

Chairman Deborah Pryce

June 8, 2005

Hearing on “Debt and Development: How to Provide Efficient, Effective Assistance to the World’s Poorest Countries?”

Debt relief in highly indebted poor countries is not only humanitarian, but also essential to the continued development of those countries. This timely hearing signals the initial engagement of this subcommittee on debt and development issues this Congress.

Just Yesterday, President Bush met with British Prime Minister Tony Blair to discuss debt relief for struggling African countries. President Bush, who had last year called for a new program of grants that will lead to 100% debt relief, joined the Prime Minister in saying the two countries are working on a plan to eliminate debt for countries that are showing reform.

I am proud that the United States has risen to this challenge and put forward a bold set of proposals to eliminate the debilitating cycle of lend-and-forgive that has undermined economic development for decades. We all know that the end of the Cold War and the East Asian financial crisis created major new opportunities to revisit the processes for extending development assistance. It has taken longer to find ways to eliminate the debt overhang from those days, but we have an opportunity to do something now.

All countries would benefit from a more efficient and productive developing world. Increased ability to export and innovate helps all economies. It also increases the ability of individuals to make their own decisions and participate in government. More responsive government means more participatory democracy. All of these things are beneficial to global systemic stability as well as individual well-being and merit support.

Just as everyone would benefit from elimination of the crippling debt overhang and greater economic development, so we must all shoulder the responsibility of making changes and thinking innovatively in order to make change happen. I am pleased to have the witnesses here today to discuss new and innovative ideas for debt relief. Many members of this committee have strong feelings regarding debt relief and additionally, how the relief is distributed. It is my hope that today’s hearing will begin a thoughtful dialogue—one that we can share with the leaders who will take part in the G-8 summit next month in Scotland.

The Administration has also proposed funding World Bank debt relief using existing World Bank resources and by re-balancing the structure of how development assistance is provided through its concessional lending window. Our witnesses today will add further thoughts on how the World Bank’s resources could be used more productively, using modern risk management tools. They will also suggest

how private sector knowledge and participation could be used to leverage existing development initiatives and limit the amount of crowding out effects that occur whenever the World Bank is involved in lending to countries. I look forward to hearing those ideas.

Regarding IMF debt, the U.K. government and a number of our witnesses have proposed selling IMF gold and using the proceeds of the 1999 IMF gold revaluation to fund debt relief. Because of gold's role in the economic system, instability in the gold market could have significant knock-on effects throughout the international financial system. Legitimate concerns have been raised about the potentially destabilizing effects that broad-based gold sales could have on global markets.

It is my understanding that a number of European governments join the United States, Canada, and Japan in opposing gold sales to fund IMF debt relief. We have testimony today indicating that the IMF has proposed a way to sell IMF gold without creating market instability. However, this solution would require European central banks to adjust their own gold sales programs for a period of time. Since there seems to be no interest in Europe to fund debt relief in this manner, it seems premature and irresponsible to continue discussing IMF gold sales.

The President and Prime Minister have proposed debt relief for the poorest countries on the planet. I support this proposal, and I support our President's stand for continuing reform in those countries. In a press conference following their meeting, *The World News* reported Bush as saying "Nobody wants to give money to a country that's corrupt, where leaders take money and put it in their pocket." I share the President's concern about the structure of the development debate this year and know Chairman Oxley feels that same.

Most discussions focus only on the funding side of development without discussing how to make development assistance more effective by assessing project performance and institutionalizing anti-corruption programs within the development banks. They seem to assume that more money will solve all of the problems in the development world. I do not share this sentiment. If we do not stop the misdirection of funds due to mismanagement, misunderstanding, bribery, or kickbacks in the procurement and administration of development assistance, then we will be here again discussing missed opportunities and lack of progress.

We have a chance right now to make a difference and help hard-working people around the world get the seed money they need to get an education, start a business, and live disease-free with clean water. Let's not blow it by focusing on the money and shirking our responsibility to make important changes.