

**Written Testimony to the  
International Monetary Policy and Trade Subcommittee of the Committee on  
Financial Services  
U.S. House of Representatives**

**Hearing on the International Development Association**

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Respectfully submitted by  
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Thank you for this opportunity to offer some comments about IDA.

I was on the staff of the World Bank for 15 years. I worked in various ways to make the Bank a more effective instrument in reducing poverty. I then moved to Bread for the World, where I've worked on World Bank reform from the outside for another 11 years. While I'm always pushing to improve the Bank, I want to affirm that the Bank is an excellent development institution. Moreover, the Bank has gradually become more focused on poverty and more responsive to democratic participation, partly because this subcommittee has pushed in these directions for two decades. In my judgment, IDA is one of the best international instruments in support of poverty-reducing development.

The following testimony first responds to the questions the Chairman addressed to the witnesses at this hearing and concludes with some thoughts about the proposed Millennium Challenge Account.

*IDA's Role*

Agreeing to a U.S. initiative, World Bank member countries created the International Development Association (IDA) in 1960 to give the poorest countries access to financing on highly concessional terms. Now, IDA is an important source of funding for the poorest countries in the world, many of which would not be able to borrow at commercial interest rates and therefore do not have access to private capital. Since its inception, IDA has lent about \$107 billion to 106 countries for primary education, basic health care, access to clean drinking water and sanitation, agriculture, capacity building and infrastructure development. IDA channels about 15% of all official development assistance to IDA-eligible countries in Africa, approximately \$3-4 billion a year.

*Grants vs. Loans*

Last year the United States made an important intervention in the history of IDA when President Bush proposed to shift 50% of IDA lending to grants. Bread for the

World supports the recent agreement that IDA will provide grants for some types of projects. The grants proposal is a step forward in addressing some of the concerns that were raised by Bread for the World members and other grassroots groups around the country involved in the Jubilee movement to reduce the debt burden of the world's poorest countries. A shift toward grants for the social sectors will help to improve living conditions and prospects for poor people without further increasing the indebtedness of low-income countries. This proposal makes a lot moral and practical sense.

In one of my early jobs at the Bank, I worked on slum improvement projects in East Africa. These projects reduced poverty and usually achieved high economic returns. But slum improvement doesn't generate the foreign exchange needed to pay back an international credit, so in retrospect we were contributing to Africa's accumulation of unpayable debt.

Bread for the World also applauds the administration's proposed increase in funding for IDA. We hope the United States will continue to increase its contribution to shore up IDA in light of the agreed shift of between 18-21 % of IDA funding to grants.

### *Debt Relief*

Bread for the World has been following the implementation of debt relief, and I urge the subcommittee to do its own monitoring of debt relief implementation and the effectiveness of the Enhanced HIPC (Highly Indebted Poor Country) Initiative in reaching poor people. Based on what Bread for the World has gathered through both church and governmental channels, we believe that debt relief is indeed helping to reduce poverty and, at least in a few countries, empowering citizens to make their governments less corrupt and more responsive.

The Jubilee campaign mobilized more public support in the United States than any other international development initiative in U.S. history – certainly more public support than anything else related to the World Bank or IDA. So it is really important that this committee help to inform Congress and the U.S. public that debt relief is working – and that, in the process, you push to make this popular program work even better.

There is clearly an urgent need to deepen debt relief. The global economic downturn and falling commodity prices have hit sub-Saharan African countries hard. A World Bank study on the economic impact of September 11 estimated that a one percent decline in the global rate of economic growth would push an additional 2-3 million Africans into poverty. African economies are heavily dependent on commodity exports, so the debt-to-export ratio has risen for many HIPC countries. These countries have demonstrated good economic management and a commitment to investing in their people, but the debt relief they are receiving is no longer enough. Deeper debt relief is needed for them to achieve some financial stability, confront the HIV/AIDS epidemic, and invest in the human and institutional capacity needed to lift themselves out of poverty.

The G8 Summit last month agreed to “top up” the Enhanced HIPC Initiative by \$1 billion to compensate for the impact of the decline in commodity prices and to cover the shortfall in HIPC funding. This is an important step, and we urge Congress and the President to provide the U.S. share of this \$1 billion in FY 2003. The President has recently made ambitious promises about future development financing from the United States, and it would be good to achieve some increase in the coming fiscal year.

Further, the debt-to-export ratio is not an adequate measure of debt sustainability. There are companion bills in the House and the Senate – Smith-LaFalce in the House and Biden-Santorum in the Senate – that would amend the HIPC framework to lower debt service of HIPC countries to no more than 10% of government revenues, 5% for countries suffering a severe health crisis. The Senate recently passed an AIDS bill that includes the Biden-Santorum bill. I urge you to give the Smith-LaFalce bill a hearing. They calculate that this modification in the HIPC Initiative would yield an additional \$1 billion in debt relief, with a relatively small cost to the U.S.

#### *The Poverty Reduction Strategy Paper Process*

One of the great things that came out of the debt relief movement was the Poverty Reduction Strategy Paper (PRSP) process. In principle, the PRSP idea gives countries full ownership of their own development process, and it focuses policies and resources on the goal of poverty reduction. Indeed, the PRSP process has directed new investment to basic health, education, and poverty reduction in many countries, and it has opened new opportunities for democratic participation in some countries.

But much has been learned in the few years since the PRSP was introduced about how to improve the process. The PRSP is supposed to come out of a consultative process that allows for full participation of the country’s civil society. But this is not easy where democratic institutions are weak. In any case, public consultation takes time and entails financial costs, and it is hard to reach people in remote areas. Finally, civil society has often been excluded from the discussion of major issues of national economic policy. All these factors often result in PRSPs that are not based on full participation and therefore full ownership.

Additional technical and financial assistance would help to enable broad, informed and timely participation by civil society in all aspects of the design, implementation, monitoring and evaluation of the PRSP. Donors could also do more to monitor PRSP processes. As the PRSP has been widely embraced by donors and will be the basis for IDA lending in the future, it is important that we get it right.

#### *A More People-oriented and Open World Bank*

We would like to see the World Bank and IMF undertake ex-ante social, economic and environmental impact assessments for all their lending to ensure that policies and projects they support are not harmful to poor people, both in the short and long term. We would also like to see a more transparent decision-making process at the international financial institutions. One of the criticisms of the PRSP process is that it sometimes seems that World Bank and IMF staff have written the PRSPs in Washington.

More transparency would put an end to such practices, if indeed they exist, and to those allegations, if they do not.

It's important that the Bank be respectful of the governments with which it deals. But it's not enough that the government really "owns" Bank-supported policies and projects. The wishes of people outside government are also important. Social and environmental conditions that could seem onerous to an official might be important in securing broader popular ownership.

#### *Performance Goals and Preconditions*

The Bush administration has put a lot of emphasis on performance goals and preconditions. Both the grants proposal and the recent Millennium Challenge Account (MCA) proposal share the goal of measuring results and setting performance indicators. But the World Bank has insisted on goals and preconditions for many years (sometimes too much so), and the Bank already does a relatively good job of reporting to its member governments on its own performance.

One real improvement that could come from this administration's emphasis on results would be to upgrade the systems that monitor trends in poverty, hunger, and others aspects of basic well-being in poor countries. More accurate and current data would help everybody – beginning with citizens in poor countries – to evaluate development efforts. I don't see how short-term changes in poverty indicators can be used to evaluate IDA's performance, since a country's development takes time and depends on many variables. But the Treasury could make annual assessments of the Bank's contributions to better systems of monitoring what is happening among poor people in developing countries.

The U.S. Treasury has not yet announced what performance indicators it will use to decide on whether to propose increased funding for IDA in the second and third year of this replenishment. I'd also recommend some assessment of the Bank's progress on issues of transparency and participation, because the best way to strengthen the performance of Bank-supported policies and projects is to make it easier for local people, especially poor people, to have some influence. Far-off officials will never be able to monitor development activities as effectively as local people can.

#### *IDA and the Millennium Challenge Account*

I urge the committee to think about the next replenishment of IDA in the context of the major increases in development assistance that President Bush and European authorities have recently proposed. I am tremendously enthusiastic about President Bush's proposal for a Millennium Challenge Account. The MCA can have a meaningful impact on global poverty reduction and can be a significant step toward the Millennium Development Goals. But the MCA should be limited to IDA-eligible countries, and it should be coordinated with IDA and with what other donors are doing. One of the lessons on development effectiveness is the importance of donor coordination. The PRSP process is an attempt at improving donor coordination, and Congress should encourage U.S.

assistance programs, including the MCA, to use countries' national development strategies or PRSPs as a basis for allocating funds.

The MCA will put more emphasis on democracy and human rights than the Bank and Fund can do (in keeping with their charters). This emphasis on democracy and some MCA funding to strengthen democratic institutions could very much improve the Poverty Reduction Strategies. That would enhance the impact of IDA and many other development efforts that are guided by the Poverty Reduction Strategies.