



## DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

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

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

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

#### **President's Vision for Development**

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

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

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

### **Debt Relief for the Poorest Countries – Time for Bold Action**

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

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

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

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

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

### **The Historic Agreement**

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

*The four key elements of the G8 proposal include:*

1. **100 percent IDA, AfDF, and IMF Debt Stock Relief.** For International Development Association (IDA) and African Development Fund (AfDF) debt, 100 percent stock cancellation for eligible HIPC countries will be delivered by offsetting gross assistance flows by the amount forgiven. IMF debt relief for eligible countries will be financed from existing IMF resources, not through gold sales.
2. **Additional Donor Contributions to IDA and AfDF.** Donors will provide additional contributions, based on agreed burden shares, to offset foregone debt repayments (principal and interest) to IDA and AfDF. Additional funds will be made available immediately to cover the IDA-14 and AfDF-10 period and through regular replenishments for subsequent periods. For IDA-14 and AfDF-10, the U.S. will fulfill this commitment to the MDBs by utilizing flexibility in the timing of planned annual payments and will not require appropriations in addition to requests for those payments.
3. **Focus on Strong Performance.** The additional donor contributions will be allocated to all IDA-only countries based upon the existing IDA and AfDF performance-based allocation systems. This approach ensures equity between HIPCs and non-HIPCs – since all countries receive additional assistance commensurate with performance – and creates an incentive for countries to pursue responsible, pro-growth policies. Based upon existing performance levels, we estimate that roughly half of the additional contributions will be allocated to non-HIPC countries.
4. **Utilize grant financing from IDA and AfDF to ensure that countries do not immediately re-accumulate unsustainable external debts.** IDA and AfDF donors will develop a forward-looking debt sustainability framework that will determine grant allocations for poor countries. This framework will help ease HIPCs into new borrowing over time based upon their capacity to repay.

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

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

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

### **Improving Development Effectiveness – IDA-14 Replenishment**

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

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

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

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

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

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

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

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

### **Fighting Corruption**

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

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

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

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

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

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

## **Conclusion**

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