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to
The International Monetary Policy and Trade Subcommittee
of the
Financial Services Committee
of the
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Chairman Bereuter, Ranking Member Sanders, committee members, and guests; it is an honor for me to testify before the International Monetary Policy and Trade Subcommittee on the important issue of the World Bank's International Development Association fund or IDA.

I am the President of Oxfam America. Founded in 1970 we are based in Boston and accept no government or World Bank funding.

The Oxfam network has broad experience in the developing world with partners in 120 developing countries, many of who are recipients of IDA. We have field offices in 60 of these countries and work with thousands of partners in the South. In addition, this testimony draws upon my personal experience of more that 25 years of field experience in Asia and Latin America representing both the Ford Foundation and Inter-American Foundation. In these roles, I was exposed firsthand to debates about World Bank programs and in the case of Bangladesh, as the Ford Foundation Country Representative, I served as a member with ambassadorial status of the Consultative Group that managed the dialogue with senior Bangladesh government officials regarding all foreign aid and multilateral lending to Bangladesh.

The replenishment of IDA, which happens every three years, is the prime moment to examine the operations of the World Bank and to push for reforms in its operations. The United States Congress has been a leader in encouraging the Bank to reform. When you speak the Bank listens!

I would like to briefly review two key areas of IDA influence – overall IDA effectiveness and basic services needed to achieve the Millennium Development Goals.

Overall IDA Effectiveness:

IDA loans vs. grants
First in the area of Overall IDA Effectiveness it is clear to Oxfam that moving from IDA loans to using a portion of IDA for grants is a very positive step. We strongly support the Bush Administration's position of converting up to 50% of the IDA loans to grants for health and education in the public sector as long as the United States and other donor governments provide funds to makeup for the decrease in loan repayments. We regret that the G-7 is limiting grants to 18% to 21%; however if the grants arrangements succeed, then we anticipate seeing this amount increase in future years.

We believe that providing grants to the world's poorest countries instead of loans, especially for basic services such as primary health care and basic education, is essential. It also increases the likelihood that the poorest countries will be able to reduce their foreign debts in the long run.

The U.S. has pledged to increase its current $803 million IDA contribution to $850 million in the first year. Subject to improved performance and effectiveness, in fiscal year 2004, U.S. funding for IDA would increase to $950 million and to $1,050 million in the final year of the IDA replenishment cycle. This constitutes an 18 percent annual increase over current levels which Oxfam supports.

Debt Relief

Donor governments, with the United States leading by example, must provide sufficient funds for the poorest countries to meet the Millennium Development Goals; we must also insist that the World Bank, IMF and creditor countries, like ourselves, provide deeper *debt relief* to impoverished countries.

The two issues of sufficient amounts of grant and concessional aid and generous debt reduction are inseparable. The Administration is committed to *effective* development assistance. Funding for basic services will not yield a short term or even a medium term profit, so loans for these and similar purposes do not make sense. Similarly American common sense tells us that people who are struggling for basic human survival should not be exporting hard earned cash to cover debts to the world's richest countries and institutions. Specific to the debt issue, we encourage you, Mr. Chairman and our Subcommittee to demonstrate your commitment to effective development by discarding the old measure for "sustainable debt" (one which considered ratios of debt to export) for one that is more consistent with reality, namely, by assessing the amount of the *government's income* is spent on debt servicing. To this end we recommend that you examine and then support the Smith-LaFalce debt reduction bill. If a Heavily Indebted Poor Country were to spend no more than 10 percent of its annual revenues (or in the case of a country suffering a severe public health crisis, such as HIV/AIDS, not more than 5 percent of its budget), between $700 million to $1 billion of additional debt relief would be provided.

The World Bank reports that about 40 percent of the debt savings are being directed to education and 25 percent to health care. Nearly every HIPC is using a portion of debt relief to create or expand HIV/AIDS prevention and education programs. To illustrate, Tanzania and Uganda ended fees for grade school, and Benin ended fees in rural areas, giving millions of children the chance to go to school.

Prior to 1999, the 26 current HIPCs were paying $3 billion each year in debt service to their international creditors. While they have seen their debt service payments drop by $1 billion, they are left with nearly $2 billion in annual debt service, with the World Bank and IMF as the two largest remaining creditors. The Smith-LaFalce bill will reduce this by approximately $1 billion more.

As with current debt relief efforts, countries should not be eligible to receive relief if the government of that country has an excessive level of military spending, supports terrorism, is failing to cooperate in international narcotics control matters, or engages in gross violations of human rights. All savings from debt relief should be directed to country-led poverty reduction priorities, such as health, education, clean water and sustainable environmental policies.

Deeper debt relief should not be linked to agreement by the country to implement or comply with policies that deepen poverty or degrade the environment, such as user fees for basic education and health, cost recovery from poor people for basic public services (such as water), reductions in a country's minimum wage or labor rights, or the unsustainable extraction of natural resources.

Extractive Industries

In addition to sufficient grant funds for basic services and debt relief, this Subcommittee should insist that all elements of the World Bank, including the market based loans from IBRD (International Bank for Reconstruction and Development), the investments and investment guarantees of the International Finance Corporation (IFC), and the investment insurance of MIGA (Multilateral Investment Guarantee Association), like IDA, all be dedicated to eradicating poverty. Currently, the World Bank actively supports investments in *oil, natural gas, and mining*. These loans do little to increase economic growth and poverty reduction in developing countries. A recent study commissioned by Oxfam America[1] reveals that by creating relatively little employment and opportunity for the poor, and by contributing to corruption, conflict and increased vulnerability to economic shocks, these sectors actually appear to worsen poverty. Among the problems of World Bank oil, gas and mining involvement are:

? **Lower Economic Growth.** Economists such as Jeffrey Sachs have found that countries that rely heavily on oil, gas and mineral extraction tend to suffer unusually low rates of economic growth.[2] By hampering growth, this "resource curse" can frustrate poverty alleviation.

? **Lower Standards of Living.** Countries whose economies rely heavily on the extractive industries under-perform relative to countries with more diverse economies on a range of human development indicators, including child mortality, child nutrition, life expectancy, and education and literacy rates.[3]

? **Economic Benefits Limited to Enclaves.** Because extractive industries tend to employ only a small number of highly skilled (often foreign) workers, the income they generate tends not to be diffused throughout the economy. Rather, these projects raise incomes only among elites or in geographic enclaves near the project.

? **Increased Authoritarianism and Corruption.** The World Bank's own researchers have found oil and mineral dependence tends to make a country less democratic and more corrupt. Resource rich governments often use resource revenues to dampen democratic pressures through patronage and to finance internal security apparatus to stifle political dissent. Additionally, it has been shown that extractive industry developments do not tend to catalyze the kinds of social and cultural changes, such as increased educational levels, that produce a more democratic government.[4]

? **Increased Risk of Civil War.** Competition for resource revenue has been shown to cause, exacerbate and prolong armed civil unrest.[5]

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[1] Oxfam America, *Extractive Sectors and the Poor* (2001).

[2] Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth*, Development Discussion Paper no. 517a. Cambridge: Harvard Institute for International Development (1995); *See also*, Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press (1997); Michael L. Ross, *The Political Economy of the Resource Curse*, 51 World Politics 297 (1999).

[3] Oxfam America, *Extractive Sectors and the Poor* (2001).

[4] Michael L. Ross, *Does Resource Wealth Cause Authoritarian Rule?* World Bank (2000).

[5] Paul Collier, *Economic Causes of Civil Conflict and Their Implications for Policy*, World Bank (2000).

If the IDA grants and loans are to be effective, a good use of public funds, then all the programs of the World Bank must be coherent. Congress should press the World Bank to prioritize investments that will better respect the rights of poor communities. Continued Bank involvement in extractive industries must be predicated on: 1) clear demonstrated effectiveness of poverty alleviation; 2) a mode to diversify the country's export earnings; 3) respect for the development rights and wishes of local affected communities; 4) full public disclosure of payments by companies to all parties, especially government officials, and 5) transparent and accountable revenue management.

Improving donor coordination and the PRSP
The *Poverty Reduction Strategy Papers* have great potential for ensuring that all WB and other donor actions are consistent with a coherent national poverty plan that can succeed when there is local leadership and ownership. A developing country government should articulate one and only one national strategy that all donors "buy into." Current PRSPs are still weak in terms of donor acceptance and quality of local participation. Almost all share a further weakness: the macro-economic policies that create the basic architecture for the entire economy are still largely mass-produced by the World Bank and its sister institution the IMF. Tax, trade, investment, fiscal policy are all set according to a single mold. What no less a luminary the Nobel Laureate and former chief economist at the World Bank Joseph Stiglitz calls a "cookie cutter" approach. The coherence and effectiveness of the IDA replenishment you are considering requires that all donors and all aspects of the World Bank be consistent in their commitment to ending poverty and meeting the 2015 Goals. Similarly, through the PRSP, the national government, along with its legislature, press, and civil society, need to understand and "buy into" a coherent national approach for ending poverty.

As politicians, you recognize that the PRSP approach will take time, and several iterations to "get it right." In the meantime, it is important that the country's urgent needs for basic services and debt relief not wait.

The PRSP must be improved so that it lives up to its promise as a country-owned, participatory document that sets a country's individual development path. Technical assistance should be provided to civil society and governments, including parliamentarians, to enhance participation and accountability. IDA staff should track the extent to which civil society views have been incorporated in PRSPs and require countries to list the civil society recommendations and reasons for not including them. Policy-based loans and grants must conform to the PRSP, with revision as necessary for policies that contradict the PRSP.

To mobilize debt relief more quickly, the PRSP should be delinked from the HIPC initiative. HIPC debt relief should be subject only to the establishment of mechanisms that ensure the budgetary savings from HIPC debt relief are spent on poverty reduction needs and the establishment of a plan for civil society participation in PRSP preparation.

In the past two years the U.S. Congress has taken action to mobilize U.S. government support for reducing impoverished countries' debt burdens. Congress can again play a key role in ensuring that this debt relief is mobilized quickly to needy countries and that citizens have a say in determining how debt relief money is spent. Congress should instruct the US Executive Director to work to delink HIPC debt relief from the PRSP; increase genuine civil society participation at all stages of the PRSP process; and ensure coherence between the PRSP and donor lending by increasing the public disclosure, debate, and review of policies attached to IFI lending.

Social and environmental impact assessments

In addition to financing individual development projects, the World Bank also provides budget support to borrowing countries. This adjustment and policy-based lending, often referred to broadly as structural adjustment lending, involves large volumes of fast-disbursing loans, and includes a broad array of economic policy reforms as loan conditions. In 2001 adjustment loans accounted for approximately a third of the institution's public sector lending portfolio. These loans have far-reaching impact on the environment, public health, education, and social services, yet they are exempt from the environmental and social policies that govern the Bank's project loans.[6]

In a leaked internal study[7], the World Bank admitted that it rarely considered the environmental impact of its structural adjustment lending. Of the 54 loans the study reviewed, only nine made any reference to the environment. Social impacts are barely reviewed, in spite of widespread recognition of adjustment lending's negative impacts on a variety of social groups. According to the study, "the majority of loans do not address poverty directly, the likely economic impact of proposed operations on the poor, or ways to mitigate negative effects of reform." The report concluded that there is a "disconnect between Bank policy and practice" in adjustment lending.

The World Bank should adopt a policy to assess the social and environmental impacts of all Bank lending, including adjustment lending. These assessments should be conducted prior to loan approval, with the input of relevant stakeholders, and should be released to the public. The outcome will be better policies that deliver improvements to the country's economy and people's livelihoods, greater ownership of economic programs, and more accountability on the part of the Bank and borrowing government for the impacts of programs.

World Bank President James Wolfensohn committed to make poverty and social impact analysis part of the institution's adjustment loans in the near term. Congress should instruct the US Executive Director to request that the World Bank management and the Board of Directors act to adopt this policy. In addition, U.S. policy at the World Bank should be to oppose any structural adjustment loan that is not influenced by an ex ante, public environmental and social assessment.

[6] In March 2000, the Bank amended its environmental assessment policy to apply to sectoral adjustment loans. Structural adjustment loans, however, remain exempt.

[7] Social and Environmental Aspects: A Desk Review of SECALs and SALs appraised during FY 98 and FY 99, ESSD, May 34, 1999.

The second portion of my testimony looks more closely at **Basic Services needed to achieve the Millennium Development Goals.**

Performance: measuring health and education achievements
A surprising reality about the Bank's work in the fields of basic services is the poor quality of data available for monitoring effectiveness of its programs. The Bank must commit sufficient resources, intellectual and financial, to ensure that data are collected not on administrative or bureaucratic infrastructures of health and education, but on the number of well babies, and healthy moms, and children reading and writing. Such data collection is essential if we are to ensure that IDA funds are used well. Oxfam encourages the US Congress to provide full funding to meet the Millennium Development Goals We also share with you a passion to ensure that those funds are used effectively.

When providing grants for basic services, it is also imperative that the World Bank not use grants or heavily concessional funds to enable the private sector to make a profit in these fields. The private sector may have a contribution to make in providing basic services for a profit; however they should not receive scarce IDA grants or loans to do so. There are several indicators that private sector subsidies may be entering through the back door. It would be useful for this Subcommittee to solicit full disclosure on such plans, both before the IDA-13 replenishment is approved, and on an annual basis as that money, our money, is spent.

The World Bank's evaluation office, the Operations Evaluation Department (OED), has confirmed a marked increase in the number of health outcomes among the monitoring and evaluation indicators for health sector reform loans and projects. However, OED expressed a continuing concern over the quality and frequency of the data used in assessing these indicators. If loans have better and earlier tracking of results, donors can be better informed about where policy reforms are working properly, and more quickly alerted to problems where they have failed.

OED and Bank staff have noted that the lack of sufficient funding or domestic administrative capacity for fully tracking all the monitoring and evaluation indicators has been a major a problem undermining both the quantity and quality of previous efforts

Standard monitoring and evaluation indicators must be more uniform and comprehensive. Timely tracking must be conducted at the beginning, middle and end of project and loan cycles. Secretary of Treasury Paul O'Neill has suggested that loans should be continued based on measurable progress and results. For example World Bank health sector loans or projects a "success" ought to include measurable improvements in these indicators as a result of the loan or grant: immunization rates, percentage of underweight under 5-year olds, percentage vitamin A supplementation coverage, percentage coverage of DOTS TB treatment, percentage supervised deliveries, infant and under-5 child mortality and maternal mortality, net primary school enrollment, ratio of girls to boys in primary school, and grade 4 completion rates. Full funding for comprehensive monitoring and evaluation in World Bank loans needs to be significantly increased.

Congress should instruct the US Executive Director to ensure that all health loans/grants, education loans/grants, or sectoral reform programs include measurement of specific baseline health and education indicators, projected measurable improvements in these indicators as a result of the loan or grant, and mandatory public reporting of these indicators.

User fees

The World Bank has developed an excellent assessment of the national education needs of the world's poorest countries. The G8 failed to take up the challenge to commit the essential funds to educate our children, to leave no child behind. It is an opportunity and an obligation for this Subcommittee to insist that there be full funding so all the world's children receive basic education.

In the IDA-13 replenishment you can make the delivery of these services a reality. Not only must IDA commit funds to governments that are committed to full service provision to their citizens. The World Bank must not allow so-called "user fees" to prevent the poorest from access to these basic services. Ample research and field experience have demonstrated that such fees do indeed prevent children of the poor, especially young girls, from attending school, and they do indeed divert limited family income from food to education and medicine.

In a landmark move, in 2000 the U.S. Congress included language in the foreign aid appropriations bill report that requires the U.S. to oppose any World Bank, IMF, or other multilateral development bank loan which includes user fees for basic health or education services, and to report to Congress within 10 days should any loan or other agreement be approved that includes such user fees. In September 2001, the World Bank issued a revised user fees policy, acknowledging that the fees have prevented poor people from accessing primary schools and health clinics. The new policy states that the World Bank now *"opposes user fees for primary education and basic health services for poor people"*. The Bank should work with governments to explicitly remove fees and assist governments to find alternative financing for the adequate provision of universal education and health primary services.

HIV/AIDS

Oxfam maintains that all people have a right to basic services such has health care and education. In the area of health, the HIV/AIDS crisis cries out for attention: 5,000 African die every day for lack of medicine. In some countries in sub-Saharan Africa as many as one in four adults are HIV-positive. For all but a handful of people in the poorest countries, an HIV diagnosis is a death sentence -- treatments available to prolong life in rich countries are unaffordable and out of reach. We and other donors have the resources to fund both prevention and treatment programs. IDA provides a mechanism for us to act in concert to halt the 21^{st} Century's "Black Plague."

Given the enormity of the HIV/AIDS crisis and its concentration in many of the world's poorest countries, it is vital that the World Bank consider the impact of projects, loans, and strategies on prevention and treatment of HIV/AIDS, tuberculosis and malaria. World Bank projects should support dissemination of best practices in prevention and treatment of HIV/AIDS, tuberculosis, and malaria.

Treatment of HIV/AIDS requires procurement and distribution of expensive pharmaceuticals. However there are enormous savings to be achieved in acquisition through efficient bulk procurement of products at best world prices from producers meeting appropriate quality assurances. The Bank and other international financial institutions should support such bulk procurement arrangements.

Countries with high levels of HIV/AIDS need to concentrate their resources on addressing public health priorities, as well as other public needs. Support from the World Bank for projects related to HIV/AIDS, malaria, and tuberculosis should be provided on a grant basis. The Congress should urge the U.S. representatives to the World Bank to support these policy initiatives.

Transparency

The US Congress was instrumental in insisting that the World Bank begin the process of letting the public see its decision making processes, its lending priorities. This came with public information disclosure.[8] Regrettably, additional pressure is needed. This Subcommittee should require the Bank to open its Board of Directors' meetings to the public, disclose transcripts of these meetings, and release all key documents prior to Board consideration of a loan. The U.S. Treasury Department should also demonstrate more transparency by posting its own Board statements and reporting to Congress on compliance with their mandates.

The World Bank acknowledges that transparency and accountability are critical dimensions of development effectiveness.[9] Country ownership of the development process is not served if communities and their legislative representatives have no access to draft documents. Civil society groups have long pushed for recognition of these fundamental principles of development in Bank operations.

With IDA reauthorization, the U.S. Congress has the opportunity to advance greater transparency measures at the World Bank and at other international financial institutions. Congress should direct the Treasury Department to work toward ensuring that (1) meetings of the Board of Directors are open to the public and media, (2) transcripts of these meetings are made publicly available, and (3) all key documents are released prior to board consideration. Furthermore, the Treasury Department should set an example of greater transparency by posting the Board remarks of the U.S. Executive Director on Treasury's website.

Worker rights

The international community has endorsed the core labor standards as fundamental building blocks of equitable, democratic, and sustainable development. The International Labor Organization (ILO) defines core labor standards to include freedom of association and the right to organize and bargain collectively, the elimination of child labor and forced labor, and a prohibition on discrimination in employment. Research has shown that countries that respect the core labor standards tend to have higher economic growth, more equitable distribution of income, and stronger democratic institutions. These core worker rights are qualitative, human

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[8] The World Bank issued its first disclosure directive in 1985. U.S. Congressional pressure during the IDA-10 replenishment (1993) led to a revised policy and to even greater amounts of disclosed information. The U.S. Treasury Department has pushed for greater disclosure, and G-7 countries have called on the Bank to "adopt a more open policy on information disclosure by making *draft* and final key policy and strategy documents available to the public."[8] On January 1, 2002, a revised World Bank Disclosure Policy entered into force.[8] While the new policy improves certain practices, it falls far short of giving clear policy expression to the Bank's laudable rhetoric of "participatory development."

[9] Transparency and accountability are part of the rating criteria the Bank employs to determine overall lending allocations to borrowers. Bank management in turn does not disclose the ratings, not even to the Board.

rights principles – not quantitative minimum standards – that countries are obliged to respect regardless of their level of development.

Despite this broad recognition of the importance of core workers' rights, the World Bank has no systematic way to measure the impact its programs have on these rights. Many World Bank loans require countries to weaken their domestic labor and employment laws, privatize public enterprises and downsize the civil service, privatize the pension system, and freeze or reduce wages. Yet the World Bank has no screening mechanism or safeguard policies to ensure that these loans do not facilitate the violation of core workers' rights in borrowing countries. Failure to guarantee these rights leads to the poor performance of, and local opposition to, Bank programs in borrowing countries. Weakening of worker rights also contributes to high inequality and unemployment that results from many Bank programs.

World Bank labor market flexibility reforms can also give employers new freedoms to practice anti-union discrimination by reducing restrictions on the employers' right to fire employees. In some cases, labor market flexibility reforms also undermine workers' rights by creating more freedom for employers to hire part-time, temporary, and contract work – even where these workers are legally denied the right to organize and bargain collectively under domestic law.

The World Bank should create a screening mechanism for all of its lending to ensure that loan conditions do not undermine core worker rights. The Bank should also assess the impacts their loans will have on employment, wages, and income inequality in order to eliminate any negative impacts identified and ensure that adjustment measures truly contribute to broad-based economic development. Enforceable safeguard policies for workers' rights will ensure that workers whose rights have been violated can complain to the Bank's inspection panel. Closer cooperation with the ILO and with trade unions on the ground can help the Bank keep track of the impact its programs are having on workers' rights.

The U.S. representative to the World Bank is already required under U.S. law to use his/her voice and vote to ensure that World Bank policies do not have a negative impact on workers' rights, to press for the World Bank to create a screening mechanism for its loans, and to press for closer cooperation with the ILO. The Treasury Department is required to report to Congress each year on its advocacy of workers' rights at the World Bank. Reports prior to 2001 made claims of U.S. advocacy that were difficult or impossible to independently verify, both because Bank Board records are secret and because few tangible results in the content of Bank lending and policies were evident. Little progress has been made on a screening mechanism for loans, and cooperation with the ILO is still not a routine part of Bank programs affecting labor. The Congress should instruct the US Executive Director to require the Bank to adopt enforceable and comprehensive policies to protect core workers' rights.

The IDA replenishment discussions enable us to insist on greater development effectiveness by the World Bank. The United States Congress has a proud record of bringing reform to the Bank as you act as the peoples' voice. We thank you for the work you have done in the past and the dedication you continue to show.

Thank you also for allowing me to speak today. I welcome any questions.