

Mr. SCHUERCH. I spent 15 years working on staff in the Congress on appropriations bills and virtually every year, you look at the budget appendix and all legislative language on policy instructions is struck in the proposed new budget, virtually.

So there's no difference in what's been proposed that way. The Congress has the right, obviously, to reinsert any of that language as they choose and often does. But all I'm telling you——

Ms. SCHAKOWSKY. Would that be opposed? Would reinsertion of that language be opposed by the Administration?

Mr. SCHUERCH. I don't know. When we get a document, we'll take a look at it. It is not a major focus of the Administration. It is not a strong difference in policy here at all.

So I would be surprised if people spend a lot of effort on this subject in terms of opposition.

Ms. SCHAKOWSKY. Thank you.

Mr. FRANK. Would the gentlewoman yield?

Ms. SCHAKOWSKY. Yes, I would.

Mr. FRANK. I would appreciate that. I appreciate the spirit of that. And if you would send us a list of other parts of the President's budget we should feel free to ignore, I would be glad to have it.

[Laughter.]

Chairman BEREUTER. Thank you, Mr. Frank.

The gentlelady from West Virginia—all right. She's not here.

The gentlewoman from New York, Mrs. Maloney, is recognized.

Mrs. MALONEY. Thank you. Several Members have mentioned Secretary O'Neill's call for improved living standards through increased productivity as the primary objective of our Treasury's work through the MDBs.

Yet, many of the Members have raised questions and, actually, the GAO raised questions as to whether many of these countries can realistically expect economic growth, and certainly sustained economic growth, because of the large amount of debt that they carry, even with the enhanced debt relief initiative.

So I believe that there's an argument that can be made that to truly spur economic productivity, as Secretary O'Neill has testified that he wants, that we truly need 100 percent debt relief to make that happen.

So he must not be truly sincere about increasing productivity, unless you're willing to increase debt relief.

Mr. SCHUERCH. That's an interesting argument. But I also would observe that countries with the greatest sort of—what should I say?—per capita debt, are also those that are most productive.

The issue is not debt. It is the effective use of capital for development and for growth. You need a return on your investment.

The difference between—well, let me put it this way.

Mrs. MALONEY. Isn't it hard to have a return on your investment when you have so much debt that you don't have money to invest, even the needs that the countries have.

Mr. SCHUERCH. The HIPC program, when it is fully implemented, has a very deep debt reduction. We have gone through years of reduction. We've done bilateral aid reduction at 20 percent and 30 percent and 50 percent and 67 percent, and then we went into HIPC in 1996 and we started doing debt reduction above that level for the multilaterals and for bilaterals at 80 percent as well. And now under the enhanced program, we're up in the 90 and above.

The bilateral aid is 100 percent reduction. Literally, we're looking at a world where the only remaining debt for some of these countries is that portion which has not yet been reduced at the bank and the fund, and the other multilaterals.

So I would suggest to you that if you look at the quantities that are being reduced by country by country, and we're more than happy to come up and work with your staff on that, that you will find the depths of this debt reduction quite extraordinary.

Mrs. MALONEY. Thank you.

Chairman BEREUTER. Ms. Carson, we'll recognize you. But we're about to start a new round. Do you want to go at this moment?

If you're ready, please proceed.

Ms. CARSON. Well, I would appreciate that very much, Mr. Chairman.

Chairman BEREUTER. You're recognized.

Ms. CARSON. Thank you very much. And I apologize abundantly for my delay. And thank you very much for having this hearing.

I hope I'm not redundant, given my delay in getting here.

But I'd like to ask, when the World Bank board discussed poverty reduction strategy papers for Tanzania, the staff acknowledged the concern of nongovernmental organizations about user fees on health care.

Yet, based on a World Bank staff summary of the board meeting, the U.S. representative did not raise the issue of health user fees. Nor did she oppose the PRSP for Tanzania as required by U.S. law.

You may have already addressed that. If you have, I apologize. But could you give me a brief response?

Mr. SCHUERCH. Let me very quickly tell you that U.S. law does not require the U.S. to do this on a PSRP. It does require the U.S. to respond on user fees and loan instruments.

A PSRP is a document of the Tanzanian government and it was subject to a discussion in the bank. The U.S. Government did talk to the Tanzanian government directly about the user fee element. We were assured that, in fact, it could be waived and would be waived in the medical community for the poorest people.

So, actually, their intent was in compliance with U.S. law.

But in terms of bank policy, when there is an individual loan that comes up, we will have an opportunity to take a close look at it and assure that user fees are not being imposed on the poor.

Ms. CARSON. OK. Most of the nation is poor, anyway. So that would be kind of hard to distinguish between who's poor and who isn't, given the high rates of poverty.

Help me. Did we pass a law last year, an amendment to the appropriations bill, that denied America's physicians to support user fees?

Mr. SCHUERCH. There is an amendment in the appropriations bill on user fees that requires that U.S. executive directors vote against when they are imposed on the poor, yes.

Ms. CARSON. So it just says we would vote against it if it came up.

Mr. SCHUERCH. Yes.

Ms. CARSON. So is your department, State Department, opposed to user fees, then, in general?

Mr. SCHUERCH. I'm sorry. I missed that.

Ms. CARSON. Are you opposed to user fees?

Mr. SCHUERCH. Yes. The Administration is fully in agreement on that policy with the Congress, yes.

Ms. CARSON. Thank you.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you very much.

I'd like to begin a second round of questioning. I want to go to the HIV/AIDS fund, where the Congress, by an enactment last year, directed the Treasury to attempt to negotiate the fund to be housed in the World Bank.

Of course, we can't mandate that, but our direction was to negotiate in that direction.

One of my concerns is that a decision could be made that the fund be housed and managed by the United Nations. I don't think they have the capacity to adequately do that in a timely fashion.

Now what the legislation proposed is that it would have a separate board of donors, which of course would include the United Nations or its affiliates and the other major national donors.

The G–8 meeting is coming up soon in July in Genoa, where I think the final decision will be made on that issue. My understanding is that the Administration has not decided at least what they will push for in that respect.

But I would like to urge that regardless of what the United Nations' involvement may be, that the World Bank be the delivery instrument.

I think it is essential that the funds flow no later than 6 months after the Genoa meeting. If we have a long delay, we are dramatically reducing the ability to do good with the funds that would be provided by the various donors.

So my hope is that you'll take this message back from this Member and I will try to solicit bipartisan support urging the Administration to push hard for the delivery mechanism to be the World Bank, regardless of how the donor board is constituted.

Is there any clarification you'd like for me or anything you'd like to comment upon?

Mr. SCHUERCH. I'd like to comment. One, I'll assure you that we will certainly take the message back, clearly. And also the message that you bring from your colleagues on the subject.

I would say it is complex, a more complex problem and issue than one sort of immediately thinks on the surface.

We've been dealing in an international context with the views of a range of U.N. institutions and officials, as well as a range of G–8 countries and government officials and differences within countries as well.

Obviously, the G–8, in terms of where we deal, is financial ministries and treasuries. Development ministries don't have the same sort of say in that process. Development ministries and foreign ministries have a greater say in the U.N. process.

But we've heard your message. I would say there's a discussion about sort of policy control versus sort of the fiduciary role of handling the resources and vouchering and so on and so forth.

I think when we're done, it is clear in my mind that we will have a board that is making independent decisions. There are discussions about how strongly medical doctors and technicians and professionals in the medical field will be vetting proposals and making those decisions. And the U.S. feels strongly on that respect.

Chairman BEREUTER. The donor board is a complicated issue and we need the best expertise we can generate there.

But I am really more concerned about the delivery mechanism, because I think the delivery mechanism is existent in the World Bank.

And if we didn't use it, we'd be probably not using a resource that we really need to consider. And we will also provide this advice to the State Department as well, of course, because you point out that the foreign ministers or the Secretary of State will have a significant role in this at the G–8.

Mr. SCHUERCH. Let me be clear about your communication, because it's actually important to the issue.

When you say that as a delivery mechanism, do you mean that you desire the financing for the trust fund, in fact, to go through World Bank loan processes as opposed to simply the World Bank acting as the fiduciary agent to, in fact, handle all the money and resources to do that job?

They're quite different things.

Chairman BEREUTER. It's the latter.

Mr. SCHUERCH. Thank you. OK.

Chairman BEREUTER. I'd like to move to Asia. The U.S. currently has arrearage of $128 million to the Asian Development Fund.

How do the arrearages accumulate? And what effect does that have on our influence on the operations of the fund? I know I've pretty much exhausted my time here, but please proceed if you care to respond.

Mr. SCHUERCH. Let me say, it is a question that I sort of lose on either answer.

Arrears are important. And we've spent much of the last 5 years in dealing with the banks, reducing U.S. arrears from a billion and a half dollars down to about $335 million 2 years ago and then losing ground the last 2 years.

Five years ago, our arrears in the Asian bank were about $350 million. Today, they're about $128 million.

There's no question that having arrears hurts influence. And there's no question you can get to critical levels in that respect.

When I first took this job in IDA, the U.S. had a full year's worth of arrears and IDA 11 was affected. And you couldn't have a policy discussion, because the entire discussion in the international arena was, would the U.S. pay out that IDA?

We are not important as it is to clear arrears at that level of critical situation in the Asian bank. We have substantial influence. We've been very effective in that regard. But I don't want to leave the impression in the context of being sort of equal shareholders with the Japanese that it isn't critical we live up to the commitments we've made.

It is absolutely critical and the resources are needed for the poorest application to the fund for the poorest people in the region.

Thank you.

Chairman BEREUTER. Mr. Sanders, I'm going to ask for your indulgence for just one follow-up question here, and to the minority as well as Ms. Biggert.

Why did the Administration not request authorization to pay the arrears for the Asian Development Fund?

Mr. SCHUERCH. The arrears are fully authorized. We did not request an appropriation this year for any of arrears.

Chairman BEREUTER. I see. Let me redirect the question, then. Why did the Administration not request appropriations?

Mr. SCHUERCH. I think it was a matter of coming in in the first year, taking a look at a broad budget envelope and picture, and deciding that it was inherently important that the U.S. live up to the commitments it has made internationally. And that was focused on primarily the annual commitments that had been made.

To some degree, the existing arrears were viewed as an existing situation carrying in from a prior administration. And arrears in every case have been requested by the Executive Branch.

So that there's a sense that the causes of lack of financing coming through the budget process.

I think it is best for me to say that it has been a policy that—Treasury is very much aware of the arrears and very much aware that in the context of looking at the next budget and the following budgets, that we have to face up to the arrears situation. And that means working on a clearance plan.

We'll be doing that process during the fall, working into the next budget.

Chairman BEREUTER. Thank you very much. I thank my colleagues.

The gentleman from Vermont is recognized.

Mr. SANDERS. Thank you. Thank you, Mr. Chairman.

Two questions. One, a general question on the IMF and the other a question about AIDS and the pharmaceutical industry.

Mr. Schuerch, there are many economists and many Members of Congress who think that in many ways, basic IMF policy of austerity measures, forcing countries to open up their economies, forcing cutbacks in education, health care, nutrition, has had a disastrous impact on low-income people throughout the world and has primarily benefited the wealthy and the powerful and multinational corporations.

Russia is an example which some people say is an ahistorical situation where never before in history has a first-world country descended into third-world poverty under the guidance of the IMF.

The support of the IMF for dictators like Suharto and dictators in Africa who did terrible things to their own people and left with huge debts that these people now have to pay out, is another example of some of the failed policies of the IMF.

Given the fact that throughout the world, IMF policy has often resulted in a lowering of the standard of living of poor people, while the wealthy in those countries and multinational corporations have done well.

Is the Administration giving any thought to rethinking some of the basic tenets of IMF policy?

Mr. SCHUERCH. I wouldn't want to leave anyone with the impression that the Administration shared your views on the subject of the history of the contribution of the bank and the fund to development since the war.

Mr. SANDERS. Well, why don't you tell me? Do you think the IMF has done a pretty good job for the poor people around the world?

Mr. SCHUERCH. I think that if you look at the range of developing countries and you look at the range of countries that are far better off today than they were before, that one can find in the last 50 years there's greater growth in the world in a whole range of countries than has ever occurred before in the history of the country, including in Africa and other locations, yes.

Mr. SANDERS. You use the word growth. That wasn't what I asked you.

I asked you about what happens to poor people who, in fact, are generally the bulk of the population in those countries.

You could have growth and the rich could make out like bandits. You've got an increase in hunger and economic misery.

So growth was not the question. My question was——

Mr. SCHUERCH. Well——

Mr. SANDERS. Excuse me. My question was, IMF policy regarding the poor people in Africa, Asia and Latin America.

Are you going to tell me that you think that those policies have basically been a success?

Mr. SCHUERCH. I will tell you that life expectancy in Africa has increased, prior to the HIV/AIDS crisis, by probably 15 or 20 years over the last 50 years. That's an overstatement. But there have been a substantial improvement in life expectancy in Africa.

If you look at the social statistics as opposed to financial statistics, you will find a better picture actually prior to HIV/AIDS than you might think, yes.

Mr. SANDERS. So your basic conclusion in general is that you think that IMF has done pretty well by poor people around the world?

Mr. SCHUERCH. I don't think that the IMF can be used as sort of the whipping boy for everything that hasn't happened that we wish would have happened better around the world, nor the World Bank, either.

Mr. SANDERS. OK. My second question deals with the pharmaceutical industry.

As you know, there has been a lot of controversy about the role of the pharmaceutical industry in dealing with the AIDS crisis in Africa and elsewhere in the sense that, for many very poor people, the kinds of prices that the pharmaceutical industry charges to deal with AIDS is prohibitive.

What is the Administration's thoughts about how we can get the pharmaceutical industry to substantially lower the prices in Third World countries?

Mr. SCHUERCH. I think the Administration welcomes the actions that the pharmaceutical industries have been taking in reducing price.

I think I want to probably stop there on the subject.

Mr. SANDERS. Well, as a result of massive public pressure in countries like South Africa, the pharmaceutical industry has made some concessions. We will see how they play out.

My question is that's what the people in South Africa have demanded. What about the United States Government?

What are we demanding?

Mr. SCHUERCH. I don't know what has happened in terms of private conversations with pharmaceutical industries. I am unaware of a public policy of the U.S. Government that would have consistent demands of that nature.

We have watched public pressure move pharmaceutical companies to reduce prices on HIV/AIDS drugs and it is broadly across Africa, but it is a very significant change in prices. That is a welcome change at this point in time.

But as a matter of U.S. Government policy, we have, to my knowledge, not been demanding that change.

Mr. SANDERS. I would appreciate if you could write to me. It is one thing when the people of Africa stand up and demand lower prices and the industry responds to that.

But I think the United States Government should be joining the people of Africa and elsewhere in demanding lower prices.

I would appreciate it if you could write to me what the official policy of the Administration is regarding the pharmaceutical industry and how they're going to respond to the AIDS crisis.

Thank you very much.

Mr. SCHUERCH. Thank you.

Chairman BEREUTER. Mr. Sanders, would you like that response in the record?

Mr. SANDERS. Yes.

Chairman BEREUTER. We'll ask unanimous consent that the Treasury response to this question and to the letter presented by Mr. Frank be a part of the record when their responses arrive.

The gentlelady from Illinois, Ms. Schakowsky, is recognized.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman.

I wanted to follow up a bit on the AIDS issue and get to what, in fact, has been U.S. policy. I wanted to check and see if it still is U.S. policy.

The Executive Order, I think, is still—or if there is another one or whatever—that deals with supporting compulsory licensing and parallel importing of drugs.

That is, the United States not standing in the way of countries that would choose to either manufacture or shop the world market for lower-cost AIDS drugs.

Is that still the policy of our Government?

Mr. SCHUERCH. I'm not sure I can answer completely. I'm not aware of a change in an executive order in this area. Certainly, sort of open price competition has always been the policy of the Government in this regard on drugs.

But I'd have to give you something more accurate for the record, I think, on this.

Ms. SCHAKOWSKY. OK. The United States has forgiven the HIPC debt owed to it bilaterally. But the HIPC countries owe billions more to most of the world. It's about a $14 billion face value. And of course, that is the money that we're talking about that could go to anti-poverty measures, including fighting the AIDS pandemic and education.

Do we have a posture of trying to convince the rest of the world, our allies, to forgive any debt, forgive that debt?

Mr. SCHUERCH. I'm not sure how the $14 billion figure works particularly. But let me say, the HIPC program is fundamentally a multilateral program where all the major donor countries have worked together, the G–7 has worked together. It started with a lot of U.S. leadership and then agreement of the G–7 and the Cologne Summit.

So, basically, we have a situation where the major donors—France, Germany, Japan, Italy, U.K.—are all reducing bilateral debt as the U.S. is reducing bilateral debt.

There is some difference among them on whether they're doing 100-percent debt reduction above and beyond what's necessary for meeting the HIPC criteria. But overwhelmingly, it's a joint effort and, frankly, the U.S. has had an advantaged position in the sense that it has less exposure to a lot of the HIPC countries, because its' aid programs moved to grant programs many years earlier than some of the Europeans.

But, yes. We have used it on what we call a burden-shared basis to include not only other governments, but well beyond the mean multilateral development banks and the IMF, to a list of 20 or so smaller subregional multilateral organizations as well.

Ms. SCHAKOWSKY. When Secretary O'Neill was here, and I only saw part of that, and I don't have that testimony in front of me, as I recall, he said things about HIPC country debt that, something like, we didn't force them to take it, and he talked about moral hazard.

How would you characterize our attitude in general about multilateral debt reduction? Or at least the Secretary's position on it.

Mr. SCHUERCH. I'm not sure precisely what he said about multilateral debt in that hearing.

I was here. There was in the hearing a fair bit of miscommunication, I would say, on sort of the numbers of debt reduction *vis-a-vis* certain proposals that are out in public and whether it is 22 countries or 41 countries or 36 countries or 32 countries, and there was a fair bit of that back and forth.

Ms. SCHAKOWSKY. That's why I'm really more interested in getting how you would characterize our policy in general toward debt reduction.

Are we looking toward moving toward 100 percent debt reduction? Do we think that's unwise?

Mr. SCHUERCH. What we're doing at the moment as a matter of policy is fully committed to the existing enhanced HIPC initiative and fully committed to getting it implemented in a quality way so that we have both the reduction and the economic reform components of it.

It is actually pretty much of 3-year program. We have money requested this year that we'll be fighting for in the budget process and that we're asking for a component for authorization.

So it is really a focus on implementation.

The question of whether one moves further is a question that's a reasonable policy question to take a look at it, and we'll have to do that as we go forward.

I would not project a decision one way or another on that particularly. I think there are a lot of concerns about it. There are many people who have expressed support for it. But we have not, to my knowledge, gone on the record formally against or for at this point in time, other than to say, we would hate to have a move to 100 percent get in the way of actually implementing what we have at the moment and we're trying to implement, which is very deep and substantial debt reduction for the same countries.

Ms. SCHAKOWSKY. Thank you. Thank you, Mr. Chairman.

Chairman BEREUTER. Mr. Secretary, thank you very much for your testimony today. I think we've made some progress. And we look forward to your responses into subject issues that have been brought up by two Members.

I think it's a good start today to learn more about the Administration's initiatives.

I appreciate the clarification on several issues. For example, with respect to the issue related to Tanzania and what happened there.

Mr. SCHUERCH. Thank you very much. I appreciate the opportunity.

Chairman BEREUTER. Do you have any final comments?

Mr. SCHUERCH. No. Not broadly, other than I think, one, we need to recognize and thank this subcommittee and the broader Full Committee for their role both in HIPC and in pushing pressures publicly to move forward on the HIV/AIDS initiative as well.

It has really been a shared experience and a positive one.

Chairman BEREUTER. Thank you very much. We'll close on that compliment.

The hearing is adjourned.

[Whereupon, at 3:30 p.m., the hearing was adjourned.]

A P P E N D I X

June 12, 2001

Opening Statement
Congressman Doug Bereuter
Subcommittee on International Monetary Policy and Trade
FY2002 Authorization Requests and the activities of the African Development Bank, the International Monetary Fund and the World Bank in Africa
June 12, 2001

The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony from the Department of Treasury on the FY2002 authorization requests for international financial institutions and on activities in Africa of the African Development Bank and Fund, the World Bank, and the International Monetary Fund (IMF). The International Monetary Policy and Trade Subcommittee has jurisdiction over the international financial institutions. The Congress has on its agenda this year the authorization of the following: $165 million in multilateral funding for the Highly Indebted Poor Countries (HIPC) Trust Fund, $412 million for the Asian Development Fund, and $30 million for the International Fund for Agriculture Development (IFAD).

This also will be the third subcommittee hearing this year which will focus significant attention on Africa. The first hearing gave us a private sector perspective on the activities of the African Development Bank and Fund. The second hearing included a private sector panel on the World Bank and IMF activities in Africa with particular emphasis on poverty reduction, debt relief and HIV/AIDS.

Before introducing our witness from the Department of Treasury, I would provide the following background on the following issues which are important to today's hearing: HIPC debt relief, the Asian Development Fund, IFAD, the African Development Bank and Fund, and HIV/AIDS.

First, the HIPC Initiative has provided both bilateral and multilateral debt relief to 18 countries in Sub-Saharan Africa.
This year, further authorization and appropriation for the multilateral debt is still needed to complete the U.S. pledge of $600 million to the HIPC trust fund. The Administration has requested that $224 million be appropriated for FY2002, with $165 million required to be authorized this year.

Second, the Asian Development Fund (the Fund), of which the United States is a non-regional member, is the concessional arm of the Asian Development Bank. The Fund offers loans with a term of 24 to 32 years and an eight-year grace period. The interest rates are 1 percent to 1.5 percent. This Fund is focused on poverty reduction with particular emphasis on health and education.

The fund provides loans to 29 borrower countries, including Vietnam, Bangladesh, Sri Lanka, Pakistan, Nepal, and Laos. China and India are not allowed access to the Fund because of their access to the capital markets and due to the sheer size of their economies.

Last September, the United States agreed to a four year $412 million contribution to the Eighth replenishment of the Asian Development Fund. The Administration has requested authorizing legislation for this U.S. commitment of $412 million. This is approximately 14.3 percent of the total funding of the Eighth replenishment. The Asian Development Fund is capitalized through both contributions from donor countries as well as loan repayments.

Third, IFAD provides loans and grants for agricultural and rural projects for the world's poor who live in rural areas. Almost 75 percent of the world's 1.2 billion poorest people live in rural areas. The mandate of IFAD is to increase the incomes of the small-scale producers and subsistence farmers. Since its founding, IFAD has made $6.9 billion in commitments to finance 575 projects in 114 countries. Approximately two-thirds of IFAD loans are concessional. Last year, the U.S. negotiated the fifth two-year replenishment for IFAD which requires $30 million for contribution of the U.S. share. The Administration has requested that Congress authorize this fifth replenishment.

Fourth is the African Development Bank and Fund which were previously explored by the Subcommittee in an April hearing. The U.S. is a non-regional member of this multilateral financial institution. At the earlier hearing, the Subcommittee received testimony that the African Development Bank and Fund are the most fiscally troubled and perhaps the most managerially challenged of all the multilateral development banks. Since the annual meeting of the African Development Bank and Fund was held at the end of May, the Subcommittee is looking forward to the testimony of the Treasury Department on both this annual meeting and to any comments on how the Africa Development Bank and Fund is addressing these challenges.

Lastly, the Subcommittee conducted a hearing in May which focused on World Bank and IMF activities in Africa. A critical issue discussed at the hearing was multilateral efforts on HIV/AIDS. At this hearing, the Joint United Nations Program on HIV/AIDS estimated that 36 million people are now living with HIV/AIDS. Seventy percent of these people are in Sub-Saharan Africa.

We are reminded that on May 11th of this year, President Bush pledged an initial $200 million to a global trust fund to combat HIV/AIDS, maleria, and TB. Furthermore, last year, Congress passed legislation (P.L. 106-264) which directed the Secretary of the Treasury to seek to negotiate the creation of multilateral HIV/AIDS trust fund at the World Bank. The Subcommittee is interested in the status of these negotiations. When Secretary O'Neill testified before the Financial Services Committee on May 22, 2001, he stated that the issue of where this HIV/AIDS trust fund would be housed is still undetermined.

To assist the Subcommittee in examining these issues, I am pleased that we will have the opportunity to hear from William E. Schuerch, the Deputy Assistant Secretary for International Development, Debt, and Environment Policy for the Department of Treasury. Mr. Schuerch has served in this capacity since September 16, 1996 and he has

the responsibility for formulation of international debt policy and issues pertaining to U.S. participation in the regional multilateral development banks.
Prior to his service at the Treasury, Mr. Schuerch was a staff member of the House Appropriations Committee. He received his bachelors and masters degrees from Syracuse University.

Mr. Schuerch, we welcome you to this hearing. Without objection, your written statement will be included in its entirety into the Record. Before your testimony, I turn to the distinguished Ranking Member of the International Monetary Policy and Trade Subcommittee, Representative Bernie Sanders, for any comments that he may have.

Hearing on Authorization Requests for International Financial Institutions and Activities of the African Development Bank, the World Bank and the IMF in Africa
Subcommittee on International Monetary Policy and Trade
Statement by Rep. Maxine Waters
June 12, 2001

I would like to thank Chairman Doug Bereuter for organizing this hearing and for his interest in the activities of the World Bank and the International Monetary Fund (IMF) in Africa. I am also grateful to Bill Schuerch, the Deputy Assistant Secretary of the Treasury for International Development, Debt and Environment, for his willingness to testify before this subcommittee today.

The Enhanced Heavily Indebted Poor Countries (HIPC) Initiative was developed by creditor countries, the IMF and the World Bank in 1999 to provide debt relief to the world's poorest countries. In order to fulfill the U.S. commitment to the HIPC Initiative, the Treasury Department has requested authorization for an additional $165 million in contributions to the World Bank HIPC Trust Fund. The Treasury Department has also requested an appropriation of $224 million for debt relief in fiscal year 2002. I strongly support both of these requests, and I thank Mr. Schuerch for his commitment to this program.

Nevertheless, I am deeply concerned by the failure of the IMF and the World Bank to provide adequate debt relief to heavily indebted poor countries. While the United States agreed to cancel 100% of the debts of these poor countries, the IMF and the World Bank merely agreed to reduce poor countries' debt stock to 150% of their annual exports. The twenty-two countries that have begun to receive debt relief under the HIPC Initiative have seen their debt payments reduced by an average of only 27 percent. Sixteen of these twenty-two countries are still spending more money on debt payments than they are on health care.

The IMF and the World Bank assume that the HIPC Initiative reduces poor countries' debts to sustainable levels. However, they base this assumption on economic projections that are unlikely to be realized. The U.S. Government Accounting Office in its June 2000 report on the HIPC Initiative concluded that some of their assumptions may be too optimistic. For example, the IMF and the World Bank assumed that Uganda's export earnings would grow by over 9% per year for over 20 years. However, Gerard Ssendaula, the finance minister of Uganda, told the *Financial Times* on June 5, 2001, that the HIPC Initiative is unlikely to meet his country's needs because the international price of coffee -- one of Uganda's main exports -- is considerably lower than it was when the IMF did its calculations.

The IMF has also imposed structural adjustment programs on poor countries as a condition for debt relief. These structural adjustment conditions have required poor countries to cut government spending on poverty reduction programs, impose user fees on health and education services, and privatize water supplies and other public utilities. These policies usually result in the denial of health care, basic education and other essential public services to the people who need them the most.

On April 26, 2001, I introduced H.R. 1642, The Debt Cancellation for the New Millennium Act. This bill would require the IMF and the World Bank to provide complete cancellation of 100 percent of the debts that poor countries owe them. The bill would also eliminate the devastating structural adjustment programs that have been imposed by the IMF as a condition for debt relief. H.R. 1642 has 68 cosponsors, representing both political parties.

To provide complete debt cancellation to these twenty-two impoverished countries would cost only $287 million per year for the IMF and $215 million per year for the World Bank. This is a very modest amount of money considering the fact that Congress appropriated $435 million for debt relief last year alone. It is time for the IMF and the World Bank to do their share.

I look forward to hearing the testimony of Deputy Assistant Secretary Bill Schuerch at today's hearing. Finally, I strongly urge Mr. Schuerch to advocate complete debt cancellation by the IMF and the World Bank without structural adjustment conditions for all thirty-two impoverished countries that are expected to qualify for the HIPC Initiative.

I thank the Chairman for the time.

UNITED STATES CATHOLIC CONFERENCE

Department of Social Development and World Peace
3211 4th Street N.E. Washington, DC 20017-1194 FAX (202)541-3339

ECONOMIC JUSTICE FOR ALL

June 5, 2001

The Honorable Paul O'Neill
Secretary of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Dear Secretary O'Neill,

As the Genoa summit approaches, I am writing to ask your active support for resolving an issue that has arisen with respect to the recently-enacted debt relief program for poor countries. I welcome the Administration's commitment to providing $240 million for the enhanced HIPC initiative in FY2002, funding that is essential if there is to be substantial debt relief for the poorest countries. Even with this funding, however, the enhanced HIPC initiative will not fully achieve its goals unless relatively modest corrections are made. While we support broader debt relief than that provided under HIPC, we urge you to act now to make these corrections so that the promise of this initiative can be fulfilled.

Our concern arises from information recently published by the World Bank and the IMF which shows a wide disparity in the amount of debt service reduction which the first 22 countries will receive under the enhanced HIPC initiative. According to this information, some HIPC countries will receive substantial debt service reduction over the next several years. Others, however, will receive much less, with a number of countries continuing to pay debt service averaging close to one-quarter of government revenues. (The attached note explains this result in more detail.) For these latter countries, even if all the appropriate mechanisms and processes are implemented to assure that debt relief reaches the poor and promises of additional bilateral relief are fully realized, we fear that the immediate benefits will be too small to have a substantial impact on poverty.

We support debt relief, not to adjust old accounts but to combat poverty. In order to ensure that debt relief in fact gives a fresh start to the poor, we urge an adjustment in the current program to reduce the external debt service obligation to a maximum of 10% of government revenues for all enhanced HIPC recipients. This formula was included as a provision of the debt relief legislation that was introduced in the 106th Congress by Representative Jim Leach and Senator Connie Mack with strong bipartisan support. In the case of countries in Sub-Saharan Africa ravaged by health crises, including HIV/AIDS, debt service should be limited to a figure well below 10% in order to maximize resources available to address this crisis whose devastating effects are akin to a natural disaster.

This modest proposal is very much in line with the original purpose of the enhanced HIPC initiative, which sought debt relief not to reduce the debt stock to a certain percentage of exports, but to free up budgetary resources for poverty reduction. The G-8 communique was clear:

"The central objective of this initiative is to provide a greater focus on poverty reduction by releasing resources for investment in health, education and social needs." It is difficult to see how the debt relief granted under the current formula to Zambia, Niger and Guinea, among others, will fulfill this objective.

The adjustment we are proposing will bring the amount of relief for all enhanced HIPC countries much closer to that which countries such as Uganda and Rwanda received. The cost associated with this adjustment would be small and should not be an impediment to making this essential correction.

We urge the Administration to support this adjustment to the debt relief program which is one key element of what we hope will be a more comprehensive development agenda. Among other things, this agenda should include promoting just trade and investment policies, reversing the scandalously small amount our country gives in development aid, and ensuring that both bilateral and multilateral aid is focused more directly on improving the lives of the poor. While economic growth is very important, it must be accompanied by measures designed to assure that it achieves a broad distribution of its benefits, so that the poorest members of society have the opportunity to realize their God-given potential.

It is in this context, Mr. Secretary, that I ask you to look favorably on our request for further debt relief. At a minimum, please urge your colleagues at the Genoa summit to make an essential adjustment to the enhanced HIPC initiative that will assure that this program truly will free up substantial financial resources for urgently needed investments in human developmens of the world's poorest people.

With best wishes and asking God to bless you, I am

Sincerely yours,

Bernard Cardinal Law

Bernard Cardinal Law
Chairman, International Policy Committee
United States Catholic Conference

Note on Enhanced HIPC Debt Reduction

Office of International Justice and Peace
U.S. Catholic Conference

June 4, 2001

The World Bank and IMF published a report on the status of implementation of the HIPC initiative on April 20, 2001. Included in this report is information on the amount of debt reduction that the 22 countries who have so far qualified for enhanced HIPC relief will receive. The data shows that a number of the 22 countries will receive substantial debt relief and that, on average, debt service as a percentage of government revenues will drop from 27 percent in the recent past to less than 13 percent in 2001-03 and 9 percent by 2005. We welcome these trends as we seek deeper debt relief.

There are, however, substantial variations in the amount of debt service relief among countries. The average annual debt service-to-revenues ratio remains above 20 percent for Zambia, Niger and Nicaragua for 2001-03, and at 18 percent for Guinea. Altogether 12 of the 22 countries will still have debt service obligations exceeding 10 percent of revenues in 2003, while at the low end of the scale, Uganda's ratio falls to 5 percent and Rwanda's to 3 percent by 2003. (See WB/IMF Report, Table 4.)

The objective of debt relief programs, as expressed by the US Catholic bishops in their 1999 statement entitled "A Jubilee Call for Debt Forgiveness," should be poverty reduction and human development. We judge the adequacy of debt relief programs by the extent to which they free up necessary resources, and include adequate arrangements for reallocating budgetary resources for investment in education and health, as well as other investments necessary to improve the living standards of the poor and vulnerable. For this reason, we have consistently advocated that debt relief initiatives be designed, not to achieve a certain ratio of debt stock to exports, but to bring about a deep reduction in the ratio of debt service to government revenues.[1]

Thus, we strongly supported the bill (H.R. 1095) introduced by Rep. Jim Leach and approved by the House Banking and Financial Services Committee in 1999. H.R.1095 provided that the debt of HIPC countries should be reduced to a maximum of 10 percent of government revenues. This bill, as well as the companion Senate bill (S. 1690) with similar provisions introduced by Sen. Connie Mack that same year, attracted strong bipartisan support.

We urge, therefore, that the debt reduction formula be adjusted so that the debt service

[1] Objections have been raised in some quarters that this formula would reduce incentives to increase government revenues, but it is difficult to see how a government would be discouraged from raising revenues because 10 percent of the increase might go to debt service. Moreover, the underlying economic program which is a condition of HIPC relief would normally have commitments on fiscal performance which would protect against government's responding to such minor "disincentive."

obligation of every HIPC eligible country is reduced to a maximum of 10 percent of government revenues. Furthermore, we believe that the desperate need to maximize the resources available to address the scourge of HIV/AIDS, which has reached crisis proportions in a substantial number of African countries, warrants a reduction substantially lower than the 10 percent maximum for such countries. Moreover, we believe these reductions should occur, not in 2005, but in the immediate future. More debt relief is needed for more countries in less time.

There would obviously be an additional cost associated with the adjustment we advocate, but we believe that the cost should be rather modest. First, the amount of relief shown in the World Bank and IMF Status of Implementation Report does not take into account voluntary contributions beyond their HIPC commitment which have been pledged by all the major donor countries. Several of these countries, led by the U.S., have pledged 100 percent bilateral debt relief (see WB/IMF Report, Table 17). The impact of such additional relief by all donors on budgetary funds available for poverty reduction appears significant (WB/IMF Report, Table 18), provided that such relief brings new money to the recipient countries and does not merely shift money between aid accounts.

Second, as far as costs to the U.S. are concerned, the existing cost sharing arrangements would require the U.S. to contribute about 4 percent of the incremental cost of multilateral debt reduction. A rough estimate suggests that, for 2002 this would come to a figure in the tens of millions of dollars. Given the likely slippage of "decision points" for many of the remaining countries potentially eligible for HIPC relief, the additional cost could possibly be accommodated without any increase in the Administration's $240 million commitment.

In short, we continue to advocate specific and concrete steps toward greater debt relief for more countries to help them address persistent poverty and underdevelopment, grave health crises, and inadequate education. Making essential adjustments in the enhanced HIPC initiative is a matter of life, dignity and hope for a better future for millions of people.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

STATEMENT BY TREASURY DEPUTY ASSISTANT SECRETARY WILLIAM E. SCHUERCH TO THE SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE OF THE HOUSE FINANCIAL SERVICES COMMITTEE
June 12, 2001

Chairman Bereuter, Ranking Member Sanders, members of the Subcommittee, I thank you for the opportunity to testify before you on the authorization requests requiring action this year.

Treasury's appropriations request for international programs this year totals $1.4 billion: $1.2 billion in scheduled commitments to the multilateral development banks (MDBs) and $.2 billion for debt reduction. The request reflects a substantial reduction – from $1.9 billion in FY1996 -- in U.S. commitments to the MDBs as a result of international negotiations in recent years. Today's testimony focuses on the three authorization requests requiring action this year: $412 million over 4 years (2001-2004) for the U.S. contribution to the seventh replenishment of the Asian Development Fund (AsDF-8); $30 million over 2 years (2001-2002) for the U.S. contribution to the fifth replenishment of the International Fund for Agricultural Development (IFAD-V); and an additional contribution of up to $165 million to complete the U.S. pledge to the HIPC Trust Fund.

We request these authorizations because they represent commitments negotiated by the U.S. that should be adhered to and that support U.S. interests. As Secretary O'Neill has said, the Administration is working hard to ensure that hard-earned U.S. taxpayer dollars go to MDBs that are more focused on the core mandate of improving living standards around the world through increased productivity and that are held more rigorously accountable through results-based performance indicators. We also believe that the MDBs can improve their coordination. More work is needed to bring greater consistency where more than one institution is operating in a particular country and in sharing lessons learned and best-practice policies and procedures. Now that the Treasury Department's Under Secretary for International Affairs, John Taylor, has been confirmed, he will be working closely with the Secretary to develop, implement, and coordinate the Secretary's International Financial Institutions reform agenda.

Asian Development Fund (AsDF-8)

In 2000, the United States pledged $412 million over four years toward the $5.6 billion seventh replenishment of the AsDF, the concessional lending window that provides assistance and policy advice to the 29 poorest countries in the region. Over the next four years, the AsDF is expected to lend more than $13 for every $1 contributed by the U.S. Several U.S. objectives at that time were achieved as part of last year's replenishment negotiation, most notably:

- Agreement to put in place for the first time a performance-based resource allocation system, including explicit consideration of good governance and efforts to combat corruption.

- Increased assistance for poverty reduction to about 40% of lending, with heavy emphasis on education.
- Increased transparency and participation by civil society in the preparation of country lending strategies.
- Improved systems for measuring results, including upgrading the evaluation office and establishing a Board committee on development effectiveness.
- Conclusion of a Memorandum of Understanding with the World Bank to enhance coordination and better delineate responsibilities in the region.

Completion of the U.S. commitment is vital to maintain strong U.S. leadership in shaping AsDF policies and operations.

International Fund for Agricultural Development (IFAD-V)

In 2000, at the request of U.S. Agency for International Development, (USAID) Treasury assumed lead agency responsibility for IFAD and the U.S. pledged $30 million over two years toward IFAD's fifth replenishment. Nearly 75% of the world's 1.2 billion poorest people live in rural areas, largely as small-scale or subsistence farmers. IFAD's specific mandate to increase the productivity and incomes of these target farmers is consistent with the Administration's international assistance priorities.

Several U.S. objectives at that time were achieved under last year's IFAD-V replenishment negotiation, including:

- Greater consideration of country governance and domestic policy criteria in assistance strategies and allocation decisions.
- Expanded co-financing to cover at least 30% of IFAD's annual commitment level to leverage increased resources for poverty reduction.
- IFAD's full participation in HIPC.

HIPC Debt Relief Trust Fund

Important progress was made last year when Congress authorized $435 million in U.S. contributions to the HIPC Trust Fund, of which $360 million has been appropriated thus far. The FY2002 authorization request is for the final $165 million of the U.S. pledge of $600 million to the HIPC Trust Fund. The Trust Fund helps regional development banks and other multilateral institutions meet the costs of providing debt reduction to heavily indebted poor countries committed to economic, social and governance reforms. Twenty-three countries have begun receiving debt relief under the enhanced HIPC program, amounting to $34 billion in nominal terms. On top of this, the United States and many other creditor countries are canceling Official

Development Assistance (ODA) debt and also reducing commercial debt beyond the level required under the HIPC framework. As a consequence, the debt service ratios of these countries will be significantly lower than previously, and indeed significantly lower than the average for other countries with similar per capita income levels.

The success of the HIPC Initiative ultimately depends on country efforts to put in place sound policies to use resources effectively, strengthen productivity and growth, and invest in the social sectors, thereby reducing poverty. I understand that several members of Congress as well as non-governmental organizations (NGOs) are advocating various proposals to deepen the debt relief program, including writing off entirely the debt of the current eligible HIPCs. The costs of these proposals are tremendous – more than the IFIs themselves can bear without taking resources away from good performing countries or accelerating the need for significant new capital to finance their lending activities.

Secretary O'Neill has stated that more experience should be gained under the existing program given its relative nascent stage – only 2 countries (Uganda and Bolivia) have reached completion point – before embarking on a new program. The current program goes well beyond earlier efforts and is aimed at putting these countries on a sustainable debt profile. It was not designed as a panacea for the myriad of challenges HIPC countries face, nor as a guarantee that countries will not fall back into unsustainable debt. Rather, it was envisaged as one element of a much broader development agenda that includes trade, investment, and economic assistance, coupled with careful consideration of the appropriate lending instruments to facilitate effective, accountable reform. Before considering additional debt proposals, we need to consider where scarce resources of the U.S. and of the IFIs best leverage improving the domestic conditions necessary for sustained productivity growth and increased living standards. To address the vulnerable situation in most HIPCs even after debt relief, Secretary O'Neill has made it clear that the Administration is extremely interested in the increased use of grants for performing countries.

MDB Involvement in Africa

The reform agenda that confronts Africa remains formidable indeed. Economic growth in Sub-Saharan Africa continues to lag behind that of other regions in the world due to such factors as insecurity and warfare, poor governance, the plague of infectious diseases (especially HIV/AIDS), unfavorable trends in commodity prices, and natural disasters.

But the overall economic picture in sub-Saharan Africa is not all bleak -- average growth in the region was an estimated 3.3 percent in 2000 and is expected to rise to 4.3 percent in 2001. This compares to estimated average growth of 2.6 percent in the ten years 1992-2001. The main reason for the improvement appears to have been the continuing pattern of reform in many countries, resulting in more flexible exchange rates, better fiscal control, greater economic stability, more open and transparent trade and investment regimes, and further reduction in the direct economic role of governments. There are still significant challenges, but Secretary O'Neill has made clear the Administration's commitment to facilitating growth and development in Africa. Indeed, this commitment is evidenced by the Secretary of State's visit last month and the recent announcement by President Bush that he will convene the first US-Africa Economic Forum in Washington this coming October. Important events such as President Bush's pledge of $200 million as a U.S. contribution to the new global fund to fight HIV/AIDS, malaria and tuberculosis and the commemoration of the passage of the Africa Growth and Opportunity Act are equally important demonstrations of our solid partnership with Africa.

U.S. participation in the MDBs is another important pillar of our commitment to improving the living standards of African people. Each year, approximately $4 billion is applied to African programs by the World Bank Group and the African Development Bank Group. The U.S. has a leadership role in both institutions on shaping their operations and directing the resources to achieve higher growth and reduced poverty in the region. Secretary O'Neill has called for improving living standards via increased productivity as the primary objective of our work through the MDBs, and this surely will be a mainstay in our evolving thinking on a strategy for Africa.

The MDBs, therefore, need to focus their operations on a core set of activities that reflect their comparative advantage and are capable of yielding high-impact productivity gains. While successful poverty reduction requires a broad range of complementary actions, without productivity-led economic growth, the benefits from increased aid will be welcome but also incomplete and inevitably unsustainable. We recognize that there are substantial challenges. We believe also, however, that by focusing on key priorities that hinder productivity, MDB assistance can have a greater impact. This is not to say that poverty can be wiped out simply by encouraging growth and productivity or by increasing labor and capital. Other policy and program changes are necessary to enable the poor to fully enjoy increased economic opportunities. The widespread provision of social services – especially education -- is, for example, a necessary complement to growth. Healthier, better-educated people are more productive and they are better able to take advantage of the new economic opportunities (including new technologies) opened by economic growth. In that respect, continued support for programs that fight infectious diseases, particularly HIV/AIDS, tuberculosis and malaria, is important.

We are currently negotiating replenishments of IDA and the African Development Fund – the two largest sources of multilateral concessional assistance to Africa. Now that Under Secretary Taylor is confirmed, he will be striving to achieve the broad goals already laid out by the Secretary, in addition to more detailed policy proposals that are currently being developed and evolving. We will be collaborating with our colleagues at the other agencies in developing an effective approach for the continent. I see today's testimony as an opportunity to hear your views on this subject, provide any background information that I can, and stress the Administration's support for the authorization requests before this Subcommittee.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

August 28, 2001

His Eminence
Bernard Cardinal Law
United States Catholic Conference
3211 4th Street N.E
Washington, DC 20019

Your Eminence:

Thank you for your public support of the President's proposal for up to fifty percent grants from MDB soft loan windows for the poorest, least creditworthy countries, as well as for your letter to Secretary O'Neill suggesting ways to improve the enhanced HIPC initiative.

As for the HIPC initiative, redirection of resources previously spent on debt service to programs that promote economic growth and poverty reduction is one of its major purposes. For this reason, the Administration is determined to implement successfully the current HIPC program, which is not yet fully financed, in an effective manner. This will require continued efforts on the part of the Administration to obtain funding from Congress to fulfill both the U.S. commitment to provide 100 percent bilateral debt reduction to qualifying HIPC countries and a substantial USG pledge to the multilateral HIPC Trust Fund.

Implementing HIPC effectively will also require continued efforts on the part of participating countries to pursue good governance and sound macroeconomic policies. In particular, they will need to continue to work to design and implement the poverty reduction strategies called for in the HIPC program. Debt relief under HIPC was designed to help countries meet these goals. For example, social spending, both in absolute terms and as a percentage of GDP, is predicted to increase for all HIPC countries after they have reached their completion points. In Zambia, for example, social expenditure is expected to increase by more than fifty percent over the next couple of years.

Moreover, as you have also pointed out, the current data do not account for the full debt relief being provided by the United States and other bilateral creditors. When these data become available they will more accurately reflect the true improvements in debt service to revenue ratios (which will be lower) and social spending to revenue ratios (which will be higher). President Bush's recent proposal to increase the use of grants from the multilateral development banks was also designed to free up resources in the medium to long-term for social expenditures, as well as to help HIPC countries break out of the "debt trap."

Your letter raises an interesting question about the underlying measures of debt sustainability. Let me share with you some of our thinking on this issue. As the enhanced HIPC initiative was developed, debt to exports and debt to revenue (for very open economies) ratios were chosen by the international financial institutions as appropriate criteria for determining eligibility for debt reduction because they reflect the overall level of debt burden and not the short-term financing cost of that burden.

A country's debt service to revenue ratio in any given year is a partial reflection of its overall debt burden. Annual debt service, however, is also a function of the government's revenue policy and collection efforts that particular year and the unique financing profile of its debt. That is, two countries can have the same total debt burden but have very different debt service to revenue ratios in any given year. In addition, a country's debt service to revenue ratio could change dramatically from year to year as a function of both fiscal policies and external factors.

Fortunately, given the increasing sophistication of global financial markets, the annual variability in debt service/revenue could be effectively mitigated with responsible financial planning. In fact, in some cases, what allows certain heavily indebted countries to avoid the need for HIPC debt reduction, is precisely their ability and willingness to engage in responsible financial planning of their debt burdens.

Providing further reduction on the basis of annual debt service levels would exceed what was agreed for selected HIPC countries in the internationally negotiated HIPC framework, and would raise questions about the fairness of the policy vis a vis other countries with equal real debt burdens. In the broader context of our policies towards poor countries that, according to HIPC standards, are not as heavily-indebted as HIPC countries, such action would result in even deeper debt reduction for countries that have already received deep reduction, while failing to provide any benefit to poor non-HIPC countries with high debt service ratios.

Beyond these issues, we are concerned that others will strongly advocate the application of this standard to a broader range of countries, including poor non-HIPC countries, IDA blend countries, and middle-income countries. Many countries regularly and sustainably service debt at higher than ten percent of revenue, for example (in 1999): Sri Lanka (21%), India (14%), South Africa (27%), Malaysia (30%), and the Philippines (45%). Incorporating the standard for debt forgiveness that you advocate could entail extending debt reduction to a potentially much larger number of countries, at substantial additional cost to the USG.

We fully recognize that even after debt reduction HIPCs will continue to face major development challenges, including the need to avoid a build-up in debt to unsustainable levels again. Ensuring that new assistance is provided on appropriate terms is an important element in this effort. The Administration takes these problems seriously.

Again, thank you for writing. We always welcome your thoughts on HIPC issues.

Sincerely,

John Taylor

John B. Taylor
Under Secretary for International Affairs

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