

THE G-8 SUMMIT AND AFRICA'S DEVELOPMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN
RIGHTS AND INTERNATIONAL OPERATIONS

OF THE

COMMITTEE ON
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HOUSE OF REPRESENTATIVES

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THE G-8 SUMMIT AND AFRICA'S DEVELOPMENT

THURSDAY, JUNE 30, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON AFRICA, GLOBAL HUMAN RIGHTS
AND INTERNATIONAL OPERATIONS,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:53 p.m. in room 2172, Rayburn House Office Building, Hon. Christopher H. Smith (Chairman of the Subcommittee) presiding.

Mr. SMITH. The Subcommittee will come to order. Good afternoon, everybody. I want to apologize at the outset for that rather long delay. We did have seven votes in succession. So again I want to apologize to our witnesses and to all assembled.

Ladies and gentlemen, last March the Commission for Africa issued a report on how the world's largest economic powers, known collectively as the Group of 8, could work toward raising the living standards of the world's poorest countries. The Commission established by the Prime Minister of Britain, Tony Blair, proposed recommendations for action by both African nations and the G-8 countries.

African Governments were encouraged to improve governance, make further progress on democratization, provide free primary education, improve health systems, expand assistance to orphans and vulnerable children, and devote more money for infrastructure construction and repair.

The G-8 nations were called upon to double or triple aid flows where funds could be absorbed, forgive 100 percent of debt, move toward grants rather than loans and spend more on the fight against HIV/AIDS, contribute \$3 billion annually to peacekeeping operations, spend \$500 million annually for up to 10 years to fund universities, and return billions of dollars stolen by corrupt African officials.

The notion of aiding Africans to escape the deadly trap of poverty is not a new one. Former West German Chancellor Willy Brandt called for action to help the developing world in a report 25 years ago. However, while this report was endorsed by the United Nations and taken up by the then-G-7, aid levels fell below his recommendations, and his recommendations were not followed up on.

In some quarters, the impression has been conveyed that the United States is somehow selfish in the aid that we provide to the world's poor nations. In fact, the United States is the leading donor in terms of cash to developing countries. According to *Foreign Pol-*

icy magazine, in 2003, the last year for which we have comparable donor statistics, the United States gave \$16.3 billion, or a little less than one-quarter of the \$69 billion in aid given by the world's top 22 donors. Still, depending on how you measure development assistance, our size and national income make our aid look less generous than it is.

For example, *Foreign Policy* magazine, again citing 2003 information, stated that the United States provided \$51 per citizen on official developmental assistance, which ranked us 16th among the world's donor nations. Nevertheless, the United States does provide \$3.2 billion in official development assistance just to Africa alone this last year, which is a significant increase over aid levels to Africa in the year 2000.

Our Government is the largest provider of humanitarian assistance to Africa, providing \$1.4 billion in aid as of this year. We are providing more than \$379 million this year alone in humanitarian assistance to the people of Darfur, Sudan, and the Sudanese refugees who have fled to Chad.

In a major policy speech just this morning, President Bush pledged to increase the funding of malaria prevention in treatment programs in sub-Saharan Africa for more than \$1 billion over the next 5 years. The goal is to reduce malaria deaths by 50 percent in each of the target countries after 3 years of implementation and to help those countries meet the Roll Back Malaria mortality goal.

Does this mean we have given enough in aid? Certainly, I and many of my colleagues believe we can always do more when the need arises. I have supported, like many of my colleagues, more aid for refugee assistance programs, and note, parenthetically, the Foreign Relations Act of 2006 and 2007, which should be on the Floor within the next 2 weeks, provides an additional over-\$50 million more for refugee assistance.

For example, I have proposed an increase in spending in that bill of \$5 million a year over the next 2 years for a total of \$10 million to treat women suffering from obstetric fistula; and I am about to introduce legislation calling for increased levels of spending for the Global Fund on Malaria and Tuberculosis. We also included in that legislation more money for spending on democracy programs, in particular in Zimbabwe, by some \$12 million over the next 2 years.

I believe the United States has been willing to extend assistance to the poorer countries in Africa to help improve the standard of living of the millions living on a dollar a day or less. In that effort, it is vital that we determine that our aid is being used effectively. Moreover, we must be able to transmit aid more efficiently in programs such as the Millennium Challenge Account, which signed its first aid contract with Madagascar only last month.

As for debt relief, the United States recently agreed, as we all know, to a debt relief plan that could help as many as 38 African nations escape the often crushing burden of official debt. Among the immediate African beneficiaries of this debt relief are Benin, Burkina Faso, Madagascar, Mauritania, Mozambique, and Niger; these are among the world's poorest countries on the planet. We will be receiving details of this plan in testimony before our Subcommittee in today's hearing.

Let me also point out to my colleagues that I and others have supported initiatives previously, and Senator Santorum did so on the Senate side. We had introduced jointly a bipartisan bill to help highly indebted countries, and I do favor the Heavily Indebted Poor Countries (HIPC) Initiative structure of releasing nations from debt obligations in return for them directing those freed resources to health, education, and other developmental priorities.

Still, we must make any debt relief process work much better. All too many nations under the HIPC initiative receive less benefit under this program than initially envisioned or desired. Debt relief must be real, so that the people of Africa have genuine hope for real benefits. Mere rhetoric will not educate a student, heal a suffering hospital patient, or provide for an AIDS orphan.

As I stated earlier, the G-8 nations have discussed these issues for decades. It is now time for the discussion to produce concrete results. We can continue to put forward proposals for debt relief without accountability, which won't be approved, or we can allow debt discussions to degenerate into bureaucratic details and also see no real relief supplied. People in both camps may have the best intentions, but the bottom line is that the poor remain poor while we continue to debate the issue.

What I hope will happen when the G-8 meets next week is approval of proposals on aid and debt relief that are not only encouraging, but which will actually produce tangible debt benefits for the millions of Africans now living in abject poverty. Indeed, we are our brothers' and sisters' keepers, and what happens to the poor in a remote village in the most impoverished nations must also be important to us. How we demonstrate our caring is the question that finally must be answered.

And I do thank again our very distinguished witnesses for being here.

I understand that Mr. Payne has a pension reform markup, but will be returning, and will be in and out of the hearing throughout this afternoon. I would like to yield to my good friend and colleague, Mr. Tancredo, for any opening comments that he might have.

Let me welcome our first witnesses, first beginning with James Paul Reid—I will just suspend that for a moment. Barbara Lee has joined us. Would you like to make an opening statement?

Ms. LEE. Thank you, Mr. Chairman. No.

Mr. SMITH. Let me begin again. I think, Mr. Pittman, you decided you would like to go first so let me just introduce you first.

Deputy Assistant Secretary for Multilateral Development Institutions and Policy—he has served in the Department of Treasury as Deputy Assistant Secretary for International Development, Finance, and Debt since March 1, 2004. Mr. Pittman has the responsibility for a wide range of economic, financial, and environmental policy issues pertaining to U.S. participation in the multilateral development banks, international development, and debt policy. Prior to joining the Department of the Treasury, Mr. Pittman served as Director for African Affairs at the National Security Council, the NSC, and he has also worked as an economist for the Central Intelligence Agency and as a consultant with RCF Economic and Financial Consulting.

Mr. Pittman graduated first in his class, summa cum laude, from Florida State University with a B.S., studying economics, computer science, and mathematics, and received his M.A. in economics from the University of Chicago where he also did his doctoral work in applied economics. I don't know if you were number one in that as well, but that is very impressive.

We will then hear from J. Paul Reid, who is presently a Senior Advisor on African Financial and Development Issues in the Office of the Under Secretary for Economic Business and Agricultural Affairs. He previously served as the Director of Economic Bureau's Office of Development Finance from 1999 to 2000, and in its Office of Monetary Affairs from 2000 to 2003.

In the latter capacity, he has led monthly negotiations in the Paris Club to restructure as well as to forgive the bilateral official debts of countries that encountered balance of payment difficulties. Mr. Reid was DCM and Charge d'Affaires in Slovenia from 1996 to 1999. Previous to this, he was attached to the U.S. mission to the OACD where his duties included serving as a U.S. representative to the Economic and Development and Review Committee.

Mr. Reid has also served in Haiti, Ankara, and as a Peace Corps volunteer in Zaire, now the Republic of the Congo.

Mr. Pittman, if you could begin.

STATEMENT OF MR. ROBERT PITTMAN, JR., DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL DEVELOPMENT, FINANCE, AND DEBT, U.S. DEPARTMENT OF THE TREASURY

Mr. PITTMAN. Thank you, Chairman Smith, Ranking Member Payne, and other Members of the Subcommittee. I am quite excited to be here today. This is my first time testifying. But also as someone that has worked on Africa for the majority of my career, it is a real honor to be in front of this Subcommittee.

I am also quite excited to brief you on the G-8's decision to support the proposal that the President tabled nearly a year ago for 100 percent debt cancellation.

To put this proposal in context, I think we have to start with the record over the last 4 years of development assistance, which has nearly doubled, and a significant increase, as the Chairman noted, to Africa. But I think the really amazing statistic is that for nearly 30 years the United States represented about 15 percent of the official assistance to Africa, and in the last 2 years we now represent a quarter of every dollar of official assistance spent on the subcontinent.

But it is not just about more money; it has also been about more effective delivery. And at the Treasury Department what that has meant is reforming the multilateral development banks and the way that they deliver assistance. And the key pieces of that reform effort have been more money for good performers, countries that govern well, getting the institutions to focus more on measurable results—actual schools built, children immunized, and the last piece being to get more money in the form of grants. And I think this is the most critical piece for the discussion today.

If we look at the history of development assistance for at least the last 40 years, there have been a number of lend-and-forgive cycles. What this has basically meant is that in many poor countries,

many of the poorest countries, you know, schools were built and leaving the payments coming due to the children that were inside the schools; and the U.S. shifted to grants in the 1980s.

At the end of the 1990s, the U.S. committed to 100 percent debt relief for HIPC countries bilaterally. And that was a huge stride in ending the lend-and-forgive cycle, but there was still much more to be done. I would just cite that in the last 25 years for HIPC countries there have been about 250 debt treatments in the Paris Club. And this means for countries like Senegal, Ethiopia, every 2 or 3 years they were going back to the Paris Club to renegotiate a new debt treatment, and then received aid that made them go back again. So this was very destabilizing, and most of these countries were left with unsustainable debt burdens.

So I again would note that the shift to grants is going to go a long way in breaking this cycle, but yet there is still a large amount of debt on the books as a result of this. So I think many people were asking, what if the shift to grants had happened earlier? What if it had happened 20 years ago, 30 years ago?

And, of course, what that would have meant is that these countries wouldn't have payments coming due now to the MDBs. And this is the heart of the proposal that was tabled, is to forgive the debts coming due to IDA at the World Bank, the African Fund, and the IMF, totaling as much as \$60 billion over the next 40 years.

The point I want to really stress here is the overwhelming support that we have gotten in this effort by many Members of Congress, including on this Subcommittee. Also, civil society has been overwhelmingly supportive in this push, and that has really been the reason that we were able to convince others around the world to support our efforts.

In terms of the mechanics of our proposal, the key shift was to focus more on the net money that the countries were actually receiving. So when Niger was getting \$100 million from the institution and paying \$10 million, bilaterally we don't count that \$10 million; Niger was only getting \$90 million. So the key was to focus and to make sure that that net amount was not going to decline as a result of debt relief.

Our proposal was received with a lot of skepticism. And the critical breakthrough happened at the beginning of this month when President Bush and Prime Minister Blair met in the White House. At that time, the United Kingdom agreed to join us in our proposal for 100 percent debt cancellation, and the United States affirmed its commitment to the international financial institutions.

The key piece in this is that the additional contributions will go through the performance allocations system, so countries will see their net transfers increase for the poorest that are also the best performers. Currently this means that the 18 completion point HIPCs will qualify immediately for 100 percent write-off of their debt. These countries represent the bulk of the debt stock, the \$60 billion that was cited earlier; it is about \$40 billion. We also estimate that the 9 decision point countries will also qualify for this 100 percent within the next 12 months.

So, all told, we are looking at about \$60 billion, as I said before. The immediate debt is about \$33 billion from the World Bank, \$3

billion from the African Bank, and approximately \$4 billion from the IMF.

So that is the broad outline of the agreement, but we still have a significant amount to do going forward. We will present this agreement in the fall to the broader shareholders, but we also need the continued support of the Congress in our appropriations request to fund the deal.

I would just again take this opportunity to thank the House for their full support in our appropriations request as of last week; but we still have many more to come in the future, and hopefully, we can continue the coordination we have had and continue to have a united front on this issue.

Thank you again.

Mr. SMITH. Thank you very much for your testimony.

[The prepared statement of Mr. Pittman follows:]

PREPARED STATEMENT OF MR. ROBERT PITTMAN, JR., DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL DEVELOPMENT, FINANCE, AND DEBT, U.S. DEPARTMENT OF THE TREASURY

Thank you Chairman Smith, Ranking Member Payne, and other members of the Subcommittee. I am very pleased to be here today to talk about the G8 Summit and Africa's Development from the perspective of the Treasury Department. I am particularly excited to brief you on the G8's decision to support the President's proposal for 100 percent debt cancellation for the poorest countries.

Before getting into the details, I would like to put this proposal into perspective. Since the beginning of President Bush's time in office he has pushed an aggressive agenda on development. This was first defined in the lead up to Monterrey, when the President proposed a New Compact for Development. This Compact was a proposal to increase aid, but with a clear purpose and in countries where it could be most effectively used to stimulate growth and reduce poverty. It was recognition that it's not enough to give more aid; we also needed to improve the way we deliver aid.

Historic Increases in Assistance . . .

Since Monterrey, we've seen an amazing evolution of U.S. official development assistance. While others are delivering promises, the U.S. has been delivering substantial increases. For some thirty years prior to this Administration, the U.S. provided roughly 15 percent of all official aid to Africa. Over the past two years the U.S. represented nearly a quarter of all official assistance to the continent. The increase has been dramatic, both in absolute terms and in terms of the U.S. share.

I should note that this dramatic increase in development assistance in recent years has come prior to disbursements from the President's Millennium Challenge Corporation (MCC) program. This year, the program is beginning to make disbursements and has billions of dollars in the pipeline. More importantly, this program is setting a new standard for delivering 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.

These increases also do not include the full implementation of the President's Emergency Plan for HIV/AIDS Relief. As of March 31st of this year, the Plan had already supported anti-retroviral drug treatment for approximately 230,000 men, women and children through bilateral programs in the most afflicted countries in Sub-Saharan Africa. This is a great start, but the goal is to treat some 2 million afflicted people in Africa, Asia and the Caribbean by 2008.

. . . with More Effective Delivery.

The manner in which aid is delivered is also changing dramatically. America has tried to change the focus of both our bilateral assistance and multilateral assistance away from simplistic numeric targets, and toward a greater focus on ensuring that assistance is well spent and channeled to environments where it can have the greatest possible impact in lifting people out of poverty.

For the Treasury Department, this has meant reforming the Multilateral Development Banks (MDBs) and the way in which they deliver assistance. As a result, the MDBs now deliver significantly more assistance to countries that are well governed and enact pro-growth policies. For example, the World Bank's International Devel-

opment Association (IDA) now has one of the most selective systems for providing assistance of any donor, bilateral or multilateral, in the world. The Bank's strategy for FY06–08 envisions providing the top 10% of country performers with nearly 7 times as much assistance on a per capita basis as the lowest 10%, reflecting the heavy weight of governance in the allocation system. All of the MDBs with concessional windows—with the exception of the GEF—have put similar systems in place as a result of strong U.S. leadership.

We have also been working to change the culture and standards by which the MDBs judge the effectiveness of their assistance. For many of these institutions, success was measured in the volume of loans going out the door. We are working to ensure that success is instead measured by measurable results on the ground. These efforts have already begun to pay dividends. For example the World Bank has now committed to have measurable targets for all country assistance strategies, all African Development Fund projects will have results-based frameworks, and the Asian Development Bank has begun instituting a performance review system that judges staff on project results. Also, as a result of strong U.S. leadership all of the MDBs now have independent evaluation units that are charged with examining the impact and effectiveness of their institutions' work and making the results publicly available.

Finally, we've worked to make sure that more assistance is given in the form of grants. It would be unwise, if not counter-productive, to continue to add to already unsustainable debt burdens in the poorest countries. Combined with our landmark agreement to cancel debt, the increased use of grants in the World Bank's IDA, Asian Development Fund (AsDF) and African Development Fund (AfDF) will ensure that poor countries do not find themselves again in the lend-forgive-lend trap. Due to strong U.S. leadership during the IDA–14 and AfDF–10 negotiations, there will be significantly more grants given to the poorest and most debt-vulnerable countries, including most Heavily Indebted Poor Countries (HIPC).

A Bold Proposal—100 Percent Debt Cancellation

For some forty years, many of the poorest countries have been getting loans for projects to support health, education and other basic development needs. Although the U.S. and most other countries now provide nearly all of their assistance to the MDBs in the form of grants, the banks continued to provide loans to the poorest countries in desperate need of development assistance. The result is that for many important projects without near-term financial returns, such as building schools, these poor countries were burdened with additional debt that needs to be repaid by future generations. Shifting to grants going forward ends this cycle. However, this alone would not have been enough. There also needed to be a correction of history, a cleaning of the balance sheets for future generations.

For many of the poorest countries, there has been a history of lend and forgive cycles. The HIPCs alone have accounted for nearly 250 debt relief treatments in the Paris Club over the last 25 years. This means that many countries have been getting debt reschedulings, or partial debt reduction, every two or three years. At the same time the MDBs 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 countries totaled \$40 billion while new loans totaled more than twice that—\$93 billion.

The international community has been pursuing a series of well intentioned, but ultimately stop-gap measures to address debt in the poorest countries. This started in 1979 with small amounts of relief, about \$6 billion. In 1987, there was the establishment of "Venice terms" in the Paris Club whereby some countries would qualify for interest rate relief. This was followed by numerous rounds in the Paris Club of increasingly generous treatments (Toronto, London and Naples terms). Then in 1996, the HIPC Initiative, which for the first time incorporated debt relief from the international financial institutions, was announced. This was followed by the "Enhanced HIPC Initiative" in 1999. All of these initiatives helped to reduce the burden of debt in the poorest countries, yet the cycle of lend and forgive was still churning.

To end the cycle once and for all, the U.S. proposed a complete write-off of all official debt to the poorest countries. This included as much as \$60 billion in HIPC countries' debt owed to the World Bank's IDA, the AfDF and the IMF.

I want to stress that many Members of Congress, including Members sitting in this subcommittee, along with representatives of civil society, have been extremely supportive and helpful in this campaign from the start. 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 Mechanics

The key to the U.S. proposal was to focus on the net flows from the institutions to the countries. As with our bilateral aid flows, the payments from the recipients are netted out from the new aid flows. Focusing on net transfers allows the proposal to maintain equity among the poorest countries. Under the HIPC initiative, HIPC countries received large increases in net transfers while non-HIPCs saw their net transfers decline. Focusing on the net flows was also important for cleaning the balance sheets of the MDBs. The International Financial Institutions were often giving loans to help ensure payment on old existing loans. This contributed to a lack of transparency and an exacerbation of the lend and forgive cycle.

When our ideas were first proposed nearly one year ago, they were met with considerable skepticism. This was primarily because they did not involve additional funding requests. With respect to the MDBs, we pointed out that the concessional windows are structured and funded such that they could forgive the debt of the HIPCs without impairing their ability to provide the same amount of net new funding for ongoing projects. Using 2003 as an example, we showed that the scale of reflows is small compared to disbursements. This is primarily because of the concessionality of IDA's financing and the significant nominal growth in disbursements over history. In 2003, the reflows from the HIPCs to IDA were roughly \$200 million, compared to \$3.4 billion in new disbursements. In fact, HIPC reflows accounted for only 3% of IDA's total new disbursements in 2003.

Though IDA lending represents the bulk of the remaining debt stock for HIPC countries, it was also important to have a strategy for IMF debt, which represents a significant portion of debt service in the short term given its much shorter repayment terms. In the IMF, many were calling for gold sales or off-market transactions. Significant work by our staff uncovered that there were existing resources within the Fund that could be used to effect debt relief. Moreover, this approach allows the fund to continue to engage effectively in low income countries while preserving its financial strength.

While the U.S. proposal ensured that net transfers to poor countries would not decline, many shareholders were worried about the long-term financial strength of the institutions. At the meeting between President Bush and Prime Minister Blair early this month, the United Kingdom agreed to support the U.S. proposal for 100 percent debt cancellation and the U.S. affirmed its commitment to the financial strength of the institutions. We will be able to do this by utilizing flexibility in the timing of payments of previously planned funding requests. Additional contributions will ensure the financial strength of the institutions, while being delivered based on performance, not historic debt obligations. This means that net transfers will in fact increase for countries that are performing well and using aid effectively.

The Historic Agreement

The agreement between Prime Minister Blair and President Bush was a critical breakthrough in the fight to cancel the debt for the poorest countries. This led to an agreement on June 11 by G8 Finance Ministers to a debt relief plan that largely reflects the one we began to discuss one year ago. As Treasury Secretary John Snow 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 G8 Agreement calls for 100 percent cancellation of debt obligations owed to the World Bank (IDA), African Development Bank (AfDF), and International Monetary Fund by countries eligible for the HIPC Initiative.

The key elements of the G-8 agreement include:

- *100 percent IDA, AfDF, and IMF Debt Stock Relief.* For IDA and AfDF debt, 100 percent stock cancellation will be delivered by offsetting gross assistance flows by the amount forgiven. IMF debt relief will be financed from existing IMF resources.
- *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.
- *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.

- *Utilize grant financing from IDA and AfDF to ensure that countries do not immediately re-accumulate unsustainable external debts.* During this time period, HIPCs will gradually be eased into new borrowing based upon their capacity to repay. This transition period will enable countries to focus on developing the necessary environment for promoting economic growth and poverty reduction.

Under the plan, eighteen 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 eighteen HIPC completion point countries will be \$40.4 billion in nominal terms, of which IDA accounts for \$32.9 billion, the AfDF \$3.2 billion and the IMF \$4.3 billion. The full application of the cancellation of existing debt repayments could amount to as much as \$60 billion as countries complete the process.

Going Forward

The agreement by the G8 Finance Ministers this month was truly a historic occasion. That said, we still have significant work ahead. We will be presenting the proposal to the broader shareholders of the World Bank, AfDB and the IMF this fall to seek their agreement. We also need the support of Congress. The commitments to the financial strength of the institutions come first and foremost through our current and future appropriations requests. I would like to take this opportunity to thank the House of Representatives, following the lead of Subcommittee Chairman Kolbe and Ranking Member Lowey, for fully funding these requests for FY2006. This, however, is the first of many steps. It is my both my plea and my hope that we continue this close coordination among the Administration, Congress and civil society as we move forward in implementing this truly historic agreement.

I want to once again thank the subcommittee for giving me this opportunity to testify and for all the support for debt cancellation in the context of helping the poorest countries that are committed to pro-growth policies and poverty reduction.

Mr. SMITH. Mr. Reid.

STATEMENT OF MR. PAUL REID, SENIOR ADVISOR TO THE UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. REID. Thank you, Chairman Smith.

Mr. Chairman, Members of the Subcommittee, I want to thank you for holding this hearing on development in Africa. It is very timely and it will bring important issues in Africa to the fore.

Development is high on the international agenda at the moment. This September, the United Nations will review progress toward the Millennium Declaration's ambitious goals, including cutting hunger and poverty in half by the year 2015. In the run-up to that event, President Bush and his colleagues at the G-8 summit will assess ongoing efforts to support Africa's development and determine how we might accelerate progress.

The United States endorses this call for global attention to sub-Saharan Africa. Many countries in the region are reaping the benefits already of expanding democracy, sound economic policy, and improved governance. Much of the continent is poised to see more robust economic growth and improved living standards in the years ahead.

Africa is a place for business as well as aid, and this is the point of departure for United States engagement with Africa. That said, Africa is the world's poorest region, and it faces serious challenges that we must address.

We closely studied the Commission for Africa's report, *Our Common Interest*. We agree with the key themes it identifies: Good governance, peace and stability, trade, investment in people and the private sector. We also concur with the need for strong engagement and partnership with Africa.

But we do not agree that money is the main constraint to Africa's development. The \$25 billion per year over the next 5 years that the report recommends, rising to \$50 billion a year after 2010, is not based on evidence or analysis, and it fails to account fully for Africa's limited absorptive capacity and governance challenges.

The United States is the world's largest donor. This Administration has overseen the most significant increase of development assistance since the Marshall Plan. ODA, official development assistance, nearly doubled from 2000 to 2004, and we are devoting additional resources to support good performers and build on what is working already in Africa.

We are also engaged in a hard look at development's success stories and failures to make our development assistance more effective. We are addressing conflict, disease, education, protection for the vulnerable, humanitarian crises, issues that have large implications for global and U.S. security. We are pioneering approaches to fragile states to resolve conflicts and alleviate sources of potential conflict. And the United States is cooperating with Africa through the President's Global Peace Operations Initiative to increase global capacity for peace support operations in Africa, bolstering Africa's own plans to enhance conflict prevention and management capacity.

Development requires healthy, well-educated citizens, and we already are undertaking a major effort against HIV/AIDS, the largest health initiative in history to combat a single disease. Today, President Bush announced a major new initiative to take comprehensive action against malaria. With congressional approval, we look to spend more than \$1.2 billion in the next 5 years on this campaign.

In addition, this Administration is a leader in education for Africa. Today, the President called for a doubling of the existing Africa Education Initiative, proposing to provide \$400 million to train half a million teachers and provide scholarships for 300,000 young people, mostly girls.

The Commission for Africa calls for efforts to protect the vulnerable. Here, the United States is a consistent leader. Thus far, in fiscal year 2005, the United States has provided Africa nearly \$1.4 billion in humanitarian assistance. And on June 7, President Bush announced approximately \$674 million more to respond this year to African emergencies. Today, President Bush asked Congress to provide \$55 million over 3 years to expand legal protections against sexual violence and abuse to Africa's women and children.

As Mr. Pittman mentioned, the United States was instrumental in bringing about a G-8 agreement on this historic debt relief program, which will expand debt relief to forgive 100 percent of the debt owed by the Heavily Indebted Poor Countries to the World Bank, IMF, and African Development Bank. But to jump-start economic growth, developing countries must tap all available resources for development. These include trade, investment, workers'

remittances, and domestic savings. These resources dwarf any aid flows that might be coming from donor countries.

Trade has enormous potential to lift vast numbers of people out of poverty, and we have demonstrated our global leadership here. Thanks to the Africa Growth and Opportunity Act, United States imports from sub-Saharan Africa increased by 88 percent last year, while our own exports increased there by 25 percent. We are also active within the World Trade Organization to conclude a trade round that will spur development, and we are working to bring negotiations to a conclusion by the end of 2006.

The Administration will continue to work diligently to widen the circle of prosperity in Africa and elsewhere in the developing world. It is the moral thing to do and it is essential for our national security. We will work in partnership with Africans in a way that reflects American values: Hard work, responsibility, and practicality. We will pursue smarter ways to provide more and better aid, but we will do so with a knowledge that more money alone is not the answer and may well prove to be counterproductive for those nations that lack adequate governance and capacity to effectively utilize that aid. We have great faith in the Africans' own ability.

The most dramatic poverty reduction stories of our time—China and India, for example—occurred with development aid of less than 1 percent of their GDP per year. To think that Africa cannot follow a similar path smacks of, in the words of President Bush, the soft bigotry of low expectations.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Reid follows:]

PREPARED STATEMENT OF MR. PAUL REID, SENIOR ADVISOR TO THE UNDER SECRETARY OF STATE FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE

U.S. ENGAGEMENT IN AFRICA—SUPPORTING POVERTY REDUCTION THROUGH ECONOMIC GROWTH AND EXPANDING DEMOCRACY

Thank you Chairman Smith, Ranking Member Payne and other members of the Subcommittee.

This hearing on Africa's development is very timely. Development is high on the international agenda. Five years ago, the international community agreed in the Millennium Declaration to ambitious goals, including cutting hunger and poverty in half by 2015 in order to more broadly share the benefits of world economic growth. This September the United Nations will review progress towards these goals. In the run-up to that event, President Bush and his colleagues at the G8 Summit will assess past efforts to support Africa's development and determine additional steps that we might take to accelerate progress towards these objectives.

The United States places special emphasis on Africa and supports the call for global attention to sub-Saharan Africa. The continent's future continues to look brighter as many countries in the region begin to reap the benefits of expanding democracy, sound economic policy, improved governance, and investments in key social sectors undertaken in the past decade. With a growing global economy, the continued growth of accountable and representative governments, and the recovery from several lengthy conflicts, much of Africa is poised to see more robust economic growth and improved living standards in the years ahead.

Despite these positive trends, sub-Saharan Africa continues to face enormous development challenges, including civil strife, political instability, corruption, famine and disease. It remains the world's poorest region; half of its 700 million people live on less than \$1 per day; 4 million children under five years of age die each year of preventable causes; and 40 million children do not attend school. And it lags behind other regions of the world in progress towards internationally-agreed development goals.

Despite the challenges, Africa's successes must not be discounted. Africa is a place for business as well as for aid, and Africans share the universal goals of freedom and prosperity. This is the point of departure for U.S. engagement with Africa.

We applaud Prime Minister Blair's timely decision to focus on Africa and development at next week's G8 Summit at Gleneagles. In anticipation of this discussion, we have closely studied the Commission for Africa's report, *Our Common Interest*, issued in March 2005. This report is an important contribution to international discussion on African development. We agree fully with the key themes identified by the Commission as essential for Africa's continued and accelerated progress: good governance; peace and stability; trade; investment in people; and private sector development. These are similar to the areas identified in the 2002 G8 Africa Action Plan. We also concur with the need for strong engagement and partnership with Africa and the importance of strengthening the capacity of its regional institutions.

And yet, while we agree with the issues raised by the Commission, we differ with some key conclusions. While the report correctly stresses the importance of Africa action in partnership with donors, its recommendations overwhelmingly target donor action. More importantly, we disagree with the report's conclusion that a massive amount of new money is the solution to Africa's development needs. The \$25 billion per year price tag over the next five years rising to \$50 billion per year after 2010 is not based on empirical evidence or rigorous analysis; rather it is based on the notion of a rough doubling of recent assistance levels. Furthermore, it fails to take fully into account serious issues related to weak governance and limited absorptive capacity. It ignores significant recent aid increases to sub-Saharan Africa. OECD member states, which provide the bulk of development assistance, increased their aid to Africa 112% from \$8.1 billion in 2000 to \$17.2 billion in 2003. Moreover, donors have given the region official development assistance (ODA) equivalent to on average 10% of recipient country GDP annually for more than a quarter of a century—a sum of \$326 billion. By comparison, as generous as the Marshall Plan was, Americans transferred the equivalent of only 2.5% of the combined GDP of recipients over four years. That poverty persists in Africa makes it clear that we need to look beyond the mere volume of assistance if we really want results.

The U.S. Record

The United States is deeply committed to helping the poor, in Africa and elsewhere. No single country on earth can match our record. We are the world's largest donor of official development assistance, emergency humanitarian assistance and private charitable funding. This administration has overseen the most significant increase of development assistance since the Marshall Plan. ODA nearly doubled from \$10 billion to \$19 billion 2000 to 2004.

Multilaterally, the US played a critically important leadership role in recently concluding the tenth replenishment of resources for the African Development Fund (ADF). As a result, more than \$5 billion will be available over the next three years to the poorest countries of Africa for such priorities as water supply and sanitation, private sector development, regional integration, and post-conflict reconstruction and stabilization.

We are looking at where we could provide additional resources to support good performers, encourage more reform, support efforts to improve governance, address critical health and education issues and generally build on what is working in Africa. But perhaps more importantly, this administration has engaged in a hard look at development success stories—and failures—to determine how to make our development assistance more effective.

Support for Good Performers

Learning lessons from the past half-century, the U.S. approach to development focuses on results and increasingly supports good performers with the capacity to absorb aid and use it effectively. In the 2002 Monterrey Consensus, the world acknowledged that each developing country has primary responsibility for its own development. Change must come from within, and countries must "own" their development plans.

These principles underpin the Millennium Challenge Account (MCA). The MCA builds on common sense. Aid yields better results in countries that demonstrate their commitment to govern justly, respect the rule of law, invest in their own citizens, and open their economies. MCA eligible countries design their own development programs and set their benchmarks and targets for meeting their goals. The MCC concluded its first compact with an African nation, Madagascar, for nearly \$110 million. And a compact with Cape Verde has been approved and is ready for signature. Six other sub-Saharan African nations are eligible for the MCA and seven more are eligible to apply for MCA threshold assistance. Similar selective ap-

proaches are being successfully applied to other U.S. assistance programs as well as our trade expansion and debt relief efforts.

Peace and Security

We are also refining our focus on working to address inter-related issues that have huge implications for development as well as global and U.S. security. These include, regional conflict and civil strife, disease, education, protection for the vulnerable, and humanitarian crises.

Some states face an array of challenges that make them less able to move forward with their development. They threaten the safety and prosperity of their own citizens as well as people beyond their borders. The Commission for Africa's report recommends tackling not only the causes of conflict, but building regional and global capacity to prevent and resolve conflict as well.

The United States is already pioneering approaches to these fragile states. We are working directly with at-risk populations in conflict areas to alleviate sources of potential conflict, including border disputes, inter-ethnic tensions, unemployment, and competition over resources. We are establishing at USAID a \$26 million conflict mitigation fund to address the causes and consequences of instability, violent conflict and extremism. Moreover, in order to ensure a well-coordinated U.S. response, the State Department established the Office of the Coordinator for Reconstruction and Stabilization. The 2006 budget request proposes, in addition to funding for the office, a \$100 million Conflict Response Fund to strengthen the Coordinator's ability to quickly channel resources into overseas programs, thereby speeding resources and impact on the ground.

Closely related to assistance for fragile states is U.S. cooperation with Africa on peace and security, a pre-requisite for development. Through the President's Global Peace Operations Initiative (GPOI), the goals of which were endorsed at the 2004 G8 Sea Island Summit, the United States will spend approximately \$100 million in FY 2005, most of which is going to Africa. In total, a proposed \$660 million over five years will be to increase global capacity for peace support operations in Africa and elsewhere. Through this initiative, we will bolster Africa's own plans to enhance conflict prevention and management capacity. Part of this involves efforts to stand up headquarters capabilities in the regional and sub-regional organizations, such as the African Union (AU) and the Economic Community of West African States (ECOWAS). The other part occurs at the national level, where the African Contingency Operations Training and Assistance (ACOTA) program, one of the key elements of GPOI, will provide training to over 40,000 peacekeepers over five years. In terms of ongoing support for conflict resolutions efforts, the United States is assessed over \$940 million in FY 2005 for the United Nation's peacekeeping operations in Africa. In addition, the United States is providing over \$145 million to support the AU mission in Sudan.

Investing in People: Health and Education

Development requires healthy, well-educated citizens. Investments in health and education pay huge dividends by allowing Africans to be more productive and avail themselves of economic opportunities and political freedom. The Commission for Africa recommends more money be spent to fight infectious diseases like HIV/AIDS, malaria and polio; vaccinate and immunize African children; and develop medicines that meet Africa's needs. It also recommends investments in education. The United States is already making significant investments in these sectors and will continue to do so.

Our flagship program, the five-year, \$15 billion President's Emergency Plan for AIDS Relief (PEPFAR), includes the largest health initiative dedicated to a single disease in history. Africa is a major PEPFAR beneficiary; 12 of 15 focus countries are located on the continent where an estimated 25 million people are infected with HIV/AIDS. In 2004, African countries received nearly \$800 million for HIV/AIDS prevention and treatment from the United States; this figure will rise to \$1.1 billion in 2005.

But U.S. support for health extends beyond PEPFAR. The United States provided about \$1.1 billion, 29.5% of total contributions, to the Global Fund to Fight AIDS, Malaria and Tuberculosis. About 61% of the \$3.3 billion in Global Fund grant funding goes to Africa. We are the largest bilateral donor to the Polio Eradication Initiative, having contributed/pledged \$1.14 billion, or 28% of total, since 1985. In addition, the United States is the world's recognized leader in vaccine research and development and immunization funding. In 2004, the USG provided the majority of global HIV vaccine research funding. In addition, the United States accounts for approximately 45% of all government contributions to the Global Alliances for Vac-

cines and Immunizations. As of February 2005, the U.S. government had contributed roughly \$220 million.

In addition, this administration has been a leader in education for Africa. U.S. spending on basic education programs in Africa totaled nearly \$600 million in five years. During this five years, \$200 million USAID Africa Education Initiative (AEI), nearly 220,000 new and current teachers have been trained and over 1.8 million textbooks distributed. The AEI supports gender equality by targeting scholarships and other assistance for girls; more than 85,000 girls from 38 countries have received scholarships that enabled them to pursue an education.

Humanitarian Interventions

The Commission for Africa calls for enhanced efforts to protect the most vulnerable in society. The USG is already taking action. PEPFAR set a goal to support care for over 1.1 million HIV positive persons, AIDS orphans, and vulnerable children by June 2005, a goal we exceeded by September 2004. And as I already noted, we also have a programs in place to increase girls' school attendance. Moreover, the United States funds a variety of programs to assist victims of conflict, violence and trafficking in persons. And our democracy and government programs assist women and other potentially disadvantaged groups gain a greater voice in government and civil society.

People are at their most vulnerable when facing a natural or man-made humanitarian crisis. At that moment, it is important to meet their immediate needs. Here the United States is a consistent leader. Thus far in FY 2005, the United States has already provided nearly \$1.4 billion to meet humanitarian needs in Africa. On June 7, President Bush announced approximately \$674 million in additional resources to respond this year to African humanitarian emergencies. Together with Prime Minister Blair, President Bush called on other donors to increase their engagement to address Africa's humanitarian emergencies.

Debt

In order to free up developing country resources for even greater investments in development, the Commission for Africa calls for a debt compact that would cancel multilateral and bilateral debt, principal and interest, by up to 100% for all sub-Saharan African countries, including those excluded from current schemes. As a result of a G8 commitment made at Sea Island to deal with the unsustainable debt burden of the poorest countries, the USG was instrumental in bringing about G8 agreement on a historic debt relief program. At their June 10–11 meeting in London, G8 Finance Ministers reached agreement on a proposal to expand debt relief and forgive 100 percent of the debt owed by the Heavily Indebted Poor Countries (HIPC) to the International Development Association (IDA), the IMF, and the African Development Fund. The USG strongly supports the proposal and is working actively to gain its approval by the shareholders of these three institutions. Mr. Bobby Pittman from the Treasury Department will be informing you in greater detail on the USG's strong record of debt relief to Africa.

Enhancing Aid Effectiveness

At Monterrey, countries also agreed that steps needed to be taken by donor and recipient countries alike to develop better, more efficient means of delivering and utilizing assistance, a call that is echoed by the Commission for Africa. The United States has enthusiastically taken up that call. Central to that effort is a shift in our way of thinking about assistance. We do not want to impose our ideas and methodologies; rather we are supporting developing countries own strategies for making change, while still ensuring strict accountability to achieve concrete measurable results. The MCA provides a good example of how we are putting this new thinking into action.

Poor governance and corruption continue to be an insidious problem facing many African countries despite significant steps being taken by the AU and many individual African governments. Nearly 50 years of experience with development assistance reinforces this conclusion. Corruption is a key hurdle. As President Bush recently stated in a message to the Fourth Global Forum on Fighting Corruption, "corrupt practices undermine government institutions, impede economic and social development, and cast shadows of lawlessness that erode the public trust." The Commission for Africa also notes that without significant additional progress in this area, all the other recommendations it makes—on aid, international trade and debt—will only have limited impact. We are committed to working with dedicated partners to employ effective anti-corruption measures, including vigorously prosecuting bribe payers and takers and denying safe haven to the corrupt, their corrupters and their tainted assets. We will help African countries build transparent

fiscal and budgetary policies that let their citizens see how revenues are raised and where public money it is spent.

Beyond ODA

USG official development assistance is but one source of the U.S. financial flows available to Africa and the rest of the developing world. Private American citizens and companies are extremely generous to those in need. During 2003, U.S. non-government organizations gave more than \$6.3 billion to developing countries, equivalent to 62% of total OECD private institutional grants. U.S. business and private individuals contribute billions more.

The UN report “Unleashing Entrepreneurship” underscored the critical role that private entrepreneurship plays in promoting economic growth and delivering goods and services to the poor. To jump start economic growth, developing countries must tap all available resources for development, including private sector resources such as trade, investment, remittances and domestic savings. In 2004, U.S. non-trade private financial flows to developing countries, totaled \$49 billion, two and one-half times U.S. ODA flows. In addition, U.S. net goods imports from developing countries were \$444 billion, dwarfing the size of all other financial flows.

But by far, the largest potential source of funds for development in 2004 was the \$2.7 trillion in developing countries generate as savings within their own economies. Compare that to the \$79 billion in total ODA to developing countries from all sources and you start to get an idea of how misguided it is to rely on ODA alone to meet developing country resource needs. That said, ODA could play an important role as a catalyst in support of unleashing the development potential of private sector resources and entrepreneurship.

Perhaps no single factor has as much immediate potential to lift vast numbers of people—as many as 500 million—out of poverty as increased trade. As UN Secretary General Kofi Annan remarked, “The poor are poor not because of too much globalization, but because of too little.” Noting the importance of trade, the Commission for Africa calls for significantly greater effort in expanding African trade. In particular, it recommends donors improve Africa’s access to developed country markets and the continent’s capacity to trade.

The United States continues to demonstrate global leadership in expanding trade with Africa. The African Growth and Opportunity Act (AGOA) stands as the centerpiece of our trade policy towards sub-Saharan Africa. This progressive trade and investment policy reduces barriers to trade, increases exports, creates jobs, and expands opportunities for Africans to build a better life. Under AGOA, 98% of beneficiary country exports to the United States enter duty free. The impact of the AGOA legislation can be seen in our expanding trade relationship with the sub-Saharan Africa. From 2000–2004, U.S imports from the region increased by over 50% while U.S. exports increased 44%. During that same period, AGOA helped diversify African countries’ exports, create tens of thousands of new jobs, and attract hundreds of millions in new investment. To build and improve on AGOA’s success in supporting African trade and development, in July 2004 President Bush signed the AGOA Acceleration Act that extends AGOA’s duty free access to the United States through 2015.

We are also working actively within the World Trade Organization to further unleash the power of trade for development. These negotiations present a once-in-a-generation opportunity to create substantial new real market access for developed and developing countries alike in agriculture, manufactured goods, and services. Last year, we secured agreement to include sharp cuts in agricultural trade barriers in the Doha negotiations. This includes elimination of export subsidies by a credible date, substantial reductions in trade-distorting domestic support, and substantial improvements in market access. We are now working with urgency to bring negotiations to a conclusion by the end of 2006. Recognizing that 70% of tariffs on trade are imposed by developing countries on other developing countries, we are working to ensure meaningful contributions by all—particularly the advanced developing countries—to improving market access. We are also working with African governments to incorporate trade reforms into their development strategies, thereby lowering the obstacles to trade both within Africa and between African countries and other developing countries, including India, China and Brazil.

The upcoming AGOA Forum—which takes place in Dakar, Senegal, July 18–20—will provide an opportunity for senior USG officials to meet with leaders from the 37 AGOA beneficiary countries to review the spectrum of issues affecting U.S.-sub-Saharan Africa trade and investment.

We also agree with the Commission for Africa’s assessment that trade capacity building is needed if African nations are to be able to gain access to the global market economy and take advantage of the benefits AGOA and WTO membership have

to offer. As the world's largest single country contributor of trade capacity building assistance, the United States has made Africa a priority and committed more than \$400 million from 2002–2004 for this purpose.

The Administration will continue to work diligently to widen the circle of prosperity, in Africa and elsewhere in the developing world. First it is the moral thing to do. And as we know in this post 9/11 era, it is essential for our national security. But as we work in partnership with Africans in pursuit of sustainable economic growth and poverty reduction, we will do so in a way that reflects American values—hard work, responsibility, and practicality. We will continue to pursue smarter ways to provide more and better aid. But we will do so with the knowledge that more money alone is not the answer, and may well prove to be counter-productive for those nations that lack adequate governance and capacity to effectively utilize that aid. We have great faith in Africans' own ability to boldly pursue their own dreams of greater economic prosperity and political freedom. The most dramatic poverty reduction stories of our time—China and India—occurred with development aid of less than one percent of GDP annually. To think that Africa cannot follow this same path smacks of—in the words of President Bush—“the soft bigotry of low expectations.”

Mr. SMITH. Thank you so very much for your testimony and for your fine work, and that of Mr. Pittman.

Let me ask you a couple of questions. Earlier today, President Bush, in talking, reminded us that in 2001 he challenged the World Bank to give 50 percent of its aid to poor countries in grants. And everywhere I travel, anywhere in the world—even most recently as part of a delegation to Indonesia, to Aceh, when we met with the foreign minister—we started talking about aid, and he said, “Please, no more loans.” And we hear that, all of us, everywhere we go, including in Africa.

But my question is—and I certainly support it; I think it needs to be done. The ability of the World Bank and other lending institutions to continue to have a reservoir of cash going forward, obviously when money is coming back by way of loans, even if it is not as much as one would expect because of the difficulty in making payments, do we have any concerns about the sustainability of those institutions? Can we expect enough infusions of cash from the U.S., the U.K., and others to make sure that they have the ability to even make the grants? Because there are no more revolving funds potentially being established.

Mr. Pittman.

Mr. PITTMAN. Thank you, Mr. Chairman. Just one small note to ensure—could I please ask, too, that my full written statement and slides—

Mr. SMITH. Without objection, your statement and any materials that you brought and that Mr. Reid has will be made a part of the record.

Mr. PITTMAN. Thank you. I mean, it is relevant to your question because in those slides you can see the flows to the World Bank, which are quite critical; and when we had the discussion on grants, this was a primary issue.

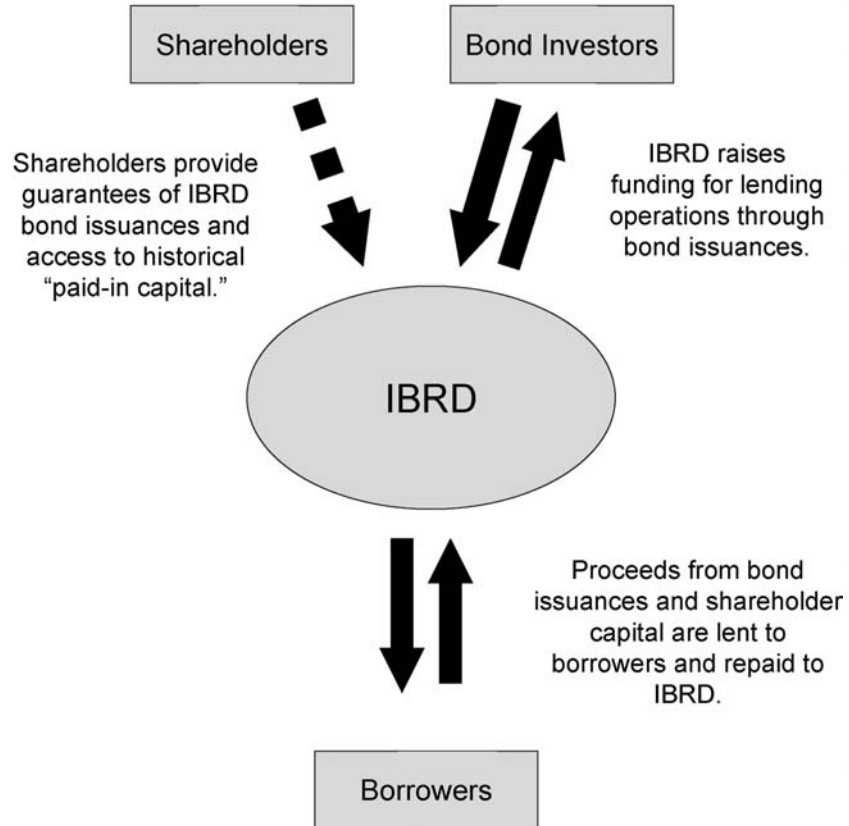
[The information referred to follows:]

The G8 Agreement:

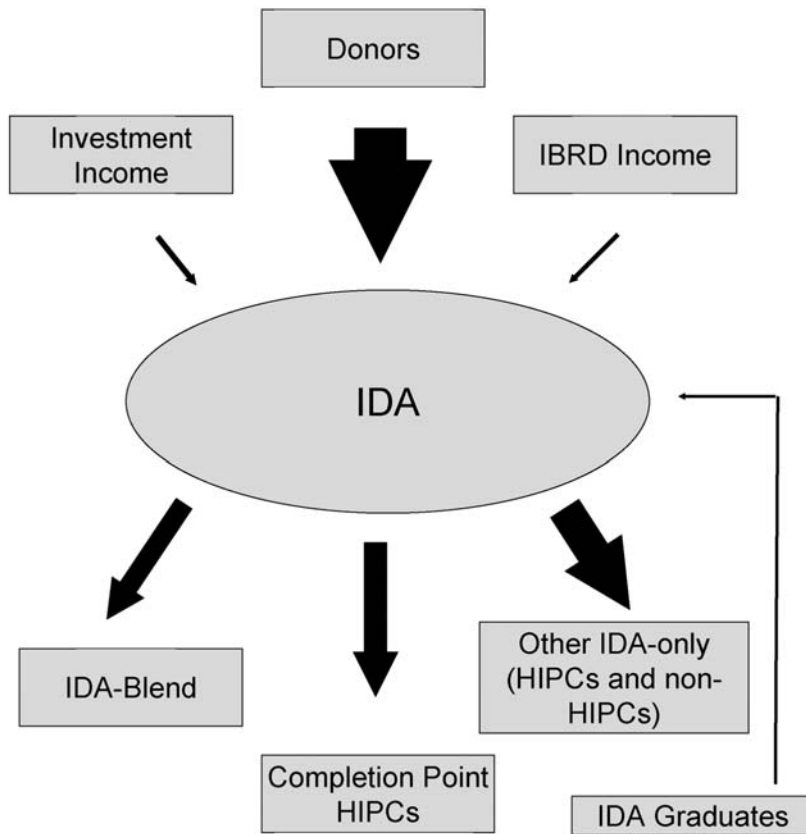
The Financial Mechanics of
Delivering 100 Percent Debt Relief



IBRD: Basic Structure

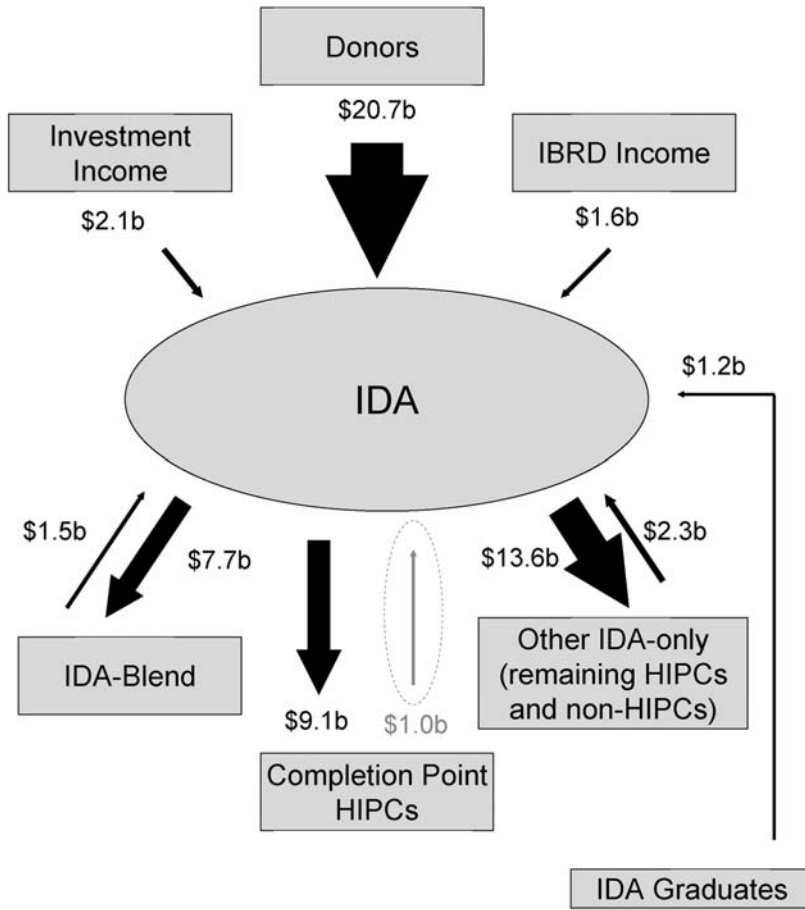


IDA: Basic Structure /1

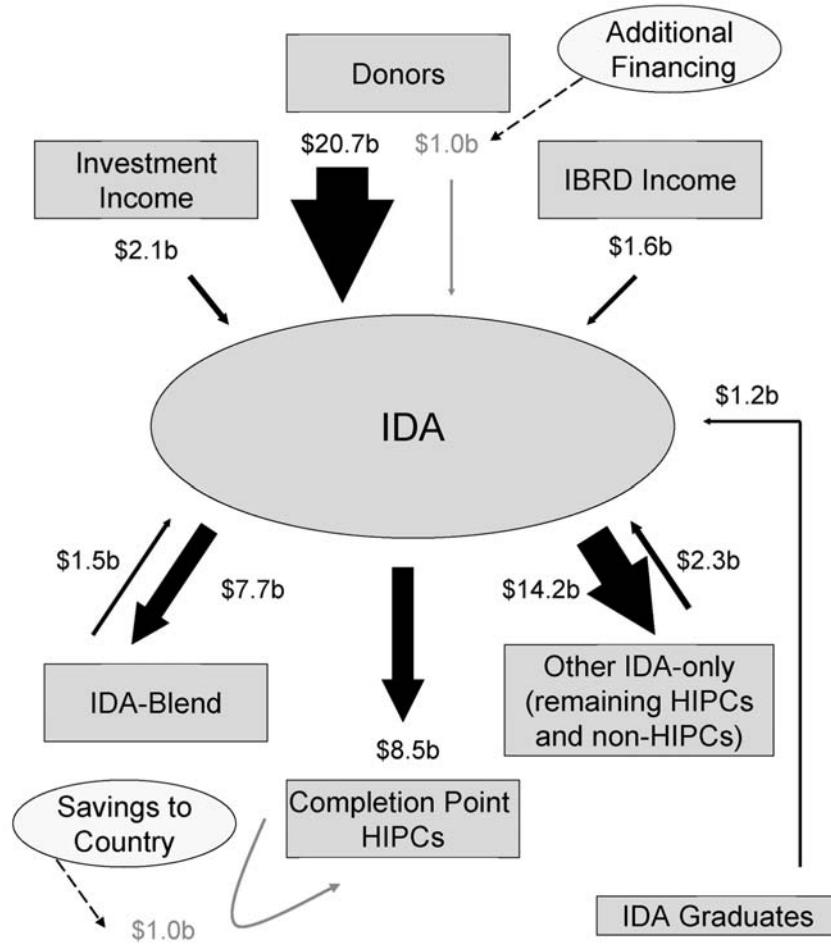


1/ Arrows are scaled to reflect levels of contributions and disbursements, based on projected IDA-14 figures (FY06-08).

IDA: Projected Cash Flow (IDA-14 Period)



IDA: G8 Debt Relief Plan (IDA-14 Period)



Mr. PITTMAN. And I think, in 2003, the reflows, the payments from the HIPC countries represented 3 percent of the resources to IDA. I mean, the bulk of the IDA resources come from Congress, from our taxpayers, and from other taxpayers around the world.

Mr. SMITH. I appreciate that. That puts it in great perspective.

Let me just say before going to the next question, it is nice to see Anita Botti here again. In the late 1990s, when we crafted the Trafficking Victims Protection Act, Anita was very, very helpful and very much a help in forging and establishing that legislation—so thank you—and was one of the first people from the Administration to testify at our first hearing on human trafficking.

So, great to see you, Anita.

Let me ask you, if I could: Yesterday we had a Full Committee hearing on water, and as was pointed out during that testimony by several of our witnesses, half of all the hospital beds in the world are occupied by people who are sick attributable to waterborne diseases, and about 5,000 people a day die from water-related illnesses, diarrheal disease and the like, and microbes and germs that are picked up by way of the water.

I noted or would note that part of Cameroon has been at decision point, it is my understanding, for the past 5 years; and one of the policy conditions that has not been implemented has been due to lack of investor interest in water privatization.

Now, I believe very strongly that we need to push, as much as we can, every country to have as sound and as pristine a water supply and a sanitation capability as humanly possible because of its impact on life and sickness. And one of our witnesses pointed out that you won't have democratization and democracy so long as water remains tainted.

And also a few of our witnesses pointed out that many of the ongoing water disputes and arguments among nations is also attributable to water. And certainly clean water is one of the highest goals we need to be pushing.

Could you speak to the issue of Cameroon? Is that isolated? Are there others like that? Is there a way? I mean, privatization, is that as important as having—I mean, most of the municipal authorities in my State are quasi-public, with private sector-public sector collaborations.

What is that all about in Cameroon, if you could?

Mr. PITTMAN. Thank you. I can't speak to the specific, up-to-date on Cameroon's decision point. I do know that, again, it was one of the nine decision point countries that we expect to reach completion point in the next 12 months, so we are certainly optimistic. It is one of the countries we put as being optimistic.

But what I can do is follow up and give you more specifics on Cameroon in particular and the up-to-date situation on their decision point to completion point.

Mr. SMITH. I appreciate that. And any other country, if you could, as we complete the hearing record, that has a water-related issue; it would be very helpful to the Committee to have a sense of that. Because Mr. Blumenauer has a bill, Water for the Poor Act, I think it is, of 2005 which has some very, very important and compelling aspects to it; and I think the Committee is looking very favorably—the Full Committee, Democrats and Republicans—on re-

porting that bill. So it would be very helpful to have a greater sense of what the picture is on the ground.

Today, the President talked about doubling funding for America's Africa Education Initiative. In the next 4 years, he said, we will provide or should provide \$400 million to train half a million teachers—and you referenced that earlier in your testimony—and provide scholarships to 300,000 young people, mostly girls.

Could you provide some additional details for that, Mr. Reid, if you would?

Mr. REID. Thank you, Mr. Chairman.

This basically represents a doubling of the current Africa Education Initiative that we now have under way. It has been, up to this point, a \$200 million 5-year program.

Its achievements, thus far, track very much what the President has proposed for the recent doubling. Up to now, it has trained something on the order of 220,000 new teachers; it has provided scholarships for some 85,000 students, most of which happen to be girls.

As we heard this morning, the President has proposed doubling that initiative to \$400 million over the next 5 years with a target of training half a million teachers and providing something on the order of 300,000 scholarships, again mostly for girls.

Frankly, Chairman, I don't have a lot more in the way of details than that. I can get more, if you like. Thank you.

Mr. SMITH. I appreciate that.

I yield to Congresswoman Lee from California.

Ms. LEE. Thank you very much. And let me also welcome you and thank you for your testimony and for your very committed work within the State Department and the Treasury.

Of course, I am one to believe we still don't have enough resources, and I believe additional funding and resources, properly coordinated and structured, will help make a tremendous impact in Africa in addition to debt cancellation.

I wanted to ask if you could just briefly review the Tony Blair proposal, the elements of it that were accepted by the President and the parts of it that were not accepted by the President. I am reminded of a meeting maybe 6 weeks ago with some very prominent and effective and powerful African-American ministers. They met with Secretary Rice and believed that they had some movement in terms of a real coordinated, comprehensive agenda with regard to Africa. They subsequently commended the President for accepting the debt cancellation component of the Blair initiative, but were quite disappointed with the response of the second part of his initiative.

So I would like for you to comment on that.

And, Mr. Chairman, I would like to ask unanimous consent to insert this letter from the African-American clergy into the record of this hearing.

Mr. SMITH. Without objection, so ordered.

[The information referred to follows:]

*An Open Letter to President George W. Bush from
Black Church Leaders*

14 June, 2005

Dear President Bush,

First Mr. President, we would like to express our deep appreciation for your facilitation of our meeting on May 23, 2005 with Secretary of State Condoleezza Rice at the State Department. As supporters of your vision of compassionate conservatism and your faith-based initiatives, we would like to express our appreciation of your efforts promoting development and human rights in Africa. In particular we are very encouraged by your support for the battle against AIDS in Africa, your collaboration with Prime Minister Tony Blair of Britain on eliminating \$40 billion in debt for 18 of the world's poorest nations, many in Sub-Saharan Africa, and the drive to end corruption in African governments through the United Nations' Millennium Fund.

As leaders in the faith community who support you we are requesting a meeting to discuss these matters. You have demonstrated a zealous concern for promoting the leadership role of the United States in spreading freedom and democracy around the world. While the United States has invested heavily in terms of financial and troop support in Afghanistan and Iran, and has led the international community to augment both our aid and our troops, we have much more to do in Africa.

The danger of the rise of radical fundamentalism, and even terrorism, that is associated with failed states is no less real in African nations. Beyond a concern for consistency in practicing the "compassionate conservatism" of your administration are these larger pragmatic national security considerations. Mr. President, if we fail to act decisively we risk promoting instability and terrorism by our functional indifference. Our failure as a nation to adequately support Africa is fundamentally a failure to adequately support our own national security. The defense of African stability is in the last analysis a defense of vital U.S. interests.

We are aware that aid to Africa has tripled to \$3.2 billion during your administration, but as *The New York Times* points out, this pales in contrast to the latest proposal of \$81 billion in emergency aid targeted to Iraq and Afghanistan, or in contrast to the \$140 billion tax cut that corporations enjoyed last year. At the same time we are concerned that the United State's aid to poor countries remains at 0.16 percent of gross national income, far short of 0.7 percent targeted by the United Nations by 2015. Of course there is cause for grave concern over the

level of corruption rampant in many African governments, and much work must be done to ensure transparency and probity in the handling of international aid. We support the use of aid targeted to specific, measurable goals in education, agriculture and disease treatment and prevention, as advocated by Jeffery D. Sachs of the Earth Institute at Columbia University, which have been shown to achieve the desired outcomes when carefully audited by donor countries. Mr. Blair's imperfect initiative aimed at doubling international aid to Africa over the next 10 years in order to eliminate poverty on that continent deserves your ardent support.

What is more, while the philanthropy of individual Americans is robust and praise-worthy, and our fellow clergy have joined in the fight against the pandemic of AIDS on the African continent, such efforts are woefully inadequate. Without major investments from the United States' government, churches and individuals cannot begin to respond to magnitude of the crisis of poverty and disease on the African continent.

We are well aware that you may have significant points of difference with the proposals contained in the Blair Commission Report, if so, surely this is a great opportunity for your administration to produce your own "Marshall Plan" for Africa, a superior proposal of specific action for the G8 summit. Such a plan must, at its core, be both cost-effective and donor-administered. This is a topic that we are eager to discuss with you.

Mr. President we are confident that you fully understand that we as Christians of African descent have no moral alternative but to raise our voices in defense of the defenseless as an act of faith and conscience. We would be honored to have the opportunity to discuss these matters with you. We also seek your assistance in requesting a meeting for us with Prime Minister Blair to discuss the strengths and weaknesses of his plan. Finally we request your advice on how our perspective of faith can be effectively heard at the G8 meeting in Scotland in July pleading the case of the millions of Africans who so needlessly suffer in abject poverty. Mr. President, your vision of compassionate conservatism demands nothing less than our country's best in aid of the world's poor.

In His Service,

Bishop Charles E. Blake
First Assistant to the Presiding Bishop
The Church of God in Christ
Los Angeles, California

Bishop T. D. Jakes
The Potter's House
Dallas, Texas

Bishop Eddie Long
New Birth Missionary Baptist Church
Lithonia, Georgia

Ambassador Andrew Young
Atlanta, Georgia

The Reverend Frank Madison Reid, III
Bethel AME Church
Baltimore, Maryland

The Reverend Eugene F. Rivers, 3d
Azusa Christian Community
Boston, Massachusetts

Ms. LEE. I think it is very important.
So could you give me a response to that, please?

Mr. PITTMAN. Yes. Thank you, Congresswoman.

I mean, in some ways there are two different pieces. There is the Commission for Africa, which put forward 100 percent debt cancellation. But the actual proposal, tabled by the British Government, was not for 100 percent debt cancellation. Originally, it was for debt servicing year by year, which is quite different, of course, especially in the short run when the servicing could be quite small.

And this was a primary disagreement through most of last year, although I would note that the U.S. and U.K. were very much on the same side of this issue in discussing it with our other partners within the G-8. And it was critical; that is why the meeting and coming to an exact same position with the British as a result, earlier this month, was really critical to getting the decision within the G-8.

Ms. LEE. Mr. Reid, can you comment on my specific request with regard to the elements of the Tony Blair proposal which were not accepted by the President?

Mr. REID. Thank you, Congresswoman.

Of course, this is an ongoing discussion; I don't think we are at its conclusion yet. The idea, generally, is that we would come to final agreement next week in Gleneagles. But as you can see, there has been a steady agreement, a steady movement between the two parties.

Of course, Mr. Pittman mentioned the debt agreement, which I think is quite significant. Prime Minister Blair had called for a doubling of aid for Africa. We heard this morning that the President has agreed to a doubling by 2010.

Ms. LEE. And Mr. Blair wanted that by when? Or was that 2010 also?

Mr. REID. Yes, by 2010. So, as I say, I think what we are seeing is an increasing degree of agreement between us and the British on this. I really couldn't venture a guess on where it might end, but clearly we are making rather bold steps to increase our assistance.

And let me just point out that it isn't just the level of assistance, from our perspective, that is important. It is also its quality and the fact that the specifics that we are proposing are for specific measures in partnership with the Africans that we think can produce results. And, really, it is the results that we are most interested in achieving rather than just achieving some random number figure of donations.

Thank you.

Ms. LEE. Mr. Chairman, may I just—I would just like to quote from this letter to the President from these ministers:

“We are very well aware that you may have significant points of differences with the proposals contained in the Blair Commission Report, if so, surely this is a great opportunity for your Administration to produce your own “Marshall Plan” for Africa, a superior proposal of specific action for the G8 summit. Such a plan must, at its core, be cost-effective and donor-administered. This is a topic that we are eager to discuss with you.”

They also mention the fact that they are aware that aid to Africa has tripled to \$3.2 billion during the Bush Administration; but as the *New York Times* points out, this pales in contrast to the latest proposals of \$81 billion in emergency aid targeted to Iraq and Afghanistan, or in contrast to the \$140 billion tax cut that corporations enjoyed last year.

At the same time, we are concerned that the United States' aid to poor countries remains at 0.16 percent of gross national income, far short of 0.7 percent targeted by the United Nations by 2015.

So I would share this with you and put this in the record because I hope that the President, if he hasn't agreed to meet with these ministers as a follow-up to their meeting with Secretary Rice, puts this on the agenda.

Thank you very much.

Thank you, Mr. Chairman.

Mr. SMITH. Mr. Payne, Ranking Member.

Mr. PAYNE. Thank you very much. And let me apologize to my colleague. We had a series of votes in the

Education and the Workforce Committee, and it was essential that we be there. Therefore, I certainly missed the opening statements, nor did I give mine. Perhaps after this panel I will make some comments.

Let me just comment on the gentlelady's letter read, from the Black clergy, where they quote the tripling of aid that the President mentioned at the press conference with Tony Blair. And I just want to indicate to the gentlelady that it was not tripled in aid nor was it doubled; rather, in real dollars, it was increased 56 percent. So I just want to—maybe we can get a letter off to the ministers, who I know are very supportive, to get the record straight.

But that is—let me just perhaps follow up on this question of a Marshall Plan. We know that it has been a concept that has been mentioned, and we know that there has to be a comprehensive approach to dealing with Africa the way it is. Currently, Africa is perhaps in the same state that we are—that Europe was after World War II. Many of the conditions are not dissimilar.

But today we look at the EU with an \$11.65 trillion GDP, and we think there are indeed possibilities for Africa if some of the situations, sustainable problems, were removed, that the continent could move forward.

Have there been any discussions, either one of you, on a Marshall-type Plan for Africa? Has there ever been sort of a comprehensive discussion of a multifaceted approach to the sustainable problems Africa is confronted with at this time?

Either one of you. Yes.

Mr. REID. Thank you, sir.

On the specifics of the Marshall Plan, it is very—I always find it interesting that this is always held up as a kind of model, and sometimes I wonder why. Yes, the Marshall Plan was definitely a very generous undertaking by the United States to rebuild Europe after World War II. But if you look at the actual numbers, the actual transfers that took place were something on the order of 2.5 percent of the recipient country's GDP over the course of like 4 years.

If you want to look at the full range of our assistance to Africa, it has been many multiples of that in terms of percent of their GDP over decades. The fact that we haven't seen the kind of response to that assistance that we had seen in Europe suggests to us that there is something missing, that it is not just a question of resources that need to be transferred; and that really it is a question of the quality of policy.

Now, one of the parts of the Marshall Plan was the fact that the recipient countries had to develop their own reconstruction plans that were submitted to peer review and where they basically said how they were going to use this assistance. And what we are trying to do is recreate that kind of success; that is, have, if you will, country-owned strategies, that is, strategies whereby the countries identify their own needs and identify for themselves and for others how additional resources would be used to achieve their development goals. This is part of what lies behind the Millennium Challenge Account.

So I think we are moving in the direction of a "Marshall Plan." I think we have exceeded the Marshall Plan in terms of sheer volume. And I think obviously with the ramp-up that we are looking at in both the MCC and the kind of doubling that the President has talked about, we are looking at an even more substantial increase.

And if I could just say one other thing about the suggestion on the growth of development assistance over the past 5 years, if the Congressman is referring to the recent *Brookings* article, I just wanted to point out, that article looked at appropriations between the fiscal years 2000 and 2004. The kind of numbers that we look at and that are subject to international multilateral vetting are actual disbursements. In other words, money that we have actually spent in the years 2000 and 2004. And so that is what our conclusions are drawn from when we talk about our increases.

Thank you.

Mr. PAYNE. Well, when we talk about the Marshall Plan, it wasn't—it is not only about the amount of aid. As a matter of fact, if you took a portion of what the U.S. did for the Marshall Plan, you will find that it was absolutely enormous compared to our foreign assistance, which I think is 0.16 of 1 percent of our GDP.

Of course, GDPs are different at this time. So when we are comparing the Marshall Plan as what the commitment of the United States of America was to rebuilding Western Europe, what we are doing certainly pales in comparison to what happened at that time.

But just as we talk about it, it is not only the amount of aid, but also it is where the focus is. For example, one of the ways that Africa certainly could have developed was with increased agriculture development assistance. Africa is a natural for agriculture.

However, in the past 15 years we have seen a 50 percent decrease in agricultural assistance; and by the same token we have seen agricultural subsidies from the West—including Europe, the United States, and Japan—of about \$315 billion, therefore making it absolutely impossible for Africa to utilize its most valuable resource, its agricultural potential.

And so when we look at how we are going to assist in a sustainable way to have sustainable development, we have to take a look

at what we are doing that are impediments to the development. And I think that—of course, in Cancun, the whole discussion about agricultural subsidies is certainly one of the issues that we are seeing. And I wonder whether either of you have any comments as relates to the agricultural subsidies and how we will ever be able to have agriculture as a main means of economic resources for Africa.

Mr. REID. Thank you.

It is no question that agriculture is essential to the prosperity of Africa. Something like 70 percent of all Africans make their livelihood in agriculture, and any contribution that agricultural productivity can make to development is going to be considerable.

We have watched the increases in payments to agriculture with some discomfort as well. With respect to the United States, however, we have been at great pains to delink the kind of assistance that we provide to the agricultural sector from the export sector to such a degree that our support payments are not designed to increase production, and they are designed to have as little effect on the market as they can.

Now, of course, agriculture is one of the main areas that we need to attack or we need to agree on in the Doha round of trade negotiations; and it is no question that this round of negotiations has great potential for benefits to the developing world. The World Bank has very impressive estimates of the amount of resources that a successful Doha round could provide to the developing countries; and President Bush today called it the most effective poverty reduction program we could possibly imagine.

So I share the Congressman's sense that this is an area where we do need to concentrate, and share his view that it is an area that has a great deal of potential to promote poverty reduction and development.

Mr. PAYNE. Just finally, we talked the other day at a hearing about the great initiative that the U.S. has put forward responding to the World Summit on Sustainable Development, and have pushed for the Water for the Poor Initiative, and that of an \$800 million-plus bill. We would find that for the 48 sub-Saharan African countries, 6.4 percent has been allocated to the place where water and potable water is most important. And 94 percent is to Jordan and the Gaza Strip and Iraq and so forth.

And so, if we are really going to start a program such as the Water for the Poor Initiative, then we ought to really attempt to have the programs where the people are the poorest. If it is a program to fight terrorism, I could certainly be a part of that and continue to be supportive. However, if it is really supposed to have clean water, drinking water, then we are way off in what we are doing.

Finally, just let me say that in the *Brookings* comment that you supplied, that we have compared apples to apples in our report. EU nations have agreed to increase official development assistance toward poor countries; that is the ODA. So when President Bush responds that he has already tripled aid, he should say that they have increased disbursements, not the ODA, which is the official development assistance, which would therefore make the increase up 33 percent between 2000 and 2005.

But like I said, we don't need to have the debate on the figures at the time. It is according to how you read them. We are doing some movement in the right direction. However, I think if we look at it very clearly and compare apples with apples, we should have a way of having a true assessment of what we are doing so that we really don't kind of kid ourselves when we make statements.

I think my time certainly has expired, and I thank the Chairman for the time.

Mr. SMITH. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Chairman Smith, for holding this timely and important hearing today. And I know when we came in really quick before we left to vote, I thought I saw Malawi's Ambassador, the Honorable Mr. Sande.

You are still here. Good to see you, sir.

It is through conversations I have had with many parliamentarians, people I have met as I have traveled in Africa, and with the Ambassador, that I have come to really understand so much more clearly what is confronting the people of Africa—the extreme poverty, the AIDS pandemic, the food insecurity, the limited foreign government investments, the brain drain that is going on with health care workers, and the burdensome debt. So I thank the African Ambassadors and the people of Africa for my ongoing education on this issue.

And because of that, I became involved in offering a bipartisan resolution, H. Con. Resolution 172, supporting President Bush's efforts to meet the U.S. commitment to achieve the U.N. Millennium Development goals. The resolution has been coauthored by my Democratic colleagues, as well as Mr. Shays and Mr. Leach, and I would encourage all Members and my Republican colleagues to sign on as well.

Today, President Bush claimed that he had tripled development assistance to Africa. And we can get into who sets the numbers you want to use, but I am going to point out something that I think is really important to this discussion.

Emergency assistance from the United States to African nations is significant. It is lifesaving. Emergency AIDS relief, emergency food relief, emergency humanitarian relief for the victims of genocide in Darfur, emergency peacekeeping operations in Darfur, southern Sudan, and the Congo. These billions of dollars of emergency relief are preventing ongoing crisis.

In many cases, as I said, they are keeping people alive, but these billions of dollars are not developmental assistance. We need to be targeting new opportunities for education, economic growth, strengthening civil society, providing clean water, healthier communities, and healthier families. Assistance in advancing development, not mitigating emergencies, is becoming an ever-diminishing proportion of the United States foreign aid to Africa.

Forty-four percent of the population of sub-Saharan Africa is 14 years or under. They are children. Africa is facing a demographic explosion, even as life expectancy in many nations means these children will not live until their 30s.

Developing Africa means opportunities for these hundreds of children, millions of children. It requires universal education, economic opportunities, strong political institutions, and a future that is not

about surviving for emergencies, but a future that is about being sustainable, a future that is free from misery, hunger, disease, conflict, and exploitation.

President Bush in 2002, in fact, said:

“I have ambitious goals for the developed world, that we ought to double the size of the world’s poorest economies within a decade.”

Now, my question is, gentlemen, what percentage of U.S. foreign assistance in 2005, that is, in non-emergency aid assistance that is intended to build, enhance, and strengthen current level of social, education, health, agriculture, and economic development—what is the amount of non-emergency aid?

Mr. PITTMAN. Thank you, Congresswoman.

I don’t have that specific number with me, but we can certainly ask our USAID colleagues to help us get a specific number.

I would point out that on the emergency assistance—as you noted, it is absolutely critical. There is a problem today in the world in that the U.S. provides, by far, over 50 percent of the emergency assistance in the world; and I think it would be very helpful for others to come in with more emergency assistance, and it would give us more opportunities to, as you said, go toward more sustainable development.

Ms. MCCOLLUM. Mr. Chair, Mr. Pittman, Mr. Reid, I agree with that. I totally agree with that. But when we are talking about commitments we are making toward these goals, which should be achievable—which are achievable if we put our hearts, our minds, our energy, our commitment behind it—we need to be honest about what we are talking about in numbers when we are talking to our African brothers and sisters.

Because they know what is emergency and what is non-emergency; the American people will understand what is emergency and non-emergency. But if we want to work to make these emergencies not happen, we have to get to the underlying cause.

And I am troubled, I have to say, based on what today’s hearing was, is—how it was described, that you don’t have those numbers with you. I am very troubled by that, Mr. Chair. So let me try another question; and I think Mr. Payne started with it, too.

What is our strategy, what is the blueprint, what is the map to meet the goals that are set by President Bush in doubling the size of the world’s poorest economies, especially in Africa? Where is the blueprint? Where is the document? Where can we go look at what the plans are?

And I know I have asked you to answer that question, but I want to go back to the statement that you made about the Marshall Plan, Mr. Reid. We are not asking for the same Marshall Plan; we are asking for a blueprint.

And to say, if I heard you correctly, there is something missing in Africa, well, there is something else going on in Africa, the emergencies that I just described—the AIDS pandemic, the malaria, the tuberculosis. Those weren’t issues that Europe was dealing with in its reconstruction.

So there is something missing in Africa, and that is, helping Africa help itself to get healthy. But while we do that, what are we

doing to make Africa help itself become stronger? Where is the plan? Where can I find a document?

Mr. REID. Thank you, Congresswoman.

There are a number of issues there that I think are at the heart of our general approach on development in Africa. First, on the number, it is actually the Agency for International Development that keeps these numbers. I mean, I have a table here that shows that. The only detail we have is for 2003—we haven't broken it out for 2004—but in 2003, if you subtract out emergency food aid and other emergency spending, it is something around \$3.2 billion.

Ms. MCCOLLUM. Does that include the emergency plan for AIDS?

Mr. REID. No, it does not.

Ms. MCCOLLUM. Thank you.

Mr. REID. On the broader question of strategy, I appreciate you pointing out that there are numbers sort of all over the map, whether we are talking about commitments or disbursements or whatever. I mean, to a certain degree, that is not really what—is not really important. What is important are the results, and the sorts of things that we are looking at are the ones that are designed to bring maximum results as soon as we possibly can, on the one hand.

On the other hand, with the emergency spending that we do to ensure that those crisis situations, those fragile states, those people who are at risk of dying of hunger don't, that those fragile states are assisted. We really have sort of a two-pronged approach here, on the one hand, where we are trying to get the best payoff in terms of poverty reduction. We are looking at things in the Millennium Challenge Account, where every dollar of assistance produces real results.

I mean, to a degree, if you are just giving assistance, you know, sort of into any kind of environment, that is potentially a dollar that is not spent on genuine poverty reduction. So, you know, which is the better dollar to give? I would argue that the better dollar to give would be the dollar that we are giving to a country with responsible governance, a country that invests in its people and a country that promotes economic opportunity. This is where we get the biggest payoff in terms of poverty reduction.

At the same time, I think it is very important that we maintain our humanitarian assistance so that those who are at risk don't end up falling through the cracks.

In terms of an overall blueprint, what we keep on looking at again and again is the Monterrey Consensus. In 2002, there was a so-called Financing for Development Conference, where the international financial institutions and all the governments of the U.N. got together, and they agreed among themselves what kind of road-map would best deliver poverty reduction and take us toward those goals that were agreed to in the Millennium declaration.

Basically the Monterrey Consensus puts responsibilities on the developing countries themselves for development, in partnership of course with the donor countries, and says that it is more than just official development assistance that can power development. There is a whole range of resources that include things like worker remittances, trade, foreign direct investment, charitable giving.

I mean, some of these are so much larger than the official development assistance numbers that they just dwarf them. So that is what we really look at again and again, is that Monterrey Consensus. We have tried to operationalize that as I think we have done with the Millennium Challenge Account and some of the other initiatives that the Administration has mounted.

Thank you.

Mr. SMITH. Thank you. Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman and I apologize, gentlemen, for missing your opening statements but I have tried to read quickly what you have submitted for the record.

Mr. Chairman, I did read quickly through your statement as well. I particularly like your last line: We are our brother's keeper, and what happens in a remote village in Africa happens to us. So thank you, Mr. Chairman, for holding this hearing today.

Recognizing the diversity of the continent, which developing country stands out as a model for successor potential success in light of the Millennium Challenge paradigm, which is looking at reforms that have been undertaken, either economic, social or political, that can lead to truly sustainable development and reduction of poverty and a truly healthy social order?

Mr. PITTMAN. Thank you, Congressman.

I would say that within sub-Saharan Africa, I think, countries are leading in different ways. Obviously, Madagascar, signing the first MCA compact, has shown its leadership in stepping up and designing a proposal that is owned by the people of Madagascar, that has been consulted with in the civil society of Madagascar, that they buy into. And they obviously went through significant reforms in the last 2 to 3 years, and I think that is certainly one country.

Mr. FORTENBERRY. Why don't you touch on a few of those? Just unravel that for us a little if you would.

Mr. PITTMAN. A few of the—

Mr. FORTENBERRY. Reforms that have led to you concluding that that has been one country, given the context of the diversity of the continent that has been so successful.

Mr. PITTMAN. I think a key piece for the country itself is to buy into the reforms. That is why I said, with Madagascar, the fact that they set up a plan very quickly when the Millennium Challenge Account countries were announced and came forward with that plan, a plan that included, you know, I think it is 800,000 new land titles—you know, the title willing of land so that people could own and leverage the land, the property that they opened, which obviously is critical to building the financial sector in Madagascar.

But, again, there is a number of countries in sub-Saharan Africa that have been making extreme efforts on reform. You just look at the days it takes to start a business in Africa, a number that has been coming down significantly, since the announcement of the Millennium Challenge Account. Countries like Senegal and Ghana have cut that number in half, in terms of the days that it takes for a small entrepreneur to start a business on the ground.

So those are the kinds of numbers and some of the issues that we look at.

Mr. FORTENBERRY. Can you give me any more detail? I am fascinated by the one bit of detail that you give in terms of land reform, basically institutionalizing the concept of private property rights and protecting those rights as an essential market-type reform, consistent with a human rights reform as well, that may be sustainable in the future.

Are there others that go down to that level of detail? I think it is important to hear, because we talk in broad terms about economic, socio-economic reforms. But it is that type of measure that is at the lowest level, an institutional reform that sustains in the long term the broader goal of the reduction of poverty and a truly healthy social order.

Mr. PITTMAN. Yes. I mean, I guess the—

Mr. FORTENBERRY. I don't mean to put you on the spot.

Mr. PITTMAN. No, no.

Mr. FORTENBERRY. If you had a quick run through of some of the specific achievements like that, I think it would be helpful.

Mr. PITTMAN. I can follow up two more on Madagascar in particular, because I think it is a very interesting case. But I guess the overarching point is that the hurdles are different, as you mentioned, in many of the countries.

When you talk about institutional reform—like property rights, I mean—it is such a key that the people of the country and the institutions in the country buy into the program. I think this is one of the great stories already of the Millennium Challenge Account, because the country of Madagascar has had this proposal, you know, for a couple of years. And they lacked the funding to implement the proposal.

Because of the Millennium Challenge Account, they are now going to be able to implement this proposal. You know, of course, the follow-on to that is, once the people have this land, they are going to be able to go get mortgages in Madagascar, which is another thing that we are focused on; then borrow against those to set up their small business and so on and so on. I think, for Madagascar in particular, the property rights is really the first step in a long path. I think it is an absolutely fundamental one.

Mr. FORTENBERRY. Do you have any other quick examples you would like to give?

Mr. PITTMAN. No. I don't have any other.

Mr. FORTENBERRY. Okay. Keep that in mind, though, if you would, as you proceed, and your public awareness and various testimonies, because I think it is very helpful to give concrete examples. Being this is a work in progress, I think we understand it doesn't happen overnight, but it is helpful to point to things like what you are referring to, steps along the way. Thank you.

Mr. SMITH. Thank you. Ambassador Watson.

Ms. WATSON. Thank you so much, Mr. Chairman.

I want to thank the panelists for being here and assisting us in some of our concerns. I have been following the meeting between Tony Blair and President Bush, Tony Blair's push for more to be done and more to be contributed to the African nations. And the President does quote a statistic that we have tripled our support to several African nations.

The Congressional Black Caucus has recently published its set of agenda items for this particular session. On there, one of our major concerns is, what really are we doing for Africa? As you know, the AIDS pandemic has really wiped out the future of many African countries. Parents have died and children eventually will also. So that is a tremendous concern to us who are of African descent. And we are joined by almost all of our colleagues in that particular concern.

But historically, economic instability has been the root of extremists, extremism and social upheaval. As we have pledged to spread democracy throughout the Middle East and other areas of the world, how can we bypass those roots that create dissension and result in violence against the haves?

So my question is, are the security interests of the United States not better served by eradicating the conditions in which potential extremism can flourish?

I do know that Niger came up in the discussions and part of the justification for us invading Iraq. Listening to the President's speech the other day, the other evening, I was quite concerned that he kept mentioning 9/11 as he justified going in and taking Saddam Hussein out.

Now, I compare his rhetoric with what is really going on in some of the African nations. A couple of my colleagues, Betty McCollum, Barbara Lee, and I, we went to the Sudan, and we were among the survivors. We went to the refugee camp, over 250,000 refugees, and we were all appalled by the stories and the images that we saw.

I thought, Why aren't we putting more emphasis on helping these third world countries so that we don't have to face the crimes against humanity and the starvation that is going on? So I have to say all those things, get them off of my chest, so that I can hear from you as to what our plans are to assist these countries and really live up to the commitment our President is making to bring democracy and liberate people.

We want to liberate them from hunger. We want to liberate them from oppression. So what are we doing in that regard? I know Tony Blair was right out there trying to push the United States. What are we doing as a result?

Mr. Reid.

Mr. REID. Thank you, Congresswoman.

Well, it is certainly the case that, as you say, our security is linked in a great degree to the prosperity of Africa, and I think the President this morning spoke very eloquently to that exact point.

As he said, the ultimate answer to the threats of terrorism is to encourage prosperous, democratic and lawful societies that join us in overcoming the forces of terror. That is what we are trying to do. That is our basic thrust in trying to encourage development in that.

Ms. WATSON. What's our roadmap? I like that phrase. What is our roadmap there for Africa?

Mr. REID. Our roadmap, in broad terms, as I mentioned, stems from the Monterrey Consensus, which I sort of went into a little bit earlier, that we will work in partnership with countries that have demonstrated willingness and capability to make best use of

our assistance. That is how we will make every dollar of our assistance count.

In those areas where there are fragile states, where there is conflict, where there are people who are at risk from famine or disease, we will provide humanitarian assistance as well.

Now, at Sea Island, we agreed to a Global Peace Operations Initiative, and its main focus is on Africa. And it involves a number of thrusts: Training, a fairly ambitious program of training peacekeepers, deployment and logistics support, equipment, peacekeeping troops worldwide, and, again, provide support for these peacekeepers.

We have deployed this model successfully in many conflict areas. We are looking to elaborate that even more going forward. Again, this is a work in progress. I think that you can see some of the fruits of that work.

For example, in the collaboration that we are enjoying in—or that we see in addressing the problem in Darfur—for example—Sudan, Sierra Leone, Liberia, Democratic Republic of the Congo, I think these are all areas where we have provided support to peacekeeping in a way that mitigates the horrendous human cost of those conflicts.

Now, Mr. Pittman, I think, was in Niger, if I am not mistaken.

Mr. PITTMAN. Congresswoman, you mentioned Niger. I would mention, I think, I would also give you the example of blueprint, because it is different for different countries in Africa, as you mentioned before. You know, last year, the Under Secretary of the Treasury went to Niger because Niger had become a completion point country, qualifying for debt relief. It is covered under the G-8, and it will get an additional \$1 billion in debt relief. They have a brilliant finance minister. They are doing a lot of the right things.

Yet, when we went to Niger, we were disappointed at some of the things we saw, you know, because we went to a village and the people needed a bridge. You know, that was the critical piece that was needed in that particular village north of the capital.

We went to another place, and they didn't have a refrigerator to keep medicine. So they had nurses. They had doctors. But no refrigerator to keep medicine. You know, now, we can say—we came back. We had a lot of dialogue here in Washington with the World Bank on these particular issues, and now the operations in Niger are changing on the ground with regard to the World Bank to better line with what the people need on the ground and also the success that they are having on the economic front. I certainly think the new debt relief deal is going to give them a further boost in that.

Ms. WATSON. Let me just respond this way.

Mr. Reid, I heard you refer to the willingness and capability. What concerns me is that many of the countries—particularly the interior of Africa and down toward sub-Saharan Africa—are not even in the third world yet. So we won't build up capacity and capability yet for decades to come.

So what I hear in your responses is that we can respond to emergencies. We can respond to crises. But my original query was: What are we doing to prevent the extremism as we saw in the

Sudan when we were there? How do we prevent getting to the point where herders are fighting farmers? The nomadic tribes are looking for water, so they are on another tribe's land, and that creates conflict right there.

We saw one water truck the whole time we were there in Chad down in the refugee region, and they need three of those coming in a day in order to supply enough water for a little small village.

I am saying: What are we doing before it gets to the point of a crisis and an emergency? You know, do we have a plan that is well-thought through? Do we have a timetable? That is what why I said I like the phrase, you know. I would just like to know—I would hope that—you two and probably the other panel as well are sitting down, giving it some thought, becoming familiar with the countries of Africa, knowing something about their customs, traditions and history so that we can really provide the kind of aid that is going to bring these poor, poor nations into an evolution that will take them into the third world and have them emerge out of poverty. That is what I would like to hear from our Government.

You know, we don't need to go to guns and bullets to bring democracy. We need to go to helping people, satisfy their needs just to survive. We need to sustain their development, rather than go on attack and take the ogres out and, you know, do nation building. I don't want to do that. I don't want our taxpayers's money going for those reasons.

I want us to get down to the fundamentals of: How do you help a nation grow and then let them have the power to defend themselves? We cannot be the police around this globe. But what we can do is, we can promote best practices.

We can have a roadmap, yes. We can have a time line, and we can truly make a commitment and not just use rhetoric. You don't even have to respond, but I just had to get these things out and get them said. I will query the next panel that comes in.

But I want you to think about what I said, and how can we really be effective with our support?

Thank you, Mr. Chairman.

Mr. SMITH. Thank you, Madam Ambassador.

Let me ask just a few concluding questions, and then I will yield to Mr. Payne for his opening comments which he could not make because he was in a markup.

First, I will ask all these questions, and then I will ask you to respond. The first is on Nigeria. Albert Einstein, who was a New Jersian, was once asked what was the most fascinating and greatest formula or theory. Everybody thought he was going to talk about the Theory of Relativity. He said, "No, it is compound interest."

If you look at Nigeria, which to the best of my knowledge borrowed less than \$4 billion and now owes approximately \$33 billion due to penalties and interest, what can be done about the Nigerian debt? That seems that it would fit that odious debt definition that we have heard bandied about with regards to Iraq. It seems to be so out of place for what it is that they truly borrowed.

Secondly, if you could touch on the issue, I know we are talking about Africa today, but there are impoverished countries that hold debt to other significant creditors, such as the Inter-American De-

velopment Bank and the Asian Development Bank. Four of the 18 nations in the G-8 agreement—Bolivia, Guyana, Honduras and Nicaragua—are scheduled to pay \$1.4 billion in debt service over the next 5 years to the IDB. Why did the G-8 agreement ignore that debt burden?

I would just note, parenthetically, that Gerry Flood from the United States Conference of Catholic Bishops played a major role in crafting the language for this legislation. I introduced the Debt Relief Enhancement Act of 2003 on the House side, along with Mr. LaFalce who was my principal co-sponsor. Mr. Santorum introduced the bill on the Senate side.

We did attach much of that to the global AIDS bill, as I know you know. But I want to thank Gerry for his very important and valuable input on that bill. However, he asks a very important question in his testimony. Is there any possibility for countries not currently eligible for the HIPC program to benefit from the debt cancellation agreement?

He points out in his testimony that the G-8 agreement is limited, as we know, to 38 HIPC countries. No new countries have entered into the HIPC program since 2001. However, he goes on, the ministers communiqu  raises the possibility of additional countries qualifying for the HIPC program and eventually for debt cancellation provided by the new agreement.

He points out that, based on the available data, there are a substantial number of low-income countries that are likely to have year-end 2004 debt burdens above the HIPC threshold. He says there are 18 non-HIPC countries that are rated as having risk of debt distress that is equal to or greater than the other HIPC countries.

He also points out that Lesotho is one of the 18 non-HIPC countries. Upon learning of the G-8 ministers' debt cancellation agreement, Lesotho's finance minister, Timothy Thahane, told Reuters that one of the reasons Lesotho was not classified as a HIPC country was that it had never defaulted on its debt. It is important, the minister points out, that those who have paid their debts well but who run their megafinances well should also be rewarded with debt forgiveness. It seems that here is someone who tried to make it work, and yet they are not going to be on the list to get that kind of help.

Finally, we know that environmental issues will be on the G-8 agenda. We all know and are very familiar with the Kyoto-type issues. However, I would like to raise a different one; one that I have been working on for some years. One of the hats I wear is Chairman of the Autism Caucus. Three years back, I wrote some legislation to establish Centers for Excellence on the prevalence of autism in the United States.

To our shock and dismay, we discovered that 1 out of every 167 children in the United States has autism. When I was elected 25 years ago, the rate was 1 out of every 10,000. We are not sure what the triggers are. Some people point anecdotally to the mercury in immunizations and the like.

But I think that probably isn't the main culprit, although it may be. A very provocative study has come out in November 2004 about environmentally-released mercury, which we all know could be

found in fossil fuel, mostly used in coal combustion and for municipal and medical waste incinerators.

When the study, which was authored by Raymond Palmer, overlaid environmental protection data with prevalence rates of autistic children and other children who have special education needs, they found a 61 percent increase in the rate of autism. The authors of this study say it is provocative. More studies need to be done, but it raises concerns as more countries move into industrialization. President Bush this morning was bragging, and I think with good reason, that AGOA has seen an increase of 88 percent in imports from AGOA countries and 25 percent in our imports or exports to those countries. Thus, there will be much more industrialization in the sub-Saharan African region.

What we don't want to see is concurrent rises in things like autism. Africans have enough problems that need to be eradicated, like HIV/AIDS, malaria and all of these other important things. But this is a very important point. One of the things that we will put on the Floor in a few weeks is section 1009, the incidence of autism worldwide. In Qatar, in places like Indonesia, we know there are heightened numbers of cases of autistic children.

Everybody is scratching their heads, but I think we really need to get to what is the trigger. We author or provide for a \$1.5 million study under the auspices of UNICEF to try to get to the bottom of this. However, we don't want Africa to get a new set of problems. I wonder if that is something that is being looked at at this G-8 summit and thereafter, because, again, we want to do everything we can to help relieve the suffering of people in Africa. But we don't want to create some new problems that fossil fuel burning causes for children.

Could you please speak to those issues, if you would?

Mr. PITTMAN. Thank you, Chairman. I will take a crack at a few of them.

Mr. SMITH. Sure.

Mr. PITTMAN. Let me start with Lesotho. I actually have met with the finance minister of Lesotho many times. He has done amazing things in that country. I can say we agree with him.

Countries like Lesotho that have done the right thing should be rewarded. I think that is why Lesotho is a Millennium Challenge Account country. It also qualifies for the President's HIV/AIDS Initiative.

But more importantly—and something that I don't think people understand as part of this debt deal—what is different about this debt proposal and previous debt relief proposals is that the additional money is not only being earmarked for the HIPC countries; it is going to be given to all poor, all the poorest countries. So a country like Lesotho that is a good performer will get more money as a result of this new debt-relief proposal. So I think that is very important.

In terms of some of Mr. Flood's comments, I mean, we actually—I share your views, we meet with Gerry Flood quite often. He has certainly been one of the NGOs that I was referring to in terms of being critical in getting this debt deal. I think that we—it was really our focus. I mean, the HIPCs have certainly been the first pri-

ority. We have to look at unsustainable debt burdens and the impact of unsustainable debt burdens.

I think for a number of the other countries, we have to look at each country. That is basically what we do in the Paris Club. We look at each country based on the sustainability of the debt, which I would tie into Nigeria, which at the G-8 finance ministers meeting, there was an announcement of an intent to work toward a sustainable solution in Nigeria.

There was actually a press release this morning from the Paris Club, committing the Paris Club in principle to a debt treatment for Nigeria. So we certainly hope that is something we work—we will keep you up to date as those issues unfold. Lastly, on the IDB, again, as I cited the numbers earlier, out of the \$60 billion in debt for the HIPCs, I think something like \$40, over \$45 billion is the World Bank. So that was certainly the heart of our proposal.

In the IDB, because we haven't had a replenishment more recently, we haven't been able to get the shift to grants, as we have any other institution. So that is certainly a critical piece, a first step in breaking the lend-and-forgive cycle in some of the Latin American countries you mentioned. But we can also keep you abreast on developments on that end.

Mr. REID. Thank you, Mr. Chairman. I really don't have much to add to that. On the environmental piece, I heard of the same study. I don't have any particular expertise in it. But I thought it was worth pointing out that the President said this morning that it was critical that the developing countries, and particularly the countries of Africa, have access to energy.

Energy is part of development, so we should be mindful that any measures that we undertake on the environmental side don't condemn Africa to poverty. This is one of the reasons why we are pushing for the new technologies to be investigated—to be implemented, continuing use of coal, hydrogen power, production of clean-burning methane, cleaner power plants.

I would also point out that the Environmental Protection Agency leads the partnership for clean fuels and vehicles. And there are a number of countries in sub-Saharan Africa that have gone to led-free fuel. I think this is a great contribution to the environmental mitigation that is possible with partnership. Thank you.

Mr. SMITH. If I could—and I will give you a copy of some of this material if you would take it back—just to read briefly from the study. I will be very brief:

“Environmentally-released is a major source of exposure. Mercury is released into the environment, largely from fossil fuel, mainly coal combustion by electrical utilities and municipal and waste incinerators. This inorganic mercury becomes airborne and may be carried for miles before being deposited on soil or water. This inorganic form of mercury is then converted to a toxic form from biochemical reactions or by bacteria which is absorbed by aquatic microorganisms that are eaten by fish, and this matter accumulates up in the aquatic food chain. Humans are primarily exposed through fish consumption and transmission from mothers to infants.”

It is just, as a cautionary tale, this, in my view, was startling, because I had been searching for years—I have been working on autism issues since 1981, and we can't figure out what the triggers are. There are all kinds of anecdotal and suggestive ideas, but this one may be part of this puzzle. We don't want to see, like I said, another set of problems imposed unwittingly for sure on the sub-continent of Africa.

So I would like to share that with you. Perhaps we could have a further dialogue on it.

Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman. I am completed with the witnesses. If you want to release them, I will just give my statement after that.

Mr. SMITH. Thank you so much, Gentlemen, for your testimony. We look forward to working with you in the future.

The Chair recognizes Mr. Payne.

Mr. PAYNE. Thank you, Mr. Chairman.

I want to thank the witnesses. As was indicated, we were called out for a series of votes across the hall. I was unable to give an opening statement. While the second panel is coming up, I will give this brief statement that I would have given at the beginning. Some of this, of course, we have discussed.

But, once again, I thank the Committee for calling this meeting at an important time, because of the G-8 summit which will take place next week in Gleneagles, Scotland. Our Nation has the cash. We have the pharmaceuticals. We have the technology. But the question is: Will we have the will to end poverty in Africa? One child dies every 3 seconds, and so during the course of this hearing so far, dozens and dozens of children have died in Africa, many from preventable diseases, and so that is why it is so essential and important that we have this hearing today.

The problems facing Africa are interconnected. If the West is serious about a solution, such a solution needs to be comprehensive and all-encompassing. That is why it is simply not enough to drop some debt or increase some aid. The only sensible, effective solution is to drop all crippling debt now, increase aid to the levels recommended in the Commission for Africa's annual report and move toward a fairer trade with Africa by reducing the agricultural subsidies that we have discussed that continue to cripple African nations' economies.

There has never been as high a level of public support for a comprehensive package or a change for Africa as we have now in our own country and in the world. Africa represents 13 percent of the world's population, yet it has 30 percent of the world's poverty. African countries spend \$1.51 for debt service for every \$1 they receive in aid. So we are very pleased at the assistance that Africa gets, but as I just said, they have to put another \$0.51 in for every dollar that they receive.

Therefore, the aid is helpful but is not helping the overall problem that Africa has. If the debt remains, it will continue to sink these countries. The West extracts \$30 billion from Africa every year. United States subsidies—depressed world cotton prices cost African countries \$250 million a year by virtue of the subsidies that we put in. That is a total loss to Africa in export earnings.

What the United States provides in subsidies to the cotton sector in our country is twice the amount of foreign assistance that we give to sub-Saharan Africa.

So it is really a sinking sand, because policy changes have to come or the assistance is going to be negligible; 300 million Africans do not have access to safe water. Yet in the United States, Water for the Poor Initiative, an \$800 million program, only 6.5 percent of the money we give toward clean potable water around the world goes to Africa where there is the greatest need; 93.5 percent of the funds go to Afghanistan, Iraq, West Bank, Gaza, Jordan and so forth. Only 57 percent of Africa's children are enrolled in primary schools. We don't even want to talk about secondary schools.

The moral arguments are compelling. But so, too, are the economic arguments. If the GDP of the African continent was to increase by only 1 percent, the resulting \$70 billion in additional revenue could be used to foster sustainable development by themselves without assistance from outside.

Africa is a resource-rich continent, with a young workforce. There is no reason why it should not be a prosperous region.

By the West refusing to drop crippling debt, we have kept Africa in the stranglehold of poverty. The President's Millennium Challenge Account is moving dreadfully slow in doling out funds. The only African nations to have signed a compact so far, as has already been mentioned, are Madagascar and Cape Verde. Both were only \$110 million. The MCA has widely been criticized. And just recently, the CEO, who has only been there for a year, Mr. Paul Applegarth, who seemed very interested and eager to go, announced his resignation. So another search will go on for another CEO of the Millennium Challenge Account, which will once again slow down a glacier-speed operation as we see it.

AGOA has done a great deal, as we have heard, in certain countries. But even the limited progress that has been made could be reversed by the expiration of the WTO's quotas on textiles and apparel. China has already flooded our market with textiles and apparel. Africa cannot compete with that. As a matter of fact, in the first month, there was a 1,800 percent increase in shirts from China and a 1,400 percent increase in trousers, just in 1 month in January. They decided they better take a look at what is going on. They will wipe out Africa, the Caribbean, and forget the United States, if it is allowed to happen.

I welcome the G-8's proposal to cancel \$40 billion of debt owed by 18 of the world's poorest nations. Fourteen of them are African nations, as we know. Another 18 African countries are in line to qualify for debt relief next year. I was encouraged by the President's statement this morning that he is determined not only to relieve debt but to erase it. This was very good to hear this morning.

Last year, the United States erased \$4.1 billion of Iraq's debt and urged other nations to do the same. As a matter of fact, as we heard a discussion of the odious debt by a fellow named Alexander Sack back in 1927 in the Spanish-American War—and that is how this whole concept came about—well, when the United States took over Cuba and the debt was there, Spain said, "Well, since you are the sovereign nation over Cuba, you ought to pay the debt." Of

course, we got out of that one, but the Iraqis have had \$4.1 billion worth of debt eradicated.

So it is not unheard of, not unthinkable. If we could do it in Iraq, I would hope that we would continue to try to help that nation toward democracy. Of course, let me tell you something. Iraq is not a poor nation at all.

Debt relief is a first step, but we have to do more. The President's claim that he has tripled aid—we have already discussed that—since he took office is just not accurate. We have had the discussion about the Brookings Institution report by former Assistant Secretary of State Dr. Susan Rice that the official development assistance for Africa, ODA, has increased by 33 percent between 2000 and 2005. I don't think we need to quibble over numbers. However, we ought to just be honest and compare apples with apples and oranges with oranges.

If you ever want to see numbers that are fuzzy and change every day, look at the Defense budget. I never know what the budget is. Allies, layout, lay-ins, you know, between \$400 billion, \$500 billion, give or take a couple hundred billion. But we really need to have apples with apples and oranges with oranges. There undoubtedly is a corruption problem on the continent, just as it was mentioned at one of our hearings. One of my good friends from California was really going right home with that issue. Then I think we have to deal with corruption, no question about it.

However, let's look at this: Not justifying it, but Turkey was just given \$1 billion in aid from the United States. EU has also stated that it is going to give a substantial amount of aid to Turkey in 2006. That is fine; Turkey needs all the help they can get. But we are talking about corruption. The Transparency International Corruption Perceptions Index—they are able to determine how, like purgatory is, what level you get down to, seven in Dante's Inferno. You know, I am a former teacher, so I miss it.

But, you know, listen, Turkey ranks worse on corruption. Their index is worse than Senegal, Morocco, Ghana, Egypt, South Africa, Mauritius, Namibia, Tunisia, Botswana. But we are going to give \$1 billion next year, and the EU is going to try to match it. So if it is—the corruption index—now I am not justifying corruption, I am simply saying that there needs to be uniformity. If Turkey is that corrupt, then why give them the money when we continually hear about the corruption? Yes, the gentleman from California, Mr. Rohrabacher, we got into a debate yesterday about corruption in the water program because the corruption doesn't go to the government as was brought out by the Millennium Challenge people who were running it.

So we have to be seen to be consistent in our policies. Corruption has not stopped us from increasing assistance to other regions of the world. Therefore, it is not a viable justification. We should work on eliminating it, but don't say, because there is corruption in Africa, we should hold back.

Yesterday, the Congressional Black Caucus sent a letter to President Bush on Africa urging him at the next G-8 summit to—Prime Minister Tony Blair's proposal—increase aid to Africa.

We went on to say that we would like for us to approach the 0.7 of 1 percent that is being asked of GDP by the ODA. Currently, we

are at 0.16, which is 15 percent of what is being requested. So it is important that we take a look at how we are doing business.

Once again, Mr. Chairman, let me thank you for this time. I, as you can see, I lost my regular pair of glasses, so I had to use a new style that we have.

Mr. SMITH. We have all noticed that.

Mr. PAYNE. Yes. I am glad they have the TV, the cameras on that side. That is the good side. Thank you.

Mr. SMITH. Thank you, Mr. Payne.

Again, I want to thank our witnesses, our first panel for their testimony.

I would now like to welcome to the witness table our second panel, beginning with Gerald Flood, who is the Counselor, Office of International Justice and Peace, United States Conference of Catholic bishops, located right here in Washington, DC.

Gerry Flood is a graduate of the University of Pennsylvania's College of Arts and Sciences, and its law school. After practicing law for 3 years in Philadelphia, he worked for 5 years for the U.S. Agency for International Development in Washington and in Lima, Peru. He subsequently joined the World Bank where he served in a variety of managerial positions for 23 years. Responsibilities included overseeing bank programs for Central America, Korea and the Caribbean region as well as managing a division for Industrial Finance.

At the time of his retirement from the World Bank, he was Resident Representative and Chief of Mission in Nigeria. He has volunteered at the Office of International Justice and Peace since 1996, advising on poor country debt and foreign aid issues, Latin American socio-economic issues, international trade and other aspects of globalization.

We will then hear from Imani Countess, who is the Coordinator for the Africa Program for the American Friends Service Committee. For more than 2 decades Ms. Countess has advocated for U.S. policies that promote sustainable development, economic equality and participatory democracy in Africa. Currently, Ms. Countess is a National Coordinator for the American Friends Service Committee Africa Program, headquartered in Philadelphia, Pennsylvania.

Prior to joining the Service Committee, she worked as a National Outreach Director for the New York-based nonprofit Shared Interest, a social investment fund established to assist community development projects in South Africa.

Ms. Countess has also served as Senior Fellow of the Africa Policy Information Center, coordinating their innovative policy on development of long-term constituency for Africa and helping to conceptualize and implement APIC's outreach and network strategy. She has previously served as Congressional Liaison Officer for the Africa Development Foundation from 1997 to 1999, Executive Director of the Washington Office in Africa from 1992 to 1997, as Project Director of Namibia Information Services, Coordinator for the Coalition for a New Foreign Policies Southern Africa Project and as Project Assistant to Howard University's African Studies and Research Center.

Ms. Countess has consulted and written for a diverse array of groups, including the McKinney/McDowell Associates, Bread for the World, the Maryknoll Fathers, the National Council of Churches and the Churches' Committee for Voter Registration and Education. She has presented papers or spoken to a wide variety of audiences over the years, academic-, religious- and community-based. She serves on the advisory committee for Human Rights Watch and was a founding member of the National Summit on Africa Board of Directors. The American Friends Service Committee is a practical expression of faith of the Religious Society of Friends or the Quakers.

We will then hear from Dr. Roger Bate of the health advocacy group, Africa Fighting Malaria, and a Resident Fellow at the American Enterprise Institute. Dr. Bate has an economics Ph.D. from Cambridge University and has advised the South African Government on water and health policy. He has testified before both House and Senate Committees.

Dr. Bate has edited and written 10 books, many scholarly papers and over 500 shorter scientific/policy articles for newspapers and magazines, including the *Washington Post*, *Wall Street Journal*, *Financial Times* and the *Telegraph*. Dr. Bate founded the Environment Unit at the Institute of Economic Affairs in 1993 and co-founded the European Science and Environment Forum in 1994.

Dr. Bate researches water policy in developing countries, health policy and endemic diseases in developing countries, such as AIDS and malaria, international, environmental and health agreements, industrial chemicals, climate change and water, and the role of aid agencies and NGOs in developing countries.

I want to thank all three of you for your participation, for your statements and tremendous work you have done over the years, and for your patience, having been interrupted by about an hour's worth of votes on the Floor. Thank you for being here. I would like to begin with Mr. Flood.

STATEMENT OF MR. GERALD FLOOD, COUNSELOR TO THE INTERNATIONAL POLICY COMMITTEE, U.S. CONFERENCE OF CATHOLIC BISHOPS

Mr. FLOOD. Thank you, Mr. Chairman.

Mr. Chairman, Members of the Subcommittee. I would like to thank you for the opportunity to testify here today. The U.S. Conference of Catholic Bishops welcomes the special focus of Africa planned for the G-8 summit that begins just 6 days from now. I think it is fair to say that Africa has the highest priority among the areas of the world that we concern ourselves with in the International Policy Committee of the Bishops Conference.

I would like to just briefly recall the words of the bishops in their statement in year 2001 called, *A Call to Solidarity with Africa*:

“The United States has a clear moral duty to adopt policies and support programs that encourage integral human development and long-term economic growth for the poorest countries, with particular attention to sub-Saharan Africa. This is not just a policy option; it is a moral obligation.”

In my brief remarks today, I would like to focus first on debt relief. In so doing, I am going to get into some technical issues which the bishops don't address, so, therefore, they wouldn't have a position on some of the things I am going to talk about. So I will be speaking primarily as one who has worked on debt and related issues with the Conference, and, before that, with the World Bank for quite a few years. I would like also to bring to the Subcommittee's attention the message delivered earlier this week to President Bush by Bishop Skylstad, the President of the Bishops Conference, concerning the upcoming summit.

I would like to begin by expressing my special thanks and appreciation to Representative Chris Smith for his long and faithful support for debt relief for poor countries.

It was mainly through his leadership and with the help of former Congressman LaFalce that the House incorporated into the Global Health Act of 2002 major new provisions encouraging the Administration to strengthen the Heavily Indebted Poor Countries Debt Relief Program.

Debt relief for poor countries has been a high priority for the Conference and for Catholic Relief Services for many years. Thus, we welcome the recent proposal by the G-8 finance ministers for new debt cancellation for poor countries. When approved and supported by the necessary financing, it will provide the kind of deep relief for many poor countries that the Catholic Church has long advocated. I would like to congratulate particularly the Treasury Department for the dedicated efforts and the skillful manner in which they negotiated this agreement, which is what it took to make it come about.

I want to focus on two issues. Now, in raising these issues, I don't want to in any way denigrate the remarkable accomplishment reflected in the G-8 minister's agreement. The idea that we would one day see 100 percent debt cancellation owed to international financial institutions is something I would have regarded as a pipe dream just a few years ago and is now about to become a reality. Actually, Mr. Chairman, you have already largely given this part of my testimony, so I shall be brief.

The first observation is that the low-income Latin American and Caribbean countries will benefit relatively much less than the African countries from the new agreement. This is because the Latin American countries' largest creditor is the Inter-American Development Bank, and the IDB is not covered by the agreement.

In the interests of fairness, we hope that this omission will be rectified soon. I was happy to hear from Mr. Pittman that there was recognition that this is an issue that needs to be dealt with, and it will be dealt with. I only hope that it will be dealt with quickly. I was a little concerned about the reference to the need for waiting for another replenishment of the Inter-American Development Bank, but I don't know when that will come. I hope this happens quickly.

My second observation is that the G-8 ministers communique at the London meeting raises the prospect of additional low-income countries qualifying for the HIPC program and eventually for multilateral debt cancellation. Presumably, the debt burdens of the new participants would have to be severe enough to meet the end

requirements established in 1999, and it is not clear how many new countries would qualify on this basis.

I would urge that these entry requirements be revised to take into account the framework recently approved by the World Bank for determining country eligibility for IDA grant financing. The relevance of this framework is that it incorporates the concept of debt sustainability. When the indicators included in this framework were applied to individual countries, the majority of the 100 HIPC countries were found to be at sufficient risk of debt distress, that they should receive item financing in the form of grants.

However, 18 additional countries that are outside the HIPC program, and that is not eligible for debt cancellation, were also found to be entitled to IDA grants. That is, although they are at serious risk of debt distress, these 18 countries may have to continue to carry the full burden of existing debts. Again, it is an issue of fairness among very poor countries. And the Chairman already mentioned the comments from Lesotho Finance Minister Thahane, which I think points out the fact that many of these countries have managed their debts well. But they, in a sense, you could say, that they are being penalized for having managed their finances well. That is a matter that we think should be rectified.

Not that all the countries that are missing are performing as well as Lesotho in that regard, but there is an issue of fairness and equity in poor countries that we think needs to be addressed.

I am pleased to note that, earlier this week, the Senators DeWine, Santorum, Biden, Lugar, Feingold and Obama introduced Senate bill 1320 which supports a new debt cancellation agreement and expresses the sense of the Senate that the Administration should pursue additional bilateral and multilateral debt relief for each country that is eligible for grant assistance from IDA. I hope that both Houses of Congress will support this bipartisan proposal.

So let me turn briefly to the letter this week to President Bush by Bishop Skylstad. Copies of the full text have been provided to the Subcommittee. Bishop Skylstad commends the President for the demonstrated commitment of his Administration to improving the well-being of the people in Africa, mentioning particularly the HIV/AIDS Initiative and the Millennium Challenge Account.

He urges him to build on a strong record by working with his G-8 colleagues to adopt new initiatives in support of African efforts to break the cycle of poverty and achieve integral human development. His specific suggestions include strengthening peacekeeping and reconstruction efforts in countries afflicted by conflict. If a country is in the middle of conflict, development can't happen. He also suggested intensifying efforts to bring a quality education within the reach of all African children. From what I have heard this afternoon, the President has given us our answer on that one.

He also urges progress toward a more just international trading system, and he mentions his satisfaction that the G-8 ministers mention the importance of the Doha round and making progress on it. He would encourage concrete steps at the G-8 meeting toward eliminating trade-distorting agricultural subsidies and targeting farm support to small- and medium-sized farmers.

Bishop Skylstad mentioned the global climate change and says that it is an issue of particular concern to the bishops because the

poor at home and around the world will experience most directly its possible harmful effects. This is an item on the G-8 agenda, and he urges the President and his G-8 colleagues to give priority to further research on possible impacts and programs to help the poor adapt and mitigate its worst effects.

Finally, the agenda includes the arms trade, which the bishops have called a serious moral disorder in today's world. One of the worst effects of the arms trade is that it can help fuel conflict in poor countries. Bishop Skylstad says that the summit provides the United States with a unique opportunity to lead the effort to enact strong life-saving arms control measures.

The bishop concludes by praying that President Bush's meeting will be blessed by a spirit of collaboration and enables G-8 leaders to advance the universal common good by adopting concrete measures on global poverty, trade, climate change and the arms trade.

Thank you.

[The prepared statement of Mr. Flood follows:]

PREPARED STATEMENT OF MR. GERALD FLOOD, COUNSELOR TO THE INTERNATIONAL
POLICY COMMITTEE, U.S. CONFERENCE OF CATHOLIC BISHOPS

Mr. Chairman, Members of the Subcommittee,

I would like to thank the House Subcommittee on Africa, Global Human Rights and International Operations for the opportunity to testify here today. The U.S. Conference of Catholic Bishops (USCCB) is deeply engaged with the Catholic Church and people of Africa, and we welcome the special focus on Africa planned for the G8 Summit that begins in Scotland just six days from now. With bold action taken in a spirit of true solidarity, our President and the other leaders of the G8 nations can make the Summit a special occasion, one which ushers in a new period of hope and opportunity, justice and peace for the people of Africa.

Let me recall the words of the U.S. Catholic bishops in their 2001 Statement, *A Call to Solidarity with Africa*. I believe they have special relevance as we approach the Summit: "Our nation's history, its affluence, its economic and political power, and its leadership role in the world require us to accept an inescapable responsibility to help the peoples of Africa to live in peace and with dignity. From the earliest days of our nation, people of African descent contributed so much, playing major roles in the defense of democracy, and in the social, cultural, economic, and spiritual development of the United States. We also acknowledge the sad fact that the evil institution of slavery played a significant role in the development of our country. Citizens of African descent continue to play an integral role in defining American identity and in promoting the common good. For these reasons, the United States has a clear moral duty to adopt policies and support programs that encourage integral human development and long-term economic growth for the poorest countries, with particular attention to sub-Saharan Africa. This is not just a policy option; it is a moral obligation."

In my testimony today, I would like to focus particularly on the subject of debt relief for Africa. In this part of my testimony I will be focusing on a number of issues at a level of technical detail which the bishops would not address, and on which they therefore would not have a position. Thus I offer my testimony primarily as a former development agency official who has worked on debt and related issues with the USCCB, and before that with the World Bank, over quite a few years. I will also bring to the Subcommittee's attention the message delivered earlier this week to President Bush by Bishop William S. Skylstad, President of the Catholic bishops' conference. In his letter Bishop Skylstad expresses the hopes of the U.S. bishops for the success of the Summit and raises several issues with respect to major items on the agenda.

Before turning to recent developments on debt, I would like to express my thanks and appreciation to the Chairman of the Subcommittee, Rep. Chris Smith (R-NJ), for his leadership and long and faithful support for debt relief for poor countries. It was mainly through his efforts, and those of his former colleague, Rep. John LaFalce (D-PA), that the House incorporated into the Global Health Act of 2002 major new provisions authorizing and encouraging the Administration to strengthen the Heavily Indebted Poor Countries debt relief program.

The G8 Finance Ministers agree to major new debt cancellation for poor countries

Debt relief for poor countries has been a high priority for USCCB, and of our relief and development agency, Catholic Relief Services, for many years. Thus, we welcomed the recent announcement by the G8 Finance Ministers of their commitment to major new debt cancellation for poor countries. The proposal would provide qualifying countries with full cancellation of debts owed to the World Bank's International Development Association (IDA), the International Monetary Fund (IMF) and the African Development Fund (AfDF). It will be presented to these institutions for approval by September. Once approved, it would immediately benefit 18 countries and eventually as many as 20 additional countries. Together with earlier agreements to cancel most bilateral debts, including 100% of debts owed to the United States, the new agreement will provide the kind of deep debt relief for many poor countries that the Catholic Church has long advocated.

What benefits would eligible countries receive?

The 18 low-income countries that would receive debt cancellation immediately are those that have already met the conditions for full and irrevocable debt reduction available under the existing Heavily Indebted Poor Countries or "HIPC" debt relief program.¹ They will receive debt stock cancellation totaling about \$40 billion which is expected to translate into annual debt service savings totaling just over \$1 billion each year, on average, for the next ten years. The fourteen African countries, however, will benefit relatively much more than the four Latin American and Caribbean (LAC) countries.² This is because debt owed to the Inter-American Development Bank, the LAC countries' largest creditor, is not covered by the agreement. We hope that this omission will be rectified by the G8 soon. The agreement also does not cover the debt owed to a number of smaller regional development banks, but their share of the total debt burden of the HIPC countries is relatively small.³

According to Steven Radelet of the Center for Global Development, the portion of annual country savings attributable to IDA and AfDF debt cancellation is estimated at \$650 million for the 18 countries. By the terms of the G8 agreement, however, these savings would be fully offset by a reduction in new disbursements from the two international financial institutions (IFIs). In other words, at least initially, there would be no *net* inflow of funds to the countries as a result of debt cancellation.

Many of the countries, however, should benefit from the additional donor contributions to be made to IDA and AfDF to make up for their lost debt service payments. These contributions would be allocated among *all* IDA and AfDF countries in accordance with the IFIs' normal performance criteria. Thus, how much of the additional IDA resources any of the eighteen countries will receive will depend on how they rate vis-a-vis other IDA countries in terms of country performance. Those with the strongest policies and institutions, as judged by the World Bank, will get more of the funds than others. The fact that the 18 have met the HIPC performance requirements suggests that their ratings should be relatively high. Those countries, however, that receive low ratings should expect to receive no additional resources.

Annual IMF debt service savings for the 18 countries is estimated at \$400 million, and the agreement does not call for any offsetting reduction in disbursements. Nevertheless the availability of these savings could influence future IMF decisions on the amount of new lending to the countries.

Will HIPC countries that have not met the requirements for full HIPC debt reduction be eligible for debt cancellation?

Cancellation of IFI debt is potentially available to all 38 HIPC countries. Thus an additional 20 countries would benefit once they fulfill the requirements for full HIPC debt reduction. According to the April 4, 2005 HIPC progress report of the World Bank and IMF, five of these⁴ are expected to meet these requirements in the last quarter of 2005 or the first quarter of 2006, and the remaining four⁵ before the end of 2006. Thus nine additional countries could receive IFI debt cancellation in 2005 or 2006. However, past experience suggests that substantial slippage is like-

¹ The countries are: Benin, Bolivia, Burkina Faso, Ethiopia, Guyana, Ghana, Honduras, Madagascar, Mali, Mauritania, Mozambique,, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia.

² Bolivia, Guyana, Honduras and Nicaragua

³ Most commercial creditors have not provided HIPC relief, but their debt amounts to less than 5% of HIPC country debt.

⁴ Cameroon, Chad, The Gambia, Malawi and Sierra Leone

⁵ Democratic Republic of the Congo, Guinea, Guinea-Bissau and Sao Tome and Principe

ly for some countries. As for the remaining 11 countries, many are affected by conflict and the timing of their eligibility for IFI debt cancellation is highly uncertain.⁶

Is there any possibility that countries not currently eligible for the HIPC program will be able to benefit from the debt cancellation agreement?

The G8 agreement is limited to HIPC countries and no new countries have entered the HIPC program since 2001. However, the Ministers' Communique raises the possibility of additional countries qualifying for the HIPC program and eventually for the debt cancellation provided by the new agreement. The Communique states: "We are also committed, on a fair burden sharing basis, to cover the costs of countries that may enter the HIPC process based on their end-2004 debt burdens." The Communique does not elaborate on this statement, and it is not clear what its practical implications will be. Presumably the debt burdens of the new entrants would have to meet the same threshold requirement that applied to the current 38 participants, the principal one being a debt-to-export level above 150%.

Based on available data, there are a substantial number of low-income countries that are likely to have end-2004 debt burdens above the HIPC threshold. However, HIPC debt relief is available only for countries that remain above the threshold after taking full advantage of bilateral debt relief available from the Paris Club of official creditors. Thus, it is not possible to know which new countries might qualify without further information, and in any event, it would likely be a number of years before any new entrants could reach the Completion Point required for IFI debt cancellation.

The HIPC thresholds for country eligibility were established in 1999, and it is possible that the IFI shareholders would reexamine them for new entrants. One reason for doing this would be to take into account the framework recently approved by the World Bank's Executive Directors for determining country eligibility for IDA grant financing.⁷ The relevance of this framework to HIPC eligibility is that it incorporates the concept of debt sustainability. It includes a matrix of debt burden indicators that take into account the Bank's country performance assessments as well as vulnerability to external shocks.

When the indicators were applied to individual countries, 42 were found to be at high risk of debt distress and, therefore, entitled to receive new IDA financing entirely in the form of grants. An additional five countries were at "moderate" risk of debt distress and eligible for 45% grant financing. The list is subject to refinement upon completion of more detailed country-by-country debt sustainability analyses, but until these are completed, the indicators will determine grant eligibility.

A breakdown of the 47 countries eligible for grant financing shows that it includes 29 of the 38 HIPCs plus 18 other countries. (See attached table.) This means that there are 18 non-HIPC countries that are rated as having a risk of debt distress that is equal to or greater than the HIPC countries. Because of the ten-year grace period on the repayment of IDA credits, the non-HIPCs will begin receiving the financial benefit of grants (rather than loans) only ten years from now. In the meantime they will carry the full burden of existing debts.

One of the 18 non-HIPCs is Lesotho, a small land-locked African country. Upon learning of the G8 Ministers debt cancellation agreement, Lesotho Finance Minister Timothy Thahane told Reuters that one of the reasons Lesotho was not classified as a HIPC country was that it had never defaulted on its debt. "It is important," he said, "that those who have paid their debts well, who run their mega-finances well, should be rewarded with debt forgiveness." While perhaps not all of the 18 non-HIPCs have run their finances as well as Lesotho, considerations of consistency and fairness argue for using the World Bank's new debt sustainability thresholds to determine the eligibility of new countries for HIPC debt relief and IFI debt cancellation.

What will the cost of the debt cancellation be for the United States?

An important statement in the G8 Ministers' Communique is that donors would provide additional contributions to IDA and AfDF to offset "dollar for dollar" the foregone principal and interest payments of the debt cancelled. The Administration has not made public what its share of the required contributions will be, but it is possible to make an estimate with respect to the 18 countries that will be immediately entitled to debt cancellation. Assuming \$650 million represents the annual

⁶According to the World Bank and IMF, Burundi and the Republic of Congo are expected to reach their Decision Point in 2005 and Cote D'Ivoire possibly in 2006, but they make no projections for Central African Republic, Comoros, Liberia, Myanmar, Somalia, Sudan and Togo; and Laos has not applied for HIPC relief.

⁷See "Debt Sustainability and Financing Terms in IDA 14: Further Considerations on Issues and Options" International Development Association November 2004

reduction in IDA and AfDF debt service payments from these countries, and assuming the U.S. contributes 20% of the costs (the traditional share of the U.S. in IDA replenishments⁸), the average annual cost to the U.S. over the next ten years would be \$130 million. This cost would increase as additional countries qualify for the cancellation.

Indications are that the Administration will not ask for new Congressional appropriations to finance the cost of IDA/AfDF debt cancellation, at least for several years. Apparently the intention is to finance the cost by early encashment of regular U.S. contributions to these institutions. This accelerated encashment will provide a financial benefit to IDA and AfDF, but how much it will amount to and for how long it will cover the US. share of costs cannot be determined without further information on the specifics of the arrangement. Presumably, however, the accelerated encashment should be sufficient to cover costs through FY08. This is because the Ministers' Communique says, "Additional funds will be made available immediately to cover the full costs during the IDA-14 and AfDF-10 period."

With respect to IMF costs, the Ministers' Communique states that it should be financed from existing IMF resources "without undermining the Fund's financing capacity." While the details of the financing arrangement have not yet been disclosed, the principal source of funds is expected to be the corpus of the IMF fund established with the net proceeds of the revaluation of IMF gold that took place in 1999.⁹ IMF staff have been instructed to assess the financial implications of the new proposal. The results of this review should provide the basis for a final decision by the IMF shareholders as to whether IMF's existing resources are sufficient to cover costs for 27 (or more) countries.

Apparently referring to some of the 11 HIPC countries that are still in the early stages of qualifying for HIPC relief, the Communique says, "in situations where other existing and projected debt relief obligations cannot be met from the use of existing IMF resources (e.g., Somalia, Liberia and Sudan), donors commit to provide the extra resources necessary." The three countries named are likely to be years away from qualifying for IFI debt cancellation, so that the near term cost implications of this statement may be minimal.

Will Nigeria benefit from the agreement?

The G8 Ministers "welcomed Nigeria's progress in economic reform . . . noted it move to IDA-only status, and encouraged them to continue to reform."¹⁰ It stated: "We are prepared to provide a fair and sustainable solution to Nigeria's debt problems in 2005 within the Paris Club. Todd Moss of the Center for Global Development commented as follows:

The change in IDA status is a small but critical step as it now allows the Paris Club to treat Nigeria like any other poor country and opens the door to a possible write-down of as much as two-thirds of the debts Nigeria owes to its bilateral creditors (albeit not the debts owed to the World Bank and IMF). Inclusion in the G8 announcement is an important signal that the creditors are serious about reaching a deal soon-perhaps even as soon as [the G8 Summit].

Debt Relief Is Part of a Broader Agenda

While the debt cancellation agreed by the G8 ministers is a major achievement, debt relief is not a panacea. Even if the debt of poor countries were reduced to zero, it will not end poverty. The problem is too complex and deep-seated for that. It must be addressed first and foremost by the countries themselves, with their governments and people working together on a variety of fronts for the common good. But their resources are not sufficient for them to do it alone. They need aid and just policies from the wealthier countries.

So let me turn to the letter sent this week to President Bush by Bishop William Skylstad, the Bishop of Spokane, Washington and President of the U.S. Catholic Bishops' Conference. I will try to highlight the main points. The special focus on Africa at the G8 Summit is welcomed and President Bush is urged to take bold action in four areas: global poverty, international trade, climate change and the trade in conventional arms.

⁸The U.S. share of the 14th IDA replenishment, for FY2006-08, will be smaller largely because of changes in the exchange rate between the US\$ and the SDR, the currency in which IDA contributions are denominated.

⁹The interest earned from investment of these proceeds is used to finance the cost of IMF debt relief under the existing HIPC program.

¹⁰"IDA-only" status is granted to very low income countries. It means that the country is eligible for the highly concessional IDA funds but not the (more expensive) ordinary resources of the World Bank.

The USCCB commends the President for the demonstrated commitment of his Administration to improving the well-being of the people of Africa and urges him to build on his strong record by working with his G8 colleagues to adopt new initiatives in support of African efforts to break the cycle of poverty and achieve integral human development. Africa will be a major beneficiary of new programs for combating HIV/AIDS, malaria and tuberculosis and the Millennium Challenge Account. These approaches have placed our country at the forefront of efforts to combat devastating disease and to design new approaches for more effective foreign aid.

Many African countries, however, will not benefit from the Global Health and Millennium Challenge initiatives, and apart from these programs, our overall development and humanitarian aid for poor countries has not increased in recent years. Some of these countries face enormous challenges, and in countries with weak governance and a lack of transparency and accountability, civil society organizations have an especially important role. But both governments and civil society need substantial external support to be able to address their problems effectively.

Bishop Skylstad suggests several areas that merit priority consideration for new initiatives. These include strengthening peacekeeping efforts in countries affected by conflict, as well as peace building and reconstruction in countries emerging from conflict. Also, a G8 commitment to intensify efforts to bring a quality education within the reach of all African children would make an enormous difference to the future of the people of Africa.

With respect to trade, the broader development agenda must include progress toward a more just international trading system. The recent G8 Finance Ministers' statement is encouraging in that it gives priority to the Doha development agenda and recognizes that a successful outcome will require substantial increases in market access and effective special and differential treatment for developing countries. Bishop Skylstad urges that the Summit also be an occasion for the G8 to take concrete steps toward eliminating trade-distorting agricultural subsidies and targeting farm support to small and medium-sized farmers.

Inclusion of global climate change on the Summit agenda is welcomed, as it is an issue of particular concern to the U.S. Catholic Bishops. Because of where they live and their limited resources, the poor will experience most directly the possible harmful effects of climate change and any measures to address it, including potential escalating energy costs, work displacement and health problems. This is true here in the United States as well as abroad. While there are many technical aspects that need to be considered in addressing global climate change, Bishop Skylstad lifts up our moral responsibility of stewardship. Our actions and decisions, particularly those regarding our use of energy resources, have a profound effect today and for future generations. While there may not be full scientific consensus or complete certainty as to the consequences of climate change, there seems to be a sufficient scientific consensus that prudence would dictate taking preventive and mitigating action now.

Bishop Skylstad urges the President and his G8 colleagues to give priority to further research on the possible impact of climate change on the poor, and the need for programs to help the poor adapt and mitigate its worst effects. An agreement on even modest efforts could help send a signal that the time has come to move forward.

Finally, with respect to the arms trade, proliferation of conventional weapons has been a matter of concern to the U.S. bishops for many years. It was the subject of a major USCCB statement in 1995 that condemned the arms trade as "a serious moral disorder in today's world." One of the worst effects of the arms trade is that it can help fuel conflict in poor countries, and effective development in the midst of conflict is almost impossible. Bishop Skylstad commends the President on his Administration's recent action with respect to the European Union's arms embargo on China, and says that the Summit provides the United States with a unique opportunity to effect positive change by leading the effort to enact strong life-saving arms control measures.

Bishop Skylstad concludes by praying that President Bush's meeting will be blessed by a spirit of collaboration that enables the G8 leaders to advance the universal common good by adopting concrete measures on global poverty, trade, climate change and the arms trade.

Thank you.

Mr. SMITH. Thank you very much for your testimony and, as I said earlier in this hearing, for the tremendous insight you provided all of us and leadership on this Committee and myself and

Rick Santorum and others in developing that legislation. It is greatly appreciated.

Ms. Countess.

STATEMENT OF MS. IMANI COUNTESS, COORDINATOR, AFRICA PROGRAM, AMERICAN FRIENDS SERVICE COMMITTEE

Ms. COUNTESS. Thank you.

Mr. Chairman, Mr. Payne, Members of the Subcommittee. On behalf of the American Friends Service Committee, I thank you for this invitation to deliver testimony on the subject, Africa and the G-8.

The American Friends Service Committee, or the AFSC, is a faith-based social justice organization, the practical expression of the philosophy and values of the Religious Society of Friends, or Quakers. Last year, Mr. Payne hosted us in the launch of our Life Over Debt campaign, a national effort designed to help the United States public understand Africa's debt and the importance of its cancellation.

As a part of that campaign, last week, we delivered 2,000 letters to Mr. Pittman at the Treasury Department calling for 100 percent debt cancellation for all impoverished nations in Africa, which provided us an opportunity to thank him for his contributions toward this historic moment.

I am particularly delighted to be here as a part of good news: The decision by the G-8 to cancel debt for 18 countries, including 14 in Africa. On behalf of the thousands of debt activists in the United States, many of which, like AFSC, are active members of the Jubilee U.S.A. Network, and on behalf of debt networks throughout the global south, I want to thank Members of this Subcommittee who have worked hard to inform and persuade Members of the House and successive Administrations to support debt relief and debt cancellation.

The G-8 agreement is a tremendous step forward for 28 million people in Africa whose countries will now be able to invest millions in providing clean water, increasing access to healthcare and primary education.

Specifically, the G-8 decision frees up \$1 billion a year for investment in African development and supports the shift to grants, which breaks the lend-and-forgive cycle. It is an important step forward.

At this time of celebration, I also thank the Committee for its foresight in holding this hearing, which affords an opportunity to examine the agreement details and to plan.

For AFSC and partners throughout the global south, the most important next step is to expand the list of countries scheduled for debt cancellation and accelerate cancellation for all countries without harmful conditions. Since the inception of the Jubilee movement, campaigners have said the debt has been paid. According to the United Nations Conference on Trade and Development, between 1970 and 2002, Africa has received \$540 billion in loans. It has paid back \$550 billion in principal and interest, yet remains with a debt stock of \$295 billion. Discounting interest on arrears, further payment of outstanding would represent a reverse transfer.

There is also growing consensus that canceling debt puts us closer to achieving the Millennium Development goals. Debt cancellation is directly linked to the capacity of African countries to generate capital accumulation and growth. We all know that debt has inhibited investment in physical and social infrastructure and hampered private investment.

There is also widespread acknowledgment of Africa's odious debt, or dictator debt. Mobutu, Abacha, apartheid South Africa, all are well-known. The peoples of those countries should not continue to pay for those corrupt leaders or repressive regimes.

Mr. Chairman, Mr. Payne, I will be frank: It is a part of the historical record that the United States installed Mobutu and purchased his support, which came in a variety of forms, including CIA listening stations, political allegiance during the Cold War and resupply routes to UNITA, the Angolan rebel group.

Mr. Chairman, we got what we paid for, the people of Zaire, now DRC, do not owe us and should not have to be required to pay us hard-earned foreign currency while also trying to reclaim 20 years of lost development.

From the Commission for Africa to the African Union to the United Nations and the global public opinion, there is a growing consensus that cancellation, along with increased assistance and fair trade, are critical. This agreement is the first step along that path.

In addition to increasing the number of countries eligible for cancellation, there is also a critical need to eliminate the Highly Indebted Poor Countries criteria. HIPC, as it is implemented, is simply misguided.

According to Charles Mutasa of the Zimbabwe-based NGO Afrodad, continued use of HIPC reinforces global apartheid. HIPC's emphasis on low-budget deficits forces nations to cut spending on social needs such as education, health and clean water. It requires privatization of essential social services for nations, the majority of whose citizens live on less than \$1 a day. It emphasizes export-led growth, which has put pressure on natural resources, and requires the removal of subsidies for basic needs.

For example, according to a World Development Movement report, Zambia was once one of the wealthiest nations in sub-Saharan Africa. Thirty years of involvement with the World Bank and the IMF following the oil crisis and the commodity-price collapse of the 1970s has resulted in increasing debt, economic stagnation and collapse and social crisis.

Since 1991, Zambia has had to implement economic privatization, trade liberalization, subsidy cuts and public sector wage freezes in order to receive debt reductions which, according to officials, will continue to be unsustainable. Trade liberalization has been disastrous for Zambia's manufacturing sector. For example, the textile industry, where there were once 140 firms employing thousands, there are only 8. And the country is awash with imports of cheap, cheap, secondhand clothing from industrialized nations. Employment in this sector fell from 34,000 in the early 1990s to 4,000 in 2002.

Elimination of agricultural subsidies have left small farmers worse off. Moreover, it simply takes too long to qualify. It has

taken 18 nations 9 years to qualify for debt cancellation under HIPC. Every day without investment in health, education and poverty reduction costs lives.

For countries in crisis, countries with high levels of HIV/AIDS or emerging from active conflict, the ability to reallocate resources is a life-or-death issue.

In short, HIPC only reinforces control over developing country economies, denying the right for national governments to identify their own economic and social policies that respond to local realities. These conditions do not have a record of creating an environment for meaningful, sustainable development that would help avoid future debt cycles.

The G-8 agreement is an important first step in putting the poor first and supporting nations' abilities to develop homegrown alternatives for their development. We need to continue to work quickly and decisively to ensure that the next steps are taken.

In conclusion, I hope that you and your staff will join the City of Philadelphia this weekend, which is where AFSC is headquartered, for the Live 8 concert, an activity of the global call to action to end poverty, where citizens around the world will rejoice in this step forward and, with one voice, call for further cancellation of Africa's debt, increased investment and economic development and fair trade. Thank you.

[The prepared statement of Ms. Countess follows:]

PREPARED STATEMENT OF MS. IMANI COUNTESS, COORDINATOR, AFRICA PROGRAM,
AMERICAN FRIENDS SERVICE COMMITTEE

After years of public education, protest and advocacy the international debt cancellation movement has achieved a victory. On June 11th, the finance ministers of the world's wealthiest nations, the Group of 8 or G-8, announced 100% debt cancellation for fourteen nations in Africa and four in Latin America to the International Monetary Fund (IMF), World Bank, and African development Bank (AfDB). The G-8 includes Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States.

After twenty years of involvement with the global campaign to cancel debt, AFSC is delighted that Mozambique, Zambia, Tanzania and 11 other impoverished countries in Africa now have the ability to invest in their own development. Over the past two years the Africa Program has sponsored a campaign, *Life Over Debt*, which works to increase awareness of Africa's debt and the need for its cancellation.

While this victory establishes a crucial precedent for providing 100% debt cancellation for impoverished nations, the \$40 billion estimated debt stock being cancelled for these eighteen countries is just a fraction of Africa's total estimated external debt of \$300 billion. Furthermore, the bulk of this crippling debt is also illegitimate and odious. Odious meaning the debt was incurred after a period of occupation or under corrupt regimes and used for repressive purposes, not for public welfare. The people who suffered under those regimes and who received no benefits from the financial windfall of these lending institutions should not continue to be held accountable for the debt.

Moreover, only countries that implemented all of the counterproductive, nearly impossible conditions imposed through the IMF and World Bank's Highly Indebted Poor Country (HIPC) program are eligible for future cancellation. To impose economic policy conditions for canceling what is often odious and illegitimate in the first place, reinforces strategies that have failed to lift these countries out of poverty.

G-8 Deal Background

With almost 30 million HIV positive people, chronic famine, conflict and economic inequality, Africa's multiple crises require a special response. The case for debt cancellation is clear: despite repaying more than 90 percent of the \$294 billion in disbursements Sub-Saharan African countries received between 1970 and 2002, the re-

gion remains strapped with \$240 billion in debt, according to the United Nations Conference on Trade and Development (UNCTAD).

In light of this injustice, and recognizing the odious nature of the debt, AFSC joined its global partners in calling on the G-8, which controls the decision making of the international financial institutions, to cancel 100% of the multilateral debt owed to the IMF and World Bank.

In response to growing pressure and recognition that debt levels held by heavily indebted countries were unsustainable, the G-8 ministers indicted they would begin to consider 100% debt cancellation during the June 2004 summit meeting.

Recognizing a political moment was unfolding, AFSC joined Jubilee USA and partners from the Global South in a concentrated advocacy effort to insist the G-8 cancel all impoverished countries' multilateral debt. As part of this, AFSC launched a letter campaign to U.S. Treasury Secretary Snow that gathered over 2,000 letters. Together we called for:

- 100% cancellation of multilateral debt for all impoverished nations—not just those included in the HIPC initiative—without harmful conditions attached; and
- Debt cancellation financed by selling IMF gold, using World Bank accumulated profits, and by stopping the IMF's problematic structural adjustment lending in poor nations.

In the weeks leading up to the June 11th deal, the G-8 countries remained polarized over which countries should receive debt cancellation, which institutions should be included and how cancellation would be financed. A final compromise was reached between British Prime Minister Tony Blair and President George Bush on June 10th, establishing the basis for the G-8 deal announced by its finance ministers the next day.

Context for the deal

The fourteen African countries included in the G-8 plan are Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda, and Zambia. Although the specifics remain vague, the deal includes the following:

- A call for 100% debt stock cancellation of outstanding obligations for countries that have reached the HIPC program completion point.
- Donor countries will provide additional contributions based on agreed burden shares, to offset lost funds to the AfDB and the World Bank International Development Association (IDA) program; a program which lends only to the governments of low-income countries.
- The cost of fully covering IMF debt cancellation should be met by the use of existing IMF resources (excluding gold sales), without undermining the Fund's financing capacity.
- A new trust fund to support poor countries facing commodity price and other exogenous shocks.

Though the debt stock being cancelled for these eighteen countries is substantial in nominal terms, it is modest compared to Africa's estimated total external debt of \$300 billion. Regardless, this cancellation is an important first step for these countries and their citizens who stand to save a total of \$1.5 billion a year in debt repayments, resources which could be invested in health services, education and poverty eradication.

The IMF portion of this debt cancellation deal will not be financed through the sale of the institution's vast undervalued gold reserve, estimated at about \$35 billion. Instead it will be funded with other existing IMF resources and some additional G-8 country contributions. The U.S. will contribute between \$1.3 billion and \$1.75 billion to be paid over the next decade, equivalent to 3% of total U.S. aid flows. This route to repayment is one that AFSC and our partners view as a setback because it fails to tap into the IMF's vast resources that could finance the additional 34 African countries in need of debt cancellation.

What G-8 debt cancellation deal means on the Continent

Reactions to the debt cancellation deal among government and civil society representatives in Africa have been mixed. Zambian officials have already shared Zambian's plans for investing the money in civil society, including recruiting 7,000 qualified teachers who have been waiting for a lift in HIPC imposed hiring freeze. In addition the country plans to use some of the freed resources to provide AIDS

drugs for 100,000 by the end of the year, increasing access to the estimated 920,000 infected with the disease.

Meanwhile Kenya, a country that has always met its debt obligations, was excluded from the deal and will continue to pay \$414 million a year in debt service payments at the expense of much needed investment in health and education.

Using the wrong criteria for debt cancellation

The continued use of the HIPC program as the criteria to determine which countries will receive debt cancellation is misguided. This criteria “is itself a sign that debt cancellation is being treated as a question of charity and not global justice,” said Charles Mutasa, Acting Executive Director of the African Network on Debt and Development (Afrodad), “The agreement does not address the real global power imbalances but rather reinforces global apartheid,” he added.

The 18 countries included in the G-8 deal have already fulfilled many damaging and undemocratic economic policy conditions. In the case of Zambia, in order to reach the HIPC program completion point, the government had to cut expenditure for public services over and above the decades of cuts that the debt regime had already forced on the country. One manifestation of this was a three-year freeze on teacher salaries and new hires. Eager to ease political pressures from this and other budget cuts, the government implemented universal education allowing all students to attend school free of charge—causing classroom ratios to jump from 1 to 25 to 1 to 50 or more with many students attending school for the first time.

Not only are the conditions for HIPC program completion perpetuating a failed development model, but the process is all together unacceptable because it denies the right for governments to be self-determinate in policy creation and implementation.

Future deals for debt cancellation will be limited to countries who meet these or other anti-democratic, conditions (see HIPC conditions box). Although another nine African countries are likely to complete the HIPC program and qualify for full debt cancellation in the next 12–18 months, the program will leave behind twenty-three African nations that deserve to have their debts canceled. The nine countries scheduled to reach HIPC completion point include: Cameroon, Chad, Democratic Republic of Congo, Gambia, Guinea, Guinea-Bissau, Malawi, Sao Tome and Sierra Leone. Debt Cancellation for these countries is estimated to cost an additional \$11 billion.

Debilitating poverty experienced by millions in Africa today will not be solved with more of the same economic models. Unless drastic changes are made in the lending and debt relief paradigm—one that is based on undemocratic conditions—there will continue to be an aggravation of poverty leading to increased insecurity and more violence.

Additional countries in need of debt cancellation

The case for debt cancellation for more countries is clear. There are 34 countries on the Continent that deserve and need cancellation of their odious or illegitimate debt to meet the Millennium Development Goals (MDGs) adopted unanimously by the Millennium Summit of the UN General Assembly in 2000.

Six thousand Africans die daily from the combined forces of HIV/AIDS, chronic famine, and poverty-related illness. This is compounded by harmful conditions imposed on poor countries that limit governments’ ability to engage creative solutions that prioritize human needs over paying illegitimate debts. With a deal that will only relieve the Continent of about \$1.5 billion a year in debt payments, African nations left out of this deal will continue to transfer over \$11 billion dollars in debt service to rich Western nations annually. This does little to reverse current trends which see the nations of Africa spending up to five times more on debt repayment per person than they spend on health care and education for their people.

The fight to combat the HIV/AIDS pandemic will continue to be undermined by the demands of debt repayment. By and large, the majority of Africans did not benefit from debt monies. Much of the debt was created by dictators or ill-advised and imposed economic adjustment plans. These same people will continue to be denied access to vital health, education and other public services because their governments are using scarce resources to repay loans. Until the chains of debt are broken, African nations will be unable to mount any kind of a response to the growing AIDS crisis.

The original HIPC list was constructed by creditors in 1996, excluding some countries clearly in need of debt cancellation (such as Kenya, South Africa and Angola). Today, those that have met all the HIPC program conditions and reached completion point are not only benefiting from the debt cancellation deal, but the majority of new aid. HIPC completion criteria have become the standard donors now use to establish which countries are a good aid investment.

Looking forward

“Our aim remains unchanged as we prepare for the G–8 meeting and beyond; we will continue to advocate for the inclusion of many more countries under the umbrella of debt forgiveness,” says Mary Ellen McNish, General Secretary of AFSC. “And for the removal of the counterproductive, nearly impossible conditions that have been set for other debt-ridden countries to qualify for relief.”

AFSC is committed to working to:

- Expand the debt cancellation country list
- Remove HIPC as the eligibility criteria
- Remove any form of conditionality

AFSC will do this in the following ways:

- Work with U.S. Congress to pass the Jubilee Act (H.R. 1130), now co-sponsored by 73 members, which calls for 50 countries to be included in debt cancellation deals without harmful conditions.
- Continue to put pressure on the U.S. Department of Treasury, the IMF and the World Bank to establish a new yardstick for debt cancellation eligibility.
- Work with Civil Society groups in the Global South and in G–8 countries to campaign to remove conditionalities.

I. Appendix – African Country Eligibility

HIPC 18 <i>Post-Completion Point</i>	HIPC 9 <i>Close to Completion Point</i>	HIPC 11 <i>Other Possibly Eligible Countries</i>	Excluded African Nations
<ol style="list-style-type: none"> 1. Benin 2. Burkina Faso 3. Ethiopia 4. Ghana 5. Madagascar 6. Mali 7. Mauritania 8. Mozambique 9. Niger 10. Rwanda 11. Senegal 12. Tanzania 13. Uganda 14. Zambia 	<ol style="list-style-type: none"> 1. Cameroon 2. Chad 3. Democratic Republic of Congo 4. Gambia 5. Guinea 6. Guinea Bissau 7. Malawi 8. Sao Tome 9. Sierra Leone 	<ol style="list-style-type: none"> 1. Burundi 2. Central African Republic 3. Cote D'Ivoire, Comoros 4. Republic of Congo 5. Liberia 6. Somalia 7. Sudan 8. Togo 	<ol style="list-style-type: none"> 1. Angola 2. Cape Verde 3. Djibouti 4. Equatorial Guinea 5. Eritrea 6. Gabon 7. Kenya 8. Lesotho 9. Mauritius 10. Namibia 11. Nigeria 12. Rwanda 13. Sao Tome and Principe 14. Seychelles 15. South Africa 16. Swaziland 17. Zimbabwe

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Mr. SMITH. Ms. Countess, thank you very much for your testimony.
Dr. Bate.

**STATEMENT OF ROGER BATE, PH.D., RESIDENT FELLOW,
AMERICAN ENTERPRISE INSTITUTE**

Mr. BATE. Thank you, Mr. Chairman, and other Members of the Committee for inviting me to testify today on behalf of Africa Fighting Malaria and the American Enterprise Institute.

This could very well be a great year for Africa, but much depends on the attitudes of both Western leaders and their African counterparts, for while the current push for debt relief and increased aid for the poorest countries is certainly creditable, it is not going to lead to the long-run growth that all countries require and many media commentators seem to believe can be achieved this year.

More troublingly, if policy is made without enough thought, bad behavior will be rewarded and hence encouraged, and new aid will drive unsustainable policies leading to humanitarian and economic problems.

As we approach the start of the G-8 meeting, with Africa firmly at the top of the agenda, new deals on debt and aid are being cut. And the U.S. Administration has probably gone further than any G-8 nation to ensure that the incentives faced with aid delivery are as good as possible. By requiring good institutional changes before aid is provided, the Millennium Challenge Account avoids a common aid pitfall, which is assuming that aid can promote sustainable policy improvements in countries where domestic stewardship of such change is absent. However, as the experience of the MCA has demonstrated, such a careful and targeted approach to aid is difficult, slow, and decidedly unglamorous.

With all the campaigners running around my home country of Great Britain at the moment, they seem to be ignoring that aid has but a tiny effect on growth. Aid cannot make poverty history. It is growth that causes development and reductions in poverty, and economic growth depends on qualitative, not quantitative, factors—the structure of property rights, whether and how the rule of law is applied, how large government grows, and how effective it is at delivering public services, how open the economy is to local and international trade. And, fortunately, we are beginning to see some African countries moving in the direction of those things.

Aid may not improve growth—the evidence on that is mixed—but it certainly can save lives. We are seeing the President's emergency plan on AIDS relief saving lives from AIDS and malaria. Numerous initiatives, both current and past, have saved lives through both private donations and governmental funds. And, of course, food aid from the United States saves millions every year.

The current push, driven by G-8 host United Kingdom is not, unfortunately, just toward humanitarian relief but toward, I would argue, development policies which are largely based on old ideas of throwing money at the problem. It is aimed toward rhetorically pleasing but unsound targets, especially those that I work on closely on health, even though many past targets have not been hit. I could go into those in detail.

But it is not just the other G-8 members who are at fault here. Not all of the humanitarian assistance that the U.S. Congress has allocated to developing countries is being administered properly, either. Though the MCA is an excellent initiative, the United States Agency for International Development is still responsible for the

vast majority of U.S. foreign aid. As I testified before this Committee about 10 months ago, USAID has largely squandered the over \$400 million that Congress allocated the Agency to fight malaria.

I was delighted to hear the President's announcement this morning of more than \$1.2 billion to fund malaria control. This could be a wonderful advance, but I am extremely worried if this is handled in the same way and handled by the same people who have overseen past failure.

Having said this, the United States has taken encouraging positions on development issues in the run-up to the G-8 meeting in Scotland and, most notably—it has smartly, I would argue—opposed the U.K.-driven international finance facility. And I could go into the details of that.

The campaign that is being pushed in the United Kingdom at the moment and around the world, the Make Poverty History agenda, makes quite a lot of sense. There is opposition to export and food subsidies in developed countries which distorts trade and makes it very difficult for the world's poor to export to Western countries, which is something, as we have already heard today, vital for their development. And they also advocate the cancellation of debt, something that in most instances, nearly all the time, I would support.

Yet, unfortunately, the Make Poverty History campaign and, I think, some of the arguments that are being promoted certainly in the United Kingdom at the moment, are that developing countries should adopt protectionist policies, and promote what I can only describe as unsustainable aid; and perhaps they should look at some history.

Consider, for example, that India, which has followed many of the recipes that they are pushing forward, was caught and standards of living fell during the 1960s and 1970s. When India began to liberalize its economy in the early 1990s, it grew at about 8 percent a year, and today its poor are becoming less so. Make Poverty History's "trade justice" approach, I would argue, is a recipe for more poverty.

The U.S. approach to aid and trade, I believe, is broadly correct. We see that the MCA is beginning to roll out grants to countries such as Madagascar, Honduras, Nicaragua, and Cape Verde, but the MCA must not, I would argue, be rushed into delivering aid thoughtlessly. It must not overload itself with environmental regulations. No matter how well thought through they may be for Western countries, they may well not be the right application at the stage of development for African nations. And it must continue to measure its performance so that we can actually see that the aid is working.

As I mentioned before, the link between it and development is extremely unproven even after 50 years. And perhaps this would actually be—we could actually learn what aspects of aid do lead to development.

As I have mentioned, and I will conclude, poverty will not be made history by aid and goodwill, but it will be made history by sound institutions and domestic growth. Aid certainly has a role to

play and especially in humanitarian relief. But it is a minor one, and it can be counterproductive if not done carefully.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Bate follows:]

PREPARED STATEMENT OF ROGER BATE, PH.D., RESIDENT FELLOW, AMERICAN
ENTERPRISE INSTITUTE

Mr Chairman,

Thank you for inviting me to testify on behalf of the American Enterprise Institute.

Africa's Great Leap Forward

This is Africa's year. Many powerful people are pushing for debt relief and increased aid for the poorest countries, and notably for the entire African continent. But although it is likely that the approach proposed by the UN and the Africa Commission headed by British Prime Minister and G8 host, Tony Blair, will be a huge boon for the aid industry, it is destined to fail in its goal of lifting millions out of poverty. The failure will not stem from a shortage of good will on the part of policy makers and citizens of wealthy nations, but because the theory on which the proposed massive transfer of aid is based is fundamentally flawed.

That is not to say that specific aid projects, especially humanitarian relief efforts, cannot be effective, even vital, but that systemic aid has not proven successful. And though it is likely that future aid can and will be done better than in the past, the perverse incentives that doom even the best designed aid projects remain. Thus, it is very likely that more large-scale aid will again result in failure.

Nevertheless, the US administration has gone further than other G8 nations to ensure that the incentives faced with aid delivery are as good as possible. By requiring good institutional changes BEFORE aid is provided, the Millennium Challenge Account avoids a common aid pitfall: assuming that aid can promote sustainable policy improvements in countries where domestic stewardship of such changes is absent. However, as the experience of the MCA has demonstrated, such a careful and targeted approach to aid is difficult, slow, and decidedly unglamorous.

Economic growth depends on qualitative, not quantitative factors; the structure of property rights, whether and how the rule of law is applied, how large government is and how effective it is at delivering public services, how open the economy is to local and international trade. Having such information makes it easier to devise and target aid strategy, which should focus on short run, primarily humanitarian efforts, to governments that are already reforming.

Poverty Gap Theory

Development economists, led by the UN's Jeffrey Sachs, continue to promote the 'poverty gap' theory of development, which argues that poverty prevents the accumulation of savings, which results in low investment and hence low growth. Foreign aid, therefore, fills the apparent gap between insufficient savings and the requisite level of investment in the economy. Even though economists, notably Peter Bauer, compellingly argued that savings were the "result of economic achievement, not its precondition," aid has continued to flood into poor nations.

Furthermore, Bauer explained how the elite benefited from aid, which is why it has survived while failing so often: foreign aid was "an excellent method for transferring money from poor people in rich countries to rich people in poor countries."¹

Africa's Aid receipts

Inflation adjusted, Africa has received well over \$400 billion in foreign aid since 1960. According to World Bank data, African GDP per capita on average declined 0.6% every year between 1975 and 2000, which massively increased the number of Africans surviving on less than \$1 a day.

Development expert, Dr Marian Tupy of the Cato Institute, explains that 'in contrast, South Asia (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka) performed much better. Between 1975 and 2000, South Asian GDP per capita grew at an average annual rate of 2.94 percent. Yet, between 1975 and 2000, the per capita foreign aid that South Asians received was equal to 21 per-

¹Dorn, James. "P. T. Bauer's Market-Liberal Vision." *The Freeman: Ideas on Liberty*. October 2000

cent of that received by Africa. The link between foreign aid and economic development seems quite tenuous².

Foreign aid has probably exacerbated corruption and theft of African leaders:³ These leaders have embezzled these sums.

- General Sani Abacha of Nigeria: \$20 billion
- President Félix Houphouët-Boigny of Ivory Coast: \$6 billion
- General Ibrahim Babangida of Nigeria: \$5 billion
- President Mobutu Sese Seko of Zaire: \$4 billion
- President Mousa Traore of Mali: \$2 billion
- President Henri Bedie of Ivory Coast: \$300 million
- President Denis N'guesso of Congo: \$200 million
- President Omar Bongo of Gabon: \$80 million
- President Paul Biya of Cameroon: \$70 million
- President Haile Mariam of Ethiopia: \$30 million

Due to corruption, aid proponents have begun to make governance a condition of aid. But many still focus on low aid flows, a colonial past and unfair trade relationships. Jeffrey Sachs says "The poor are blamed for their problems. We say the poor are poor because they are corrupt or because they don't manage themselves. But in the past two years I've seen exactly the opposite. . . . The idea that African failure is due to African poor governance is one of the great myths of our time."⁴

But as Marian Tupy shows 'evidence is not on Professor Sachs's side.' African corruption has been getting worse not better over the past few years.⁵

Having said that, the spread of democracy enables more Africans to vote corrupt governments out of office and that is surely a step in the right direction. And as historian Jeffrey Herbst demonstrates, only one African leader, the Prime Minister of Mauritius, was voted out of office between 1960 and 1989. But between 1990 and 2004, 23 African heads of state were voted out of office⁶.

But an increase in democracy does not always end corruption. And a sad if not unique feature of African nations is that many people continue to see participation in the government as a means of becoming wealthy, and weak institutions allow them to succeed.

For example, Zambia's former leader, Frederick Chiluba was elected in 1991 partly with the notion of defeating corruption but he has been indicted for embezzling tens of millions of dollars. But today, as Tupy puts it, 'in an absurd twist, President Levy Mwanawasa, Zambia's current leader, promised to pardon Chiluba if the latter returned 75 percent of what he had stolen'.

Zimbabwe's President, Robert Mugabe, has overseen a collapse of his country's economy, with rampant inflation and a life expectancy that has plummeted from 55 years in 1980 to 33 years in 2005⁷. Yet Mugabe and his wife regularly buy millions of dollars worth of goods from Malaysia, and live the life only imagined by former colonial leaders.

Does AID improve growth?

Ignoring anecdotal examples of corruption and aid failure, empirical justification for the 'poverty trap' notion were fairly weak until a widely cited 2000 paper in the prestigious *American Economic Review*. The paper by World Bank economists Craig Burnside and David Dollar showed that "aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies but has little effect in the presence of poor policies."⁸ These results, based on data from the years 1970–1995, were influential in promoting aid and the current MCA approach. The Economist magazine even stated, 'there is now a strong body of evidence . . . that aid

²See Marian Tupy, forthcoming Cato policy analysis, "Trade Protectionism and Poverty in Sub-Saharan Africa".

³George B.N. Ayittey, Ph.D. "Corruption, the African Development Bank, and Africa's Development" (testimony, U.S. Senate Foreign Relations Committee, Washington, DC September 28, 2004).

⁴Eiatar, Daphine. "Spend \$150 Billion Per Year to Cure World Poverty." *The New York Times*. November 7, 2004

⁵Tupy forthcoming

⁶Herbst, J. "The Incomplete Triumph of Democracy in Africa" *Bradley Lecture Series*. November 1, 2004, American Enterprise Institute, Washington DC.

⁷See Tren and Bate, Despotism and Disease <http://www.fightingmalaria.org/research.php?ID=32>

⁸Burnside, Craig and David Dollar. 2000. "Aid, Policies, and Growth." *American Economic Review*. 90 (4): 847–68.

does boost growth when countries have reasonable economic policies'. Certainly, UN Millennium Commission Director, Jeffrey Sachs, subscribes to this view.

However, William Easterly, a former World Bank economist, found that when Burnside and Dollar's data sets were brought more up to date (1970–1999), aid's role in development was less certain. And Easterly, Levine and Roodman (2003) found no statistically significant interaction between aid and policy.⁹ In short, even in the most favorable of policy environments, there remains little support for the initial assertion that aid promotes economic growth.

Empirical research does not support the 'poverty trap' notion; even the theory of the poverty trap itself is illogical, since it suggests that no one can ever develop out of poverty. Obviously, nations have, and continue, to develop without massive infusions of aid. All western nations have developed by hard work, saving small amounts at first, and good institutions like strong protection of private property and sensible, well defined and limited public sector regulation. Moreover, aid is often spent on projects that benefit political elites rather than citizens, thereby supporting corrupt regimes and often crowding out private sector initiatives.

Aid creates perverse incentives for donor and recipient, incentives that are certainly not amenable to economic growth. As Harvard University historian David Landes in the *Wealth and Poverty of Nations*, writes: 'History tells us that most cures for poverty come from within. Foreign aid can help, but, like windfall wealth, can also hurt. It can discourage effort and plant a crippling sense of incapacity . . . at bottom, no empowerment is so effective as self-empowerment'.

The G8 Plan—Making Poverty History?

There is no doubt a tragic premature loss of life in many part of the world. However, the question for policy makers is, "Will more aid help?" Perhaps wealthy countries can, and should, help with well targeted and well measured humanitarian (and other specific) projects, but economic growth depends strongly on the domestic stewardship of good policies and institutions in developing countries.

However, the current push, driven by UK hosts, is not towards this sound development policy. Instead, it is aimed towards the rhetorically pleasing, but until now unrealistic, target of donations and loans to poor countries totaling 0.7% of wealthy country GDP in foreign aid. Aside from the dubious rationale underlying this effort, it is hypocritical of world leaders to sign up to targets and timetables without real thought as to whether they are deliverable or not. In fact, wealthy nations have already promised and, with the exception of a few small Northern European countries, failed to deliver on the 0.7% pledge for the past two decades.

Major targets, especially those for health, are replete with failure (e.g. WHO targets—1978 announcement of Health for All by 2000, which obviously has failed, the Roll Back Malaria announcements of 1998, which have been followed by increases in the malaria rate, and the 3 by 5 initiative to treat 3 million AIDS patients with antiretroviral drug therapy by 2005, which is also failing).

Indeed, in a rare moment of cogency, in 2004, WHO Director General Lee warned that "if we cannot reach 3 by 5, there is no reason to believe we will achieve the Millennium Development Goals." And now that Dr Lee has confirmed that the 3 by 5 target will not be hit, we need only wait for the UN's unfulfilled MDG's to be replaced by another quixotic set of targets.¹⁰

But regardless of past failures, if the G8 rallies the funds, the UN would coordinate massive aid through the various large agencies (World Bank, IMF, WHO etc.) The aid would deliver complex solutions (nitrogen-fixing plants, bed nets, water recycling etc.) to complex problems (nutrient-poor soils, malaria, high water salinity etc.) in areas of extremely low capacity. It is predicted that increasing aid spending by tens of billions of dollars each year until 2025 will spring the poverty trap for good and all.

As shown previously, there is little support for the idea that a poverty trap exists at the international level. Lack of both good governance and rule of law, among other factors, keeps citizens poor and foreign aid that props up regimes which starve their people of these institutions is a sure way to starve them of bread, as well. For instance, many developing countries have tariffs and taxes on essential medicines, a self-inflicted, regressive and economically inefficient impediment to access to medicines that keeps their citizens from achieving decent health.

⁹ Easterly, William, Ross Levine and David Roodman. 2003. "New Data, New Doubts: A Comment on Burnside and Dollar's 'Aid, Policies, and Growth' (2000)." National Bureau of Economic Research working paper No. 9846, July 2003.

¹⁰ Allen, K. HIV drug target 'will not be met', 29th June 2005. *BBC World*. <http://news.bbc.co.uk/2/hi/health/4629933.stm>

In the real world it is the alternative approach of tailored aid to specific projects and marginal reform of institutions that is promoted by economists like Bill Easterly, author the *Elusive Quest for Growth*, which has proved most successful, especially among the Asian tigers. Despite beginning a half century ago with the same level of GDP, and receiving much less foreign aid than their African counterparts, the Asian nations have boomed.

The US has made great strides with the more sensible, 'Bill Easterley', approach towards aid. In addition to the MCA, support for humanitarian projects will certainly benefit many in poor nations. Initiatives like the recently announced \$647 million in food aid for East Africa, the \$15 billion President's Emergency Plan for AIDS Relief (PEPFAR), and the over \$1 billion already donated to the Global Fund to fight AIDS, Malaria, and Tuberculosis, will give short term assistance many need. They are important and worthy projects that will save lives and should be carried out with the greatest possible care and efficiency, but they cannot, on their own, lead to economic growth.

Unfortunately, not all of the humanitarian assistance that the US Congress has allocated to developing countries is being administered properly. Though the MCA is an excellent initiative, the United States Agency for International Development is still responsible for the vast majority of US foreign aid. As I have documented in a coauthored paper and testified about before both houses of Congress¹¹, during the past decade, USAID has largely squandered the over \$400 million Congress allocated the Agency to fight malaria. USAID has consistently failed to account for its malaria spending, usefully measure its programs, and invest in the interventions proven to prevent and treat a disease that kills over a million pregnant women and children in the developing world each year. Most disturbingly, the Agency's startling lack of transparency means that its other programs, which have not been subject to the same level of scrutiny, may be run just as poorly. . And if the expected Presidential announcement today allocates more funding to malaria control, it would be unfortunate if it were to be handled by exactly the same people who have overseen past failures.

Investing scarce resources in terrible diseases like HIV/AIDS and malaria is a good idea, but the US Congress must demand that the agency it entrusts to handle these funds is fully accountable and spending the money properly. Before the MCA begins to operate on a larger scale, Congress would be wise to ensure that the MCA has the proper mechanisms in place to operate transparently and with fully accountability to US taxpayers

Finally, the US has taken encouraging positions on development issues in the run up to the G8 meeting in Scotland. Most notably, it has smartly opposed the proposed UK-driven International Finance Facility. Not only does the IFF violate the US's fiscal laws (as well as the laws of fellow G8 members Canada and Japan) by requiring a long term budget commitment, it is an uncertain and unrealistic scheme to transfer large sums of aid to countries that will likely not use it well. It is exactly the way aid should not be done.

The US has also admirably pushed for a sensible debt relief plan with its recent agreement to write-off \$40 billion of largely unrecoverable debt from 18 poor countries (it has drawn the rest of G8 to an agreement—to be finalized in Scotland). Compromising from its earlier position, the US agreed to help compensate the lenders (i.e. the IMF and World Bank) who will absorb the main cost of such a move. Showing fiscal responsibility, the US has held firm that the debt write-off should not be financed by the sale of IMF gold reserves, nor should new lending to forgiven countries begin atop the write-off. It aims to provide these countries with a balance sheet advantage so they can borrow more easily from the capital markets.

Economic Freedom Will Save Lives

Popular support for assisting those in poor countries is gaining momentum through the encouraging Make Poverty History campaign. The group, creditably, wants to end world poverty, and part of the purpose of the event will be to influence the July G8 summit, which will concentrate on the questions of African poverty and Climate Change.

There is a lot about Make Poverty History's agenda that makes sense. They oppose export subsidies, which distort trade at the expense of the developing world's poor. They also advocate the cancellation of debt. In some cases, this makes sense—why should former collapsed states that are striving to join the modern world be penalized for the actions of past despots they have overthrown?

¹¹ Bate, R. and Schwab, B. "The Blind Hydra: USAID Policy Fails to Control Malaria." Working Paper, The American Enterprise Institute. <http://www.aei.org/publications/pubID.22355/pub—detail.asp>

Yet Make Poverty History advocates that developing countries adopt protectionist policies even as developed countries open up their markets. This ignores some basic economic facts: that trade promotes economic progress and that the invisible hand of the market directs buyers and sellers towards activities that promote the general good.

Consider that, for decades, India was one of the countries caught in the trap, seeing its living standards fall during the 60s and 70s as the exact strategies recommended by Make Poverty History were implemented there. Since India began to liberalize, its economy is growing at 8%–10% a year and its poor are becoming less so. Make Poverty History's "trade justice" approach is a recipe for more poverty.

Conclusion

The US approach to aid and trade development is broadly correct. As the MCA rolls out the grants to countries (currently Madagascar, Honduras, Nicaragua and Cape Verde), and assuming it isn't rushed into delivery aid thoughtlessly, and continues to measure performance relationships with GDP, we will see, once and for all, whether aid really does lead to development. After 50 years of widespread failure, this is more important than throwing billions at non-implementable projects of often dubious value.

Poverty will not be made history by aging rock stars and good will, but by sound institutions and domestic growth. Aid has a role to play, especially in humanitarian relief, but it is a minor one, and can be counter productive if not done carefully.

Thank you Mr Chairman.

Mr. SMITH. Dr. Bate, thank you very much for your testimony. Let me start with you, if I could.

You make a statement that foreign aid has probably exacerbated corruption and theft of African leaders, and then you list 10 African leaders which, if my math is right, is about \$37.5 billion worth of theft and corruption when you combine it all.

How serious have been the efforts to recover those funds? Has it all just been lost or is there any effort being made to retrieve it in Swiss bank accounts or wherever?

Mr. BATE. The international community generally was aided significantly, in fact, by Switzerland, which often doesn't get good press for these things and, I think, has done a lot to try and find the money and return it to where it should be; and I think the result has been with mixed success. On the whole, I think that the vast majority of these funds have been squandered, or they have not been found.

Mr. SMITH. I appreciate that.

Mr. Flood, the dozen and a half countries that you talked about, that you heard about from our previous witnesses: Are you optimistic that they too will soon be receiving the kind of debt relief that they so desperately need?

Mr. FLOOD. I don't know. We have had some brief discussions with the Administration about it, and they have not given a totally negative answer about it. And you heard, I think, from Mr. Pittman, it wasn't totally negative. But I can't say that I have confidence that it will happen any time soon. I don't think that it is really on the radar screen at the moment, and I think it is something that will need a lot of attention, and I look forward to this.

Hopefully, the bill which I mentioned earlier, which has been introduced in the Senate, which was designed in part to encourage that new countries be included—I hope that will give some impetus to getting something moving in that direction.

Mr. SMITH. You, in the end of your statement, talk about the arms trade and the proliferation of conventional weapons, for

which I share your concern, as do many other Members of Congress, I am sure.

Do you have any thought that this will be seriously considered at the G-8 summit?

Mr. FLOOD. Well, I know that the British Foreign Minister is going to table a treaty at the meeting. What prospects there are for any concrete action, I don't know. I can't be really optimistic unless we hear more from our own side, from the Administration, that they are really behind this; and I haven't heard any signals along those lines.

Mr. SMITH. Thank you.

Mr. Payne.

Mr. PAYNE. Thank you very much. I really appreciate all of your testimonies.

The question of conventional weapons you mentioned, had the Catholic bishops made a strong request regarding what has—what have they proposed as relates to the conventional, the weapons sales?

Mr. FLOOD. Well, we don't have—you know, as the Bishops' Conference—the Bishops' Conference doesn't have a specific proposal to make. But it does believe that there ought to be clear limits defined for the use of arms and the arms trade; and that humanitarian—human rights have got to be a very strong consideration in all that and trying to keep arms out of the hands of people who are going to be, particularly in developing countries, engaged in conflict. That has got to be one of the areas that has got to be dealt with most seriously.

I think there is a sense that the U.S. is doing a reasonable job in that area, but that it is not—internationally, that is not the case. And without an international accord, it doesn't matter what our policies might be, it is not going to happen, nothing is going to change.

Mr. PAYNE. Well, actually, just the contrary. You know, out of the \$36 billion of conventional weapons that was sold in 2003, over 50 percent of it, the United States outstripped Russia, China, Israel, England, France and Germany altogether. And so when we hear about these terrible things that are happening in these countries, I wish that some of the strong agencies in the United States—as a matter of fact, 2 years ago there was a United Nations meeting, a convention on the proliferation of conventional weapons, which the United States refused to participate in, that actually called for—tried to prevent the discussion from going on.

And so we are really—not so much the Catholic bishops, but we are very quick to attack, you know, bad issues of governance in other countries, which we should.

And I would love to see a group like yours, Dr. Bate, do an analysis on conventional weapons which are being so—as a matter of fact, right now for Haiti there is—you have to get a license to sell weapons. The United States is promoting a license to sell weapons to Haiti today. Now, if someone could tell me why United States firms are anxious to sell weapons to Haiti, which of course will have to be paid for by U.S. money, it boggles the mind.

And so we really have a lot of work to do. And I, just on the those numbers, too, that this Africa corruption has been—I think,

Dr. Bate, you ought to try to clarify that corruption is wrong anywhere.

But looking at your report, you would assume—because you said foreign aid has probably exacerbated corruption, and you talk about theft of African leaders, therefore, you would assume that the \$20 billion that Sani Abacha stole allegedly came from United States assistance. As you probably know, the United States gave zero dollars of assistance to Nigeria during the Abacha regime.

And so perhaps, for clarity, because people might read things quickly, it might be good to maybe have two columns. I mean, stealing money is bad, stealing anything, but he stole his own money. They stole oil money. United States gave zero dollars, but someone reading this would think that they stole \$20 billion—perhaps no one here, but someone out reading something quickly.

And also you have Babangita with the \$5 billion; once again, he was a military general. That is \$25 billion of the total amount that you have listed and nothing at all to do with U.S. foreign aid. It is really apples to watermelons or something.

And so I think, you know, and for clarity—and certainly you are an extremely intelligent person, Dr. Bate, but I think that we ought to try to separate so that we have a clear issue of what we are talking about. I think we definitely have to weed out corruption, but I would hate for United States taxpayers to think that \$25 billion of their money was stolen in Nigeria.

I don't have any other questions, Mr. Chairman.

Mr. SMITH. Ms. McCollum.

Ms. MCCOLLUM. Thank you, Mr. Chair. Thank you again for holding this hearing. I am going to read something and then kind of frame my questions around this; this is from Jeffrey Sachs:

“The total annual U.S. aid for all of Africa is about \$3 billion, equivalent to about 2 days of Pentagon spending. About a billion pays for emergency food aid, half of which is for transportation; about 1.5 billion is for technical cooperation, which is essentially the salaries of U.S. consultants. So that means only about \$500 million a year, less than \$1 per African, finances clinics, schools, food production, roads, power, Internet activity, safe drinking water, sanitation, family planning, lifestyle health interventions to fight malaria, AIDS, and other disease. So we see that as the dollars are moving through, very few are getting there.”

So I have two things that have kind of come up in discussions lately. One is food aid in Africa. We import food from the United States there and that will have to be a part of it. But part of a discussion that I have heard is, even if there is food available in Africa to stimulate the economy within Africa, there is no road or transportation system to get there.

So I would think if we are doing—and you heard the first set of panelists. If we are doing a blueprint, a Marshall Plan for Africa, that transportation, farm-to-market, would seem to me to be a common sense way to get there, so Africa as a continent starts becoming more self-sufficient or even within countries.

The other issue that I hear from African parliamentarians, yes, they are concerned about debt relief. But some of the parliamentar-

ians are concerned that unconditional debt relief doesn't necessarily help them free up the dollars to go to the infrastructure, the health clinics, the education, and some of that, without some guide, restriction, points at which dollars are released toward debt relief to really focus in on countries putting that debt relief forgiveness toward civil society, toward improving the quality of their lives through the focus.

We have heard the discussion here. It goes toward military hardware. So I would like a response back from that.

And I have read some of your documents, Dr. Bate, and I think you make some excellent points. There are some other points I would love to talk to you about at some other time.

But I am concerned, and so I want to understand this more fully from you. I am concerned when you say there are too many environmental restrictions and that—and, Mr. Flood, you might be familiar with the example that I am going to give.

In Peru, at one point in time, there was a rush to own cattle and there was a lot of clearing of land to graze cattle. What happened, without looking at what they were doing in the area, was they allowed for more stagnant water to pool and develop; and they had malaria outbreaks in areas where they hadn't experienced malaria before.

And so there has to be a balance. And I am wondering how you, Dr. Bate, would consider that kind of balance so that we do have some expertise that could help with making sound environmental decisions that don't, with the best of intentions, cause a different problem. How would you suggest that we go through and guide to do that? Because when I asked when we were having the Millennium Corporation hearings about how do we go about setting that up, I have never gotten a good answer.

And, Mr. Chair, I do have one other thing to submit for the record. It is from the parliamentarians that monitor World Bank programs, and it is signed by people from Africa, Russia, Japan, as well as myself, supporting working on the goals, urging Mr. Blair and Mr. Bush to really do everything that they can.

Thank you.

Mr. SMITH. Without objection, it will be made a part of the record.

[The information referred to follows:]



June 7, 2005

President George W. Bush
The White House
1600 Pennsylvania Avenue
Washington, DC
USA

Prime Minister Tony Blair
10 Downing Street
London
United Kingdom

Dear President Bush and Prime Minister Blair:

As parliamentarians from G8, European and African countries meeting in Edinburgh, Scotland in advance of the G8 Summit, we urge you in your discussions today in Washington to agree to advance concrete and measurable actions to address the human development needs of the hundreds of millions of people living on the continent of Africa.

Millions of Africans are dying from AIDS, hunger, conflict and the consequences of extreme poverty. Immediate action is required to reverse this on-going human tragedy. Your leadership, with the support of the citizens of the United States and the United Kingdom, as well as that of other G8 and wealthy nations in Europe, can save lives, create hope and promote opportunity for the people of Africa. Therefore, the outcome of your discussions today may well set the tone for both the G8 Summit as well as the future of development and investment in Africa.

As parliamentarians, we believe action is needed now. Words and promises are no longer enough when the future of an entire continent is at stake. The time has come for urgent and sustained action on aid, trade and debt relief to improve the quality of life for the over three hundred million Africans who live in extreme poverty on less than \$1 per day. Inaction and the prospect of a further deterioration of the human condition have the potential not only to lead to failed African states, but to place at risk the stability of the entire continent. Such a prospect cannot be allowed to become reality.

Your nations, along with the other G8 partners, have the economic power and strategic ability to partner with the people of Africa to initiate a positive new era of development, investment, trade and good governance. With your support and determination this partnership can not only overcome the serious challenges Africa faces today, but also prepares a brighter future for the next generation of African children and families.



Together, we urge the United States and the United Kingdom to strongly support and promote the goals put forth by the Commission for Africa as a blueprint for action at the upcoming G8 Summit at Gleneagles. We are ready to work with you and the leaders and parliamentarians from other wealthy countries and African countries to take responsible, urgent action to achieve success for Africa's future through leadership in the following four areas:

- G8 leaders should commit to a time table for doubling aid to Africa by 2010. An additional US\$25 billion is needed, according to estimates by the Commission for Africa.
- G8 leaders should commit to substantially reducing tariff rates for agricultural products, fully eliminating agricultural export subsidies, and boosting aid for trade assistance to enhance Africa's capacity to trade.
- G8 leaders should agree to eliminate the unsustainable bilateral and multilateral debt of the poorest nations.
- African leaders and the people of Africa should lead efforts to tackle their continent's development challenges: investing in people, empowering African women, supporting sustainable development and agriculture, building effective nations and good governance, promoting peace and security, and developing the private sector.

President Bush and Prime Minister Blair, we urge you and your governments to support these initiatives and commence with a new partnership to strengthen and sustain Africa's future.

Yours Sincerely,

Parliamentary delegates to the Edinburgh G8 International Parliamentarians' Conference on Development in Africa 2005

Hon. Betty McCollum Member of U.S. Congress	Lord David Steel House of Lords, UK	Mark Lazarowicz Member of Parliament, UK
Ann McKeichin, MP United Kingdom	Rt. Hon. Gavin Strang, MP United Kingdom	Hon. Masatoshi Wakabayashi, MP, Japan



Hon. Sergey Afendulov, MP Russian Federation	Hon. Nikolay Gerasimenko, MP, Russian Federation	Hon. Gian Paolo Landi di Chiavenna, MP, Italy
Hon. Bert Koenders, MP, The Netherlands	H.E. Nathan Nabeta Igeme, Minister of Trade, Uganda	Hon. Mary Henry, Member of Senate, Rep. of Ireland
Hon. Priscilla Misihairabwi- Mushonga, MP, Zimbabwe	Hon. Ruth Genner, MP Switzerland	Hon. Francesco Martone, Senator, Italy
Hon. Belinda Bidwell, MP Gambia	Hon. Leon Bio Bigou, MP Benin	Hon. Louis Chimango, MP Malawi
Hon. Yohannes Dawit, MP Ethiopia	Hon. Habeeb Fasinro, MP Nigeria	Hon. Beatrice Kiraso, MP Uganda
Hon. Justin Malawezi, MP Malawi	Hon. Norbert Mao, MP Uganda	Hon. Angeline Ndo Engolo Evina, MP, Cameroon
Hon. Marie-Rose Nguini- Effa, MP, Cameroon	Hon. James Omingo Magara, Kenya	Hon. Famara Sarr, MP Senegal
Hon. Elioda Tumwesigye, MP, Uganda	Hon. Ben Turok, MP South Africa	Hon. Delia Blanco, MP Spain
Hon. Alain Destexhe, MP Belgium	Hon. Jeppe Kofod, MP Denmark	Hon. Carina Hagg, MP Sweden
Hon. Arminas Lydeka, MP Lithuania	Hon. Miguel Angel Martin, MP, Spain	Hon. Gonzalo Robles Orozco, MP, Spain
Hon. George Tsereteli, MP Georgia	Hon. Birute Vesaite, MP Lithuania	Hon. Patrick Harvie, MSP, The Scottish Parliament

Ms. MCCOLLUM. Thank you.

Mr. SMITH. Thank you.

Mr. BATE. There were several questions and some very good ones.

I think, firstly, dealing with the issue of the money that is already being spent, the implication being that the U.S. should be doing a lot more in terms of development assistance.

Lesotho has already been mentioned in glowing terms today; I was there in March. There are probably between 800 and 2,000 people on sustainable HIV treatment, or at least there were in March. The target set for the 3 by 5 Initiative from the World Health Organization was 28,000 by the end of this year. That was entirely unattainable.

And what happens with the existing level of support from the United States primarily, but also others through the Global Fund—and I know, Congresswoman, that you have done a great job on malaria; I have seen you at various meetings before. What you have in that instance is, the doctors on the ground are complaining, often complaining that they don't have the facilities to do testing of viral loads and CD 4 counts, and actually trying to hit its 3 by 5 targets will increase the chance of drug resistance, drug failure, and pulling doctors away from other areas.

So it is not that more money, in principle, couldn't be used more effectively, but in some instances already you are hitting points where you divert the way that that funding is being spent. So at the moment the target is to get this many people being treated on antiretroviral therapy. The most important block in many of these countries is a lack of personnel to actually oversee that drug delivery, and hence, AIDS funding should probably be redirected in medical or health education.

So just in terms of the examples that I see, it is impossible to hit the targets that are already being set, in fact, there are not enough doctors in place.

I would add two points to the issue of food that you described before. I agree with you. And the first is that food aid can often undermine local markets. I mean, they may be very weak markets, they may not work particularly well, but if you suddenly flood food into a location where there are existing trade arrangements, that can undermine them.

And when it comes to aid, I have witnessed many infrastructure projects in the past that have become complete white elephants that have not actually done anything. So the idea of road construction for improving access to markets is a good one in principle. I am sure the aid could be done better now than it was in the 1980s when I looked at projects. But the oversight of the way that the money is spent is extremely important; otherwise, it just doesn't deliver.

The final point that you raised about environmental performance, yes, it is important that donations and support for developing nations do not massively damage their environment. But we also have to realize where we have come from. You may be able to bypass some of the problems that Britain had through the Industrial Revolution and development the United States has had. But there is no doubt that if you are allocated funding, your priority should

be in terms of growth in development and local health, I would argue, rather than what is going to be the impact on a particular bird of prey, for example.

Not that that species is not important, I am not saying that, but in terms of prioritization, you are dealing with almost triage here. It is a question of where you spend that money. And I think if you have in place environmental regulations which make it difficult for those countries to implement realistic plans on the ground, that can be, I would argue, extremely damaging. That is the caveat that I would have in any environmental performance criteria that you put on the Millennium Challenge Account.

Mr. FLOOD. From the standpoint of the Catholic Bishops' Conference, we have always been—and this is the church in general, not just the U.S. church—that we are for debt relief for poverty reduction, not debt relief for its own sake. So it is very important that the funds be used for poverty reduction.

This is something that we kept stressing in our dialogue 5, 6, 7 years ago when the Jubilee campaign was in process. And I think one of the results of the Jubilee effort was that there was the development of a new instrument called the Poverty Reduction Strategy Papers, and this was designed to have the governments who are going to get debt relief to define their own priorities, what they were going to use the money for, so there could be a country-owned kind of an approach rather than something dictated by the donors.

Another feature of it was that broad participation in the preparation of the Poverty Reduction Strategy Papers so that civil society would have a role in it to help assure that the poorest's interests were taken into account in the design of the strategy.

Now, these have been in process; and again, all of the HIPC countries that are going to get this immediate debt relief do have those and they are implementing them. Has it been perfect? Far from perfect. The record is varied on that as to how well it has gone. But in some countries the process has been pretty good.

And if you don't mind me just—I will just quote from some testimony I gave a while back about Malawi, for example, is a good case. Catholic Relief Services reports that local civil society organizations came together to form a federation called the Malawi Economic Justice Network. Once HIPC funds were granted, they worked closely with the parliamentary budget and finance committee to identify 12 key categories of priority poverty expenditures in the 2001 and 2002 budget. They persuaded the Malawi Minister of Finance to produce periodic expenditure figures for each of these categories and work with the parliamentary budget and finance committee to monitor the allocation of the funds to the relevant line ministries.

The network formed three subgroups in the sectors of health, education, and agriculture to monitor the delivery of services, and they actually carried out surveys in each of these areas to determine how well things were going. The results were shared, first, with the communities, then with the government, donors, and other stakeholders. They developed a strategy to disseminate the results through the radio, newspaper ads, and used them to lobby members of parliament before their deliberations on the budget.

Summarily, results from that in that particular year which was—now it is a couple of years old, but I believe that that is still all operating.

Why is it that the national budget was revised? They added such things as salary increases, not the favored expenditure of the International Monetary Fund, but in these countries absolutely essential in most cases; and they shifted allocations from some nonpriority items—foreign travel, expenditures of the Office of the President—to priority poverty programs. The Ministry of Education is using the findings in its own planning, and parliament was using them to question the line ministries.

So these are the kinds of things that we were hoping would come out of all of this, and certainly in some countries it seems to have worked pretty well.

This is just to give sort of a global figure on all this. The Bank and the Fund have tried to find out what has been the impact of the HIPC program on poverty reducing expenditures in these countries; and their results show that since between 1999 and 2004, poverty reduction expenditures in the countries that are receiving debt relief under the HIPC program increased by 75 percent, which is a lot more, actually, than the amount of debt relief that they were receiving.

One sign that this is working pretty well is that in an evaluation which the World Bank did a couple of years ago, or a year ago or something, there were a lot of government people complaining that because so much money was going into these social sectors there wasn't enough money available for infrastructure investment, and they hoped that the terms of this would be changed so that that could occur.

Ms. COUNTESS. First of all, Ms. McCollum, thank you so much for sharing the information from Mr. Sachs regarding where aid actually goes. That frequently gets lost, and it is incredibly important when we are talking about aid effectiveness to understand how little of the money actually reaches the ground.

A couple of quick points: When talking about aid and aid delivery, one of the most, I think, important components of that work that frequently gets lost and where the Congress has, I think, a particularly important role, and that is in the area of policy rationalization. And let me just give one very quick example.

I was in Mozambique last year and met with representatives of the public health sector, who were very pleased with the fact that Mozambique was about to launch a whole series of day clinics—day clinics to provide services for HIV-positive people, a day clinic in each of the provinces. They were very pleased that they had been able to work with NGOs, with the government and so forth, to produce a national plan that would provide education services, medicines, and so forth.

They were, however, very concerned because the President's plan called for the introduction of medicines, but it was not at all in synch with the Mozambique national health plan. They had training literature, staff, et cetera, poised to deliver one type of medicine, and the President's plan was calling for another. You had the potential for a major problem.

I understand that has since been resolved, but those kinds of policy conflicts you find throughout the system; and it presents a major problem and does lead to ineffectiveness of aid.

I also think it is important for us to remember there are so many successful models of aid delivery. Here in Washington, DC, there are scores of private voluntary organizations—some that receive U.S. Government assistance, some that do not—but that are doing incredible work in the developing world, partnering on the ground with communities and governments to really make a difference in terms of people's lives.

The organization that I work for, the private corporation sponsored by the U.S. Government, created by the U.S. Congress, the African Development Foundation, is one example of how small amounts of money targeted to grassroots communities in Africa can have an incredible impact and assist in development.

I also wanted to just quickly touch on the issue of participation. It was very interesting to me, as I listened to the representatives from Treasury as they talked about participation and government involvement and writing country strategies and so forth.

This spring, I believe it was Interaction hosted a meeting with the World Bank, the IMF, and NGOs to review the effectiveness of PRSPs, the Poverty Reduction Strategy Papers; and what they found was that, yes, there was an increased level of participation, but unfortunately many of the macroeconomic decisions were not on the table. They were not up for discussion. And that is where one really needs to have a high level of participation and transparency.

Thank you.

Mr. SMITH. Thank you to each of our witnesses. I thank you for your testimony.

We may have some additional questions from Members, if you wouldn't mind getting back to us in a timely fashion so we can include it into the record. But again I thank you so very, very much.

The hearing is adjourned.

[Whereupon, at 5:30 p.m., the Subcommittee was adjourned.]

