STATEMENT BY TREASURY DEPUTY ASSISTANT SECRETARY WILLIAM E. SCHUERCH TO THE SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE OF THE HOUSE FINANCIAL SERVICES COMMITTEE
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Chairman Bereuter, Ranking Member Sanders, members of the Subcommittee, I thank you for the opportunity to testify before you on the authorization requests requiring action this year.

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

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

<u>Asian Development Fund (AsDF-8)</u>

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

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

- Increased assistance for poverty reduction to about 40% of lending, with heavy emphasis on education.

- Increased transparency and participation by civil society in the preparation of country lending strategies.

- Improved systems for measuring results, including upgrading the evaluation office and establishing a Board committee on development effectiveness.

- Conclusion of a Memorandum of Understanding with the World Bank to enhance coordination and better delineate responsibilities in the region.

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

International Fund for Agricultural Development (IFAD-V)

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

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

- Greater consideration of country governance and domestic policy criteria in assistance strategies and allocation decisions.

- Expanded co-financing to cover at least 30% of IFAD's annual commitment level to leverage increased resources for poverty reduction.

- IFAD's full participation in HIPC.

HIPC Debt Relief Trust Fund

Important progress was made last year when Congress authorized $435 million in U.S. contributions to the HIPC Trust Fund, of which $360 million has been appropriated thus far. The FY2002 authorization request is for the final $165 million of the U.S. pledge of $600 million to the HIPC Trust Fund. The Trust Fund helps regional development banks and other multilateral institutions meet the costs of providing debt reduction to heavily indebted poor countries committed to economic, social and governance reforms. Twenty-three countries have begun receiving debt relief under the enhanced HIPC program, amounting to $34 billion in nominal terms. On top of this, the United States and many other creditor countries are canceling Official Development Assistance (ODA) debt and also reducing commercial debt beyond the level required under the HIPC framework. As a consequence, the debt service ratios of these countries will be significantly lower than previously, and indeed significantly lower than the average for other countries with similar per capita income levels.

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

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

MDB Involvement in Africa

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

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

$200 million as a U.S. contribution to the new global fund to fight HIV/AIDS, malaria and tuberculosis and the commemoration of the passage of the Africa Growth and Opportunity Act are equally important demonstrations of our solid partnership with Africa.

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

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

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