U.S. POLICY TOWARDS THE AFRICAN DEVELOPMENT BANK AND THE AFRICAN DEVELOPMENT FUND

HEARING

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INTERNATIONAL MONETARY POLICY AND TRADE

OF THE

COMMITTEE ON FINANCIAL SERVICES

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WEDNESDAY, APRIL 25, 2001

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL MONETARY
POLICY AND TRADE,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to call, at 1:35 p.m., in room 2128, Rayburn House Office Building, Hon. Doug Bereuter, [chairman of the subcommittee], presiding.

Present: Chairman Bereuter; Representatives Oxley, Ose, Manzullo, Green, Sanders, Waters, Watt, Carson, Schakowsky, Lee, Bentsen, Sherman and C. Maloney of New York.

Chairman BEREUTER. The hearing will come to order. The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony and to conduct oversight on the African Development Bank and Fund. Today marks the first hearing of this new House Financial Services subcommittee. Actually, it had its predecessor subcommittees in slightly different form on the Banking Committee—and I was privileged to serve as the Ranking Member there for 6 or 8 years under the chairmanship of Barney Frank, who is a Member of this subcommittee.

I look forward to serving as Chairman of this subcommittee, which will focus on international financial institutions and trade issues. Moreover, I am also pleased to be working with the distinguished Ranking Member of this subcommittee, Mr. Sanders from Vermont, and all Members of this new subcommittee.

Since this is the initial meeting, I think it is important just to mention two procedural circumstances. First of all, the committee rules call for the Chairman and the Ranking Minority Member to have a 5-minute opening statement if they care to. All other Members are entitled to a 3-minute opening statement under the committee rules.

It is my intention to continue my past practice as Chairman to recognize people who are in attendance, rotating across the aisle, who are in attendance at the beginning of the hearing, and then as additional Members come in, they will be recognized in the order in which they come after the beginning of the hearing.

This Member has tried to move ahead with the conversation of reauthorization of the Export-Import Bank, but we have been frustrated to some extent by the slowness of the process of bringing the

Under Secretaries and Assistant Secretaries of Treasury on board, those relevant leaders of the Treasury Department that have so much to do with the MDBs and, in the case of the Export-Import Bank, are not yet in place. But we are alternating the subcommittee hearings from the African Development Bank and Fund and, it is my intention, then to the Export-Import Bank.

And we will proceed, I hope, without any further delay, and if the Administration has their witnesses in order, we will hear from them first. If not, we will take witnesses who have something to say in support or opposition to the Export-Import Bank for example.

I want Members to know that I regard briefings, informal briefings, ahead of new subjects that we are taking on as an important part of the subcommittee's activity, so I encourage Members to come, if at all possible, to these informal briefings, which will be held before we take on a new subject. If not, if it is not possible, I encourage you certainly to have your staff there and to keep yourself informed as we proceed, then, to the hearings, which will follow the briefings.

The subcommittee has jurisdiction over the multilateral development banks, including the African Development Bank and Fund. It is important that this subcommittee, in my judgment, conduct oversight hearings on the African Development Bank and Fund. The U.S. is a non-regional member of both the Bank and the Fund, but over the Bank's history, the U.S. has contributed an average commitment of 5.6 percent of the Bank's capital. We are the third largest contributor and the largest non-regional contributor.

Furthermore, as I will discuss in more detail later, the Bank and the Fund have been the most fiscally troubled among the regional development banks, and perhaps the most managerially challenged of the MDBs.

Moreover, with the upcoming annual meeting of the Bank on May 29 through May 31, this hearing record should prove instructive for the U.S. delegation in the preparation for this meeting.

I think the African Development Bank and Fund have great potential. They are very important institutions, and we should see what we can do to push for improvements in their productivity.

It should also be noted that the U.S. will be negotiating a new replenishment agreement for the African Development Fund, and our subcommittee will likely be expected to authorize it next year, fiscal year 2003.

Before introducing our very distinguished panel of witnesses, I am going to briefly discuss the following four items which, among other things, are important in the subcommittee's examination of the African Development Bank and Fund, in my judgment: One, the distinction between the African Development Bank and the Fund; two, the institutional problems of the Bank and the Fund; three, U.S. policy toward the Bank and the Fund; and four, the Meltzer Commission recommendation for the Fund.

First, with respect to the distinction between the Bank and the Fund, the Bank provides hard loans on commercial terms, non-concessional terms, to creditworthy borrowers, including governments, official agencies and private sector clients. On the other hand, the African Development Fund gives loans on highly concessional terms to the poorest African countries. For example, the Fund gives soft loans at zero interest, although there is an annual service charge of .75 percent on the outstanding balance.

Second, with regard to institutional problems, the Bank and the Fund both suffered a fiscal and managerial crisis in the early 1990s. Even though many African countries had been uncreditworthy, the Bank continued to extend them hard loans, non-concessional loans. In fact, by 1994, arrearage levels reached $700 million. However, in 1995, the Bank elected Omar Kabbaj, a Moroccan financial official, as the new President. President Kabbaj implemented fiscal and managerial reforms, including limiting the number of countries having access to the hard loan window, and refocused the activity of the Fund on poverty alleviation. President Kabbaj was unanimously appointed to a second 5-year term in May of 2000.

With respect to the current financial condition of the African Development Bank, in September 2000, Standard & Poor's rated the African Development Bank as a double A plus. However, it is of concern that this rating did indicate a negative long-term outlook based on concerns over the deterioration in the asset quality of the Bank's loan portfolio since 1998. The Fund is not rated, on the other hand, by the Standard & Poor's. The Fund is not rated, only the Bank.

Third, from 1993 to 1997, the U.S. made virtually no contributions to the Bank or the Fund. The U.S. also led other non-regional members in suspending negotiations for a new replenishment of the Fund until the reforms had been implemented. However, as an endorsement of the President Kabbaj-initiated reforms, U.S. contributions to the Fund did resume in fiscal year 1998 and to the Bank in fiscal year 2000.

The U.S. pledge to the fifth general capital increase to the Bank will be completed in 2005. In addition, the Bush Administration's fiscal year 2002 budget does include $100 million for the final installment of the U.S. share for the eighth replenishment of the Fund.

Finally, as the subcommittee examines the African Development Bank and Fund, the proposals of the Meltzer Commission, I think, should be considered. It is a very controversial set of recommendations in general, but the Meltzer Commission was created by Congress in 1998 to propose reforms of the international financial institutions, including the multilateral development banks. This Commission, of which I am the legislative author, reported their views to the Congress in March of 2000. The Commission proposed transfer of the World Bank development loan functions to the African Development Bank when it was ready for those responsibilities.

To assist the subcommittee in these issues, I am pleased we will have an opportunity to hear from a very distinguished panel of witnesses that I will introduce in a few minutes, but first I would like very much to now yield to the Ranking Minority Member for a statement that he might have at this point.

[The prepared statement of Hon. Doug Bereuter can be found on page 38 in the appendix.]

Chairman BEREUTER. The gentleman is recognized.

Mr. SANDERS. Thank you very much, Mr. Chairman. I think, as I mentioned to you in the past, I personally believe that this subcommittee has jurisdiction over some of the very most important issues facing our country and, in fact, facing the world, and I think the issue that we are dealing with today is certainly one of those. And I thank you for calling this hearing, and I thank you for the bipartisan spirit that this subcommittee is showing.

Mr. Chairman, as you well know, the people of Africa are facing crises today of historic proportions, from HIV/AIDS to extreme poverty, to crushing foreign debt. I hope very much that today and in the future this subcommittee and, in fact, this entire Congress will pay as much attention as possible to these issues which affect hundreds and hundreds of millions of people.

The United States Congress and the rest of the world must pledge to work as hard as we can to address and effectively deal with the AIDS crisis in Africa and elsewhere. We must fight to eliminate the crushing debts that desperately poor African countries cannot pay, and, in my view, we must demand that the pharmaceutical industry, composed of some of the most profitable corporations in the world, accept their moral responsibility to help alleviate this crisis rather than perpetuate it.

Sub-Saharan Africa is the world's poorest region; 300 million people live in that area, and nearly half of the population live in extreme poverty, which means that they live on less than $1 per day. And that poverty is only getting worse, because of the HIV/AIDS pandemic and the crushing burden of foreign debt.

The human cost of HIV/AIDS in Africa is shocking, and I know we all hear a whole lot of statistics. They go in one ear, and they go out the other ear, but I think it is worth thinking about some of these statistics. Seventeen million people have died from AIDS in Africa since the pandemic began. Twenty-five million people in Africa now live with HIV/AIDS, more than twice the number in the entire rest of the world. Last year, there were 3.8 million new HIV/AIDS infections in Africa. Every single day, 5,500 African families lose a family member because of HIV/AIDS, and half of those who die are children. AIDS has left 13 million orphans in Africa. It will leave 27 million more orphans before this decade ends, unless the world mounts a massive effort to contain this disease.

Incredibly, of the 25 million people in Africa who live with the HIV/AIDS virus and the 3 to 4 million who are dying from AIDS, only about 10,000 have access to the antiretroviral drugs they need. That is significantly less than 1 percent. So you have a crisis which is wiping out huge numbers of people, and a tiny, tiny fraction have access to the drugs they need.

I am pleased that the pharmaceutical industry recently dropped its 3-year lawsuit against the South African law to allow that government to import affordable medicines and to increase the use of generic drugs in its fight against AIDS. However, I am appalled at the thought of how many hundreds of thousands in South Africa have perished during this time because they did not have access to the prescription drugs that this law would have made available to them.

In my view—and I speak only for myself—the issue that we should be focusing on is not the issue of intellectual property rights, but the issue of criminal irresponsibility. And while that is certainly true of the AIDS crisis in Africa, it goes beyond there as well. In other words, you have a profound moral problem of having the tools to keep people alive, but people saying, oh, excuse me, you are going to affect my profit margin if I provide those tools to you. There is a very deep issue from a moral point of view. I think it borders on criminal irresponsibility. I hope we have a lot of discussion about that.

The good news, I think, as many people know, is that there are now several foreign drug manufacturers who have begun marketing generic versions of these life-saving drugs at a fraction of the cost. For example, a year's supply of GlaxoSmithKline's Combivir, a drug used to treat HIV/AIDS, costs about $7,000 in the United States. Cipla LTD, an Indian company that manufactures generic drugs, is selling a generic version of that drug at $275 for a year's supply. The pharmaceutical industry sells it for $7,000. The generic is $275.

Mr. Chairman, my hope would be that we can bring some of these generic manufacturers to this subcommittee and to discuss with them how we can go forward.

The other issue that I very briefly want to touch upon, Mr. Chairman, which is certainly related to AIDS, and to the crisis in Africa, is the huge debt that many of the poorest countries are facing. In Sub-Saharan Africa, they have a $13.5 billion cost of foreign debt servicing, roughly the amount that UNAIDS says these nations need to deal with AIDS.

I think the other issue that is directly related to the AIDS crisis is the need for debt cancelation, so that countries—the poorest countries in the world—do not pay more money to international financial institutions than they are spending on health care.

So this subcommittee, Mr. Chairman, has some huge responsibilities. And I thank you very much for calling this important hearing. I am delighted that we have such excellent guests with us, and I look forward to hearing from them. And I would yield back, Mr. Chairman.

[The prepared statement of Hon. Bernard Sanders can be found on page 43 in the appendix.]

Chairman BEREUTER. Thank you very much, Mr. Sanders, and you are right, we do have an important agenda ahead of us, and I thank the gentleman for the review of the incredible problems that Africa is facing and that the Bank and the Fund, among other institutions, need to address.

I do have one procedural matter to take up before we recognize other Members who have opening statements. Because of a swap between Ms. Velázquez and Ms. Lee on this subcommittee, I need to make this motion. Without objection, Ms. Lee shall be deemed to be a Member of the subcommittee to rank immediately after Ms. Carson of Indiana for this hearing and subsequent hearings until her election is ratified by the full committee. Is there objection? Hearing none, that will be the order.

And now under the 3-minute rule, I will recognize other Members at this point.

The gentlelady from California, Ms. Waters is recognized.

Ms. WATERS. Thank you very much.

I would like to thank both Chairman Doug Bereuter and Congressman Bernard Sanders for organizing this hearing on the African Development Bank and African Development Fund. I appreciate the interests of both our Chairman and our Ranking Members shown in issues affecting Africa.

The African Development Bank's mission is to promote sustainable economic growth and reduce poverty in Africa. The Bank and the Fund make loans to African governments for economic development projects. The Bank and the Fund finance a wide variety of projects, including projects dealing with primary health care, basic education, agriculture and rural development, public utilities, water supply, sanitation, transportation, telecommunications and environmental programs.

I am anxious to hear the testimony of the witnesses on the effectiveness of the projects financed by the Bank and the Fund. I am especially interested in helping education projects and other projects that benefit impoverished people in Africa. I would like to know what suggestions the witnesses have regarding the ways to ensure that health care education, rural development and poverty reduction projects benefit those in Africa whose needs are the greatest.

Over the last 2 years, I have been working to ensure the passage of debt relief legislation and full funding for the heavily indebted poor countries, the HIPC Initiative. Last year, the conference report for the foreign operations appropriations bill for fiscal year 2001 provided a total of $435 million to fund debt relief, pursuant to the HIPC Initiative, some of these appropriations to be used to cancel the debts that poor countries owe to the United States. However, most of these appropriations are for the World Bank HIPC Trust Fund. The purpose of this Trust Fund is to relieve the debts that poor countries owe to international financial institutions, especially the African Development Bank and the Inter-American Development Bank.

I am also interested in hearing the views of the witnesses regarding the progress of the HIPC Initiative in Africa. I am especially interested in analysis of the extent to which the funds provided by the World Bank HIPC Trust Fund have allowed the African Development Bank to relieve the debts owed by impoverished African countries.

The purpose of debt relief is to enable impoverished countries in Africa and elsewhere to invest their resources in health education, poverty reduction and HIV/AIDS treatment and prevention. If this goal is to be realized, it is essential that the Financial Services Committee provide sufficient oversight to ensure that the HIPC initiative is being adequately funded and effectively implemented.

I would like to thank the Chairman, and since the Chairman mentioned it in his statement, I would also like to know more about the Meltzer Commission and the proposal of the transfer of the responsibilities from the World Bank to the African Development Bank.

I yield back the balance of my time.

Chairman BEREUTER. I thank the gentlelady for her statement, and I would just say that my notes show that the Congress still needs to authorize $165 million for HIPC debt relief, and I am told the Administration will be sending up an authorization. So that will be something this subcommittee will need to take up as soon as we have an opportunity to do that.

Are there other Members who wish to be recognized with opening statements? If not, then I will introduce our distinguished panel of witnesses, and the first is Dr. Donald R. Sherk, who will testify. Dr. Sherk was the U.S. Executive Director to the African Development Bank from 1985 through 1989. He is currently a director of management consulting and a regional representative to Africa for the International Business and Technical Consultants, Inc. In addition, Dr. Sherk, in 1999, prepared a paper and provided testimony to the aforementioned Meltzer Commission on the subject of the African Development Bank. So he ought to be the person to address your and my questions.

Moving on, we are also honored to have Dr. Kwesi Botchwey as our second distinguished witness. Dr. Botchwey is the current Director of the African Programs and Research at the Harvard Center for International Development. Furthermore, he was Minister of Finance in Ghana from 1982 to 1995. As Minister of Finance in Ghana, he helped implement one of the most far-reaching economic reform programs in Sub-Saharan Africa. Dr. Botchwey's distinguished legal education includes degrees from the University of Ghana, Yale Law School and the University of Michigan law school.

Our third distinguished panelist is Ms. Njoki Njehû. Ms. Njehû, a Kenyan national, is currently the Director of 50 Years Is Enough: U.S. Network for Global Economic Justice. This organization is a coalition of over 200 organizations who focus on the transformation of international financial institutions. Prior to her current position, Ms. Njehû worked at Greenpeace International.

We welcome the distinguished panel to this hearing, and without objection, your written statements will be included in their entirety in the record. And I recognize first Dr. Sherk. You may proceed, and we will try to ask each of you to limit your testimony to 10 minutes.

STATEMENT OF DR. DONALD R. SHERK, FORMER U.S. EXECUTIVE DIRECTOR, AFRICAN DEVELOPMENT BANK

Dr. SHERK. Thank you very much, Mr. Chairman. It is a distinct honor and privilege to appear before you and your subcommittee colleagues. The subject before you today, the African Development Bank is——

Chairman BEREUTER. Dr. Sherk, if you will pull that a little bit closer to your mouth.

Dr. SHERK. I am sorry. I have a bit of a cold, so I will try to compensate.

Chairman BEREUTER. Thank you.

Dr. SHERK. The subject before us today, the African Development Bank, is a subject very close to my heart, which I hope to elaborate on as my remarks go forward.

I appreciate you circulating to the subcommittee the paper that I did for the Meltzer Commission on the African Development Bank, where I attempted to portray the Bank from its beginning days to its current status as a bank that has grown probably more in stature than any other international institution with which I am familiar.

You talked a little about my background, Mr. Chairman, and I think that if I could just say one more word on that, that after having an academic career for 12 years teaching economics in Boston at both Boston College and Simmons College, I went into the Asian Development Bank as a staff economist dealing with some of the poor South Pacific island economies. From there I next went to the Department of the Treasury, which, as you know, Mr. Chairman, has responsibility for oversight of U.S. participation in all the multilateral development banks.

The Treasury sent me back to Manila to be the U.S. Alternate Director to the ADB in the early 1980s. From there, I went to Abidjan in the Ivory Coast, where I was the U.S. Executive Director for the African Development Bank.

I have also had a brief period of time on the Board of Directors of the Inter-American Development Bank. So I have had positions on three of the MDB boards of directors.

In the mid-1990s, I worked with the OECD in the Development Assistance Committee, where I had a chance to deal with 28 OECD member countries and their policies toward multilateral assistance. Currently, as you pointed out, I am in the private sector.

I think with this background, I probably am fairly well positioned to talk about the multilateral development banks and their pros and their cons. Many people that look at the banks superficially draw conclusions one way or the other. I think they are a very complex set of institutions, and I know you want to focus today on the African Development Bank, so that is my intention, too.

But just briefly, in the way of what are my thoughts on all of the multilateral banks and the role of the United States in those institutions. First of all, I believe that the multilateral development institutions are vital ingredients of a healthy and growing world economy. The MDBs, together with the IMF and the WTO, might be thought of as a world economic safety net. Had these organizations existed in the 1920s and the 1930s, the world might not have had to experience the disruption, dislocation and suffering brought on by the world Depression and the Second World War.

But, Mr. Chairman, these institutions clearly do not work in the way we all hoped they would when they were created. Unfortunately, the MDBs fall short in a variety of ways. All too frequently multilateral or global goals for the institutions are sacrificed on the altar of perceived national interests. This shortfall between institutional achievement and institutional potential subjects them from time to time to periodic crises of confidence.

Why does this happen? I would argue that no two countries view the MDBs in the same way. Countries participate in these institutions for a variety of reasons, noble and ignoble. The G7 members may appreciate the banks for their geopolitical advantages and their ability to mobilize sizable pools of non-budget funds, but for most countries a variety of other motives can be mentioned: procurement, staff and management positions, resource transfer needs, regional and subregional associations, national pride, technical assistance, private sector collaboration, education, health, infrastructure, externalities. One could probably go on.

But for most countries, the package of perceived benefits is judged to be significantly larger than the cost of membership, and, thus, easily justifying remaining involved with the institutions. However, one would be hard pressed to identify more than one or two countries that have ever in the 50-year history of these institutions decided, for their own reasons, to leave the institutions.

When it comes down to how the MDBs are managed, problems endemic to each institution are all too visible. Boards of directors drawn from all over the world have no real bottom line. There is rarely an opportunity—an important policy issue that is capable of uniting all of the board members, given the variety of motives prompting their membership in the first place.

This diversity of goals across shareholders makes a truly unified board most unlikely. Consequently, the managements of the institutions are in a position to advance their own agendas by simply finding a group of sympathetic—read pliable—allies on the board. Of course, management's ability to determine lending volumes is a powerful inducement to ensure that support in policy debates from the borrowing member countries, and all too often management seek to fulfill predetermined global lending targets to establish conditions for further capital increases in soft fund replenishments. This is what I have called the mandate of institutional aggrandizement. It is no accident that the annual reports of all the MDBs typically begin by mentioning how much lending was achieved during the year and what percentage increase that was over the previous year, not how much development actually took place because of those loans.

And before turning to the African Development Bank, let me focus briefly on shareholder influence in the MDBs and how that influence is used.

The paper that you had circulated by the staff written by me has two appendices. One would be called Appendix A, types of influence, or, if you will, avenues of influence; and the second, Appendix B, deals with how that influence has been used over time.

I came up with a list of 50 separate goals that the United States and other countries have pursued in the context of the boards of directors or with the managements of these institutions, 50. They change from time to time, and they change in their intensities. Those of you that have followed the development literature over the past several decades will recognize that a number of the objectives cited have more or less faded from the scene, to be replaced by objectives given more currency in today's environment; for example, good governance, civil society and transparency have replaced appropriate technology, integrated rural development and environmental review as current hot-button issues.

How much influence needs to be spent to achieve any one of the objectives is dependent upon many factors. Suffice it to say that the countries most adept at seeing their objectives incorporated into MDB operational guidelines are those that focus their objectives narrowly, stay informed of bank policies and procedures on a day-to-day basis, and successfully lobby other shareholding countries in support of the objectives that they favor.

I personally have admired the way the Scandinavian countries have succeeded in getting MDB policies to reflect their own goals so successfully. Basically these countries have joined forces to maximize their influence, done their homework diligently and have advanced their development goals very adroitly.

These comments can only go so far. It would be a mistake to view all the MDBs as the same. Each has its own history, its own unique set of circumstances calling it into existence. Shareholder ownership varies widely from bank to bank, with key shareholders being similar, but never the same. The staff of each MDB, in spite of similarity and professional training, view the other MDBs differently and this difference often impinges on how cooperative each bank can be with the others.

To be fair, one should point out that over the last 2 or 3 years under the leadership of World Bank President Jim Wolfensohn——

Chairman BEREUTER. Dr. Sherk, if you could summarize in about an additional minute.

Dr. SHERK. OK.

They have established programs to cooperate and to build partnerships among each other. Dr. Botchwey and I were privileged to serve on a task force that prepared the groundwork for a memorandum of understanding between the World Bank and the African Development Bank about who is going to do what, what synergies could be developed in helping Africa, and I think that program is off to a good start.

Let me just conclude, Mr. Chairman, by saying that the African Bank is, as you said in your earlier remarks, judged fairly harshly by some of the financial press and some of the rating agencies. I said in that paper that I prepared for the Meltzer Commission that if the African Bank were held up against the World Bank and the other regional development banks and compared by any common standard of business efficiency, the ADB would most likely be ranked at the bottom. But if a more relevant yardstick of achievement and maturity were employed, measuring how far the Bank has travelled in its 37-year history in what is easily the most difficult working environment on Earth, it would probably be ranked first.

Thank you, and I would like to answer any questions.

[The prepared statement of Dr. Donald R. Sherk can be found on page 46 in the appendix.]

Chairman BEREUTER. Thank you, Dr. Sherk.

We will next hear from Dr. Kwesi Botchwey. You may proceed as you wish.

STATEMENT OF DR. KWESI BOTCHWEY, DIRECTOR, AFRICA RESEARCH AND PROGRAMS, HARVARD CENTER FOR INTERNATIONAL DEVELOPMENT

Dr. BOTCHWEY. I thank you, Mr. Chairman.

Mr. Chairman, as you noted, I am Director of the Africa Program at Harvard, and in my long years in public office, I had the opportunity to deal with the ADB firsthand and also to observe its relations with its other partners and its donors. And as Don also said, I participated with him and others in a very recent review of the

Bank's role in developing a framework for partnership with the Bank, among others.

The Chairman of the African Development Bank, as I am sure all you distinguished Members of the subcommittee are aware, was established in the early 1960s by 23 African governments with an initial capital base of about $250 million and a very small staff complement at the beginning, numbering no more than about 10. And from these modest beginnings, the Bank became and continues to be Sub-Saharan Africa's preeminent development funding institution, operating alongside the three other regional development banks for Asia, the Inter-American Development Bank, and, more recently, the European Bank for Reconstruction and Development.

In 1982, with admission to membership of the Bank of the so-called non-regional states, the Bank's capital rose to upward of $6 billion from about $2.9 billion in 1982. The African Development Fund, ADF, which is the Bank's concessional window, was established later with an initial capital of $244 billion and its membership made up of the African Development Bank itself and about 25 non-African states including the United States. There is a third institution in the group, which is the Nigerian Trust Fund.

Now, from its modest and almost exclusive reliance on project lending in the first decade or so of this operation, the Bank group now employs a wide variety of lending instruments, pretty much like the World Bank's. They include traditional project loans, sector investment loans, credit lines, so-called policy-based loans, sector adjustment loans, and structural adjustment loans as well as additional technical assistance operations.

Now, by the end of 1997, the Bank Group's total lending stood at over $33 billion, most of it from the ADB, about $20 billion, followed by the ADF. And for the Group as a whole, the central distribution of lending is, I think, so dominated by agriculture and infrastructure, but if you combine transport and utilities, then at the end of 1997—and I believe even now—the infrastructure would account for about 36 percent and agriculture about 23.5.

The Honorable Ms. Waters wanted to know something about education and health. Education expenditure—education and health would account for about 9.7 percent of the Group's total lending activity as of the end of 1997.

Now, disbursements stood at the end of 1997 at about $222 billion. The bulk of it was again coming from the ADB, followed by the ADF and the Nigerian Trust Fund in that order. Now, while this is relatively small compared to the World Bank and even to the other regional banks, it nevertheless makes the Bank Group a very important regional funding source.

Now, for about a decade following that admission of the non-regional—so-called—to membership of the ADB, a fairly harmonious climate prevailed among the African and non-African members, but the strains began with the onset of the 1990s and came to a head with the publication of the findings of a major study in 1994, the Knox Report, which is cited in Don's paper, which has been circulated. The report drew attention to a number of weaknesses and problems and set the stage for a long period of internal discussion, reviews, attempts at reform, and unfortunately, Mr. Chairman, quite a bit of recriminations in the dialogue between the regional and non-regional members of the Bank.

Among other things, the report raised the issue of poor quality of lending generally, and stressed three main areas that needed urgent attention. It is important to reiterate these here now, because they do have, to some extent, a rather current ring to them. I noted that Ms. Waters wanted to know a bit about poor air quality as well.

Now, the three areas were the Bank's focus. The report noted that the Bank was pulled in all directions by the conflicting goals and attitudes of its shareholders. I fear that this is still a bit of a problem; two, lending policies and procedures compared to what the practice actually was; and, three, the Bank's likely unrealized asset as an African institution in which African shareholders especially reposed a great deal of trust.

The crisis generated by this report came to a head when the donors suspended funding for the ADF, leading to a very sharp fall in lending.

Now, so, Mr. Chairman, where is the Bank now exactly? There can be no doubt in my mind that under the current President of the Bank, the Bank has moved resolutely to address the issues of management and governance that plagued the Bank and led to the bitter recriminations in the mid-1990s. There has been remarkable improvement in project quality and management. It is unquestionable. Moody's has acknowledged the improved regime of sanctions, lending and monitoring procedures. All the rating agencies continue to rate the Bank fairly highly. Moody's, Fitch, ICBA, Japan Credit Agency give the Bank triple A and double A for the Bank's senior unsubordinated loans in that order.

So the Bank now has a new mission statement that it promulgated in 1999, and in a recent study which I referred to that Don and I did together, we also noted that many of the problems that were cited in the Knox Report have been alleviated. Therefore, in my view, Mr. Chairman, unquestionably the Bank has been quite successful in addressing the management problem that was in the mid-1990s.

Now, the role of the Bank compared to the IMF and the World Bank in fostering economic development in the African region. The Bank's potential in this regard, Mr. Chairman, remains largely unrealized. This is mainly a resource problem. The simple truth is that the Bank's total resources pale in significance compared to World Bank's and the IMF's. But this is only part of the problem admittedly. The other part of problem is the ADB's own focus, based on its real potential competitive advantage and acknowledgment of this advantage by its partner agencies.

For me, Mr. Chairman, the debate over infrastructure or poverty alleviation is a false one. Poverty alleviation is the ultimate goal that all development activity must try to achieve. In the end, it is the ultimate benchmark against which all economic reform efforts might be judged. This requires investments and a sound macro-economic policy framework in which the goals on poverty alleviation are explicitly recognized. An important part of poverty alleviating reform effort must include significant investments in infrastructure, such as the rural infrastructure, as well as regional infrastructure, both in areas in which ADB has tremendous strengths.

As far as the Bank's role in debt elimination, we are concerned. The Bank's role in debt relief has been marginal. As of today, I think that the Bank has done HIPC-type operations in only two countries: Uganda in 1998 and Mozambique in 1999. And I think that in total the Bank has provided something like $87.5 million in 1998 net present value terms as part of its HIPC effort.

Finally, Mr. Chairman, the future of the Bank. I think that the Bank is well positioned to become a leading source of knowledge and development financing in the African region. The internal management problems that cause a bank a severe loss of market and donor confidence have been resolved, even if at the cost, at least initially, of lowered staff morale. In spite of much talk about strategic partnership, especially with the World Bank, the Bank still remains and is perceived, not without justification, alas, as a caricature of the World Bank, because it is not allowed to do what it thinks it needs to do. Its resource base will need to be strengthened and its focus sharpened to enable it to exploit its potential as a credible African development institution.

I see about five areas, finally, Mr. Chairman, in which the Bank can develop its niche. One is the monitoring of progress toward the attainment of the international development goals. There is a multiplicity of these goals. Almost every day as the African crisis continues, there is some initiative of committing oil on Africa, and I think the ADB can perhaps be asked to monitor these. There is governance in Africa——

Chairman BEREUTER. Dr. Botchwey, if you could summarize the remainder, I would appreciate it.

Dr. BOTCHWEY. Very well. I will do that, Mr. Chairman.

There is governance in Africa, an area which is often simply vulgarized and reduced to just the total corruption. I think that the Bank, because of its position in the region, probably can do a better job monitoring governance issues and others.

The third is the provision of regional public goods, including support for regional public health interventions, that simply cannot be done in one country alone; and, finally, the promotion of regional integration initiatives.

I thank you, Mr. Chairman.

[The prepared statement of Dr. Kwesi Botchwey can be found on page 76 in the appendix.]

Chairman BEREUTER. Thank you very much, Dr. Botchwey.

And finally, we will hear from Ms. Njoki Njehû. Now, if I am not pronouncing that correctly, please do correct us right at this point. You may proceed as you wish.

STATEMENT OF NJOKI NJOROGE NJEHÛ, DIRECTOR, 50 YEARS IS ENOUGH: U.S. NETWORK FOR GLOBAL ECONOMIC JUSTICE

Ms. NJEHÛ. Thank you.

My name is Njoki Njehû. Mr. Chairman, I want to thank you for the opportunity to testify before this subcommittee. As an African and a Kenyan woman, and as a Director of the Network, I welcome both the privilege and the responsibility that comes with this invitation, and, therefore, I would like to start by submitting for the record two statements from civil society organizations in Mali and Tanzania at the time of the meetings, at the time of the visits of the President of the World Bank and the Managing Director, because I believe they have bearing in terms of the situation in Africa.

Chairman BEREUTER. Without objection, those will be made a part of the record.

[The information can be found on page 106 in the appendix.]

Ms. NJEHÛ. Thank you.

The 50 Years Is Enough Network is a coalition of over 200 groups that are committed to the profound transformation of the International Monetary Fund, the World Bank and other international financial institutions. The network also works in collaboration with organizations in about 68 other countries, and we are committed to the issue of working to educate the public, to mobilize the general public in order to bring about this transformation.

I am not an economist, and I have not had direct experience with the African Development Bank like my copanelists, and so my comments this afternoon leave the technical aspects of the African Development Bank to my copanelists. I did, because I took the responsibility very seriously, talk to a number of colleagues in Washington in conjunction with the spring meetings of the World Bank and the IMF, colleagues from Tanzania, Mozambique, Zimbabwe and Kenya, as well as Ghana, to get some ideas about the perception of civil society in Africa on the African Development Bank and the situation facing the continent, and I believe that in looking at the questions that are related to the international financial institutions, one of the key distinctions to be made must be the one around the question of intent and outcome.

The intentions are clear. The intentions of those lending and providing donor assistance to African countries are often very clearly articulated: poverty alleviation, debt relief, structure adjustment, structure and policy reforms and others. The question that we keep asking as Africans over and over is whether the outcome matches the stated intent of policies and projects of the multilateral financial institutions.

When one looks at the realities that are experienced by Africans, as well as the peoples in other regions of the Global South, that is to say, Asia/Pacific, Latin American, the Caribbean, it is undeniable that the outcomes of implementation or structure adjustment programs, free market reforms, debt relief and privatizations have failed. They have failed to deliver on the promises of development.

The fact is that these aspects of these policies and programs, such as cuts in food subsidies, cuts in credit to farmers, non-food cash crop farming, user fees for health and education and water privatization, condemn millions to hunger, malnutrition, poverty and even death. Africans are working very hard and are working against many, many challenges.

In this context of a continent faced with tremendous challenges that seem almost insurmountable, we must then also ask some questions about the role of the African Development Bank that is now three decades old, an institution that was founded to finance projects that would provide the basis for employment, technology and a way out of poverty. Instead of an Africa where promises have been kept, we see an Africa that has been in rapid and long decline, an Africa that has endured worsening economic circumstances since the time of the Bank's founding.

This subcommittee can help begin to chart a new direction for the African Development Bank, one that would provide the basis for employment, technology and a way out of poverty, in support of African people's initiatives. Sub-Saharan Africa is rich in human and natural resources, but faces many challenges. We have heard about some of those from Members of the subcommittee, as well as from my co-panelists.

I want to focus today on what I believe most Africans themselves would say about development and economic recovery on our continent. In a nutshell, it is this: It isn't working. The way development is done now and has been done since the beginning of Africa's economic decline has harmed Africa more than it has helped it. Our access to services, our employment prospects, our nutritional standards, our overall standard of living has been in decline since 1980. This is the information that we get both from institutions like the World Bank and various agencies of the United Nations.

What changed around 1980? Certainly there was the oil price crisis of the 1970s which hit many African countries very hard. Sub-Saharan Africa continues to pay back more to the World Bank and the IMF than it gets from those institutions, and despite this tremendous diversion of resources, and in several cases despite even a country's acceptance into the World Bank and IMF debt relief program, our debt levels continue to rise. Social services continue to be cut. People continue to be laid off. Prices continue to rise.

Indeed, it is obvious that development is not working in Africa, and also as part of my statement is a chart that comes from a consultant at the World Bank that shows very clearly what has been happening in terms of growth in relation to the rising amount of money that comes in the form of loans to Africa. The results of many of the programs that are associated with the program—with the loans have been devastating, and it is—the question becomes, then, how do we get out of the crisis that we find ourselves in? We are not going to get development. We are not going to get the kinds of effective results to the challenges and solutions to the challenges that we face with more of the same.

In fact, the statement that we want to make today is to say that the market plan has not worked for Africa. We need a Marshall Plan, one similar to the one that was offered to Europe after World War II, at a time when the United States recognized that lending to devastated economies was an illogical way to develop.

The much-vaunted Heavily Indebted Initiative has fallen short of the goals of relieving Africa's debts. Some beneficiaries of the HIPC Initiative will pay as much, if not more, in debt service after graduating from the program. After World War II, as the Marshall Plan was providing resources to kick-start European economies, Germany negotiated terms that allowed it to pay no more than 3.5 percent of its annual export income on its foreign debt, and nothing at all if it did not have a trade surplus.

In Africa, countries have found themselves paying 40, 50 or 60 percent of the annual export income on debt. The Heavily Indebted Poor Countries Initiative of the IMF and the World Bank, when it accepts countries into its scheme, and when it works as it promises to do, aims to reduce those payments to between 10 and 15 percent of annual export income, with no provision for years when a trade surplus cannot be achieved.

People in Africa think the system is fixed. They see new economic programs that welcome more foreign companies into their countries and offer incentives to grow more cash crops or work in assembly plants, but they still see their standard of living decline. They hear that the African Development Bank will be rescued from its morass by worthy governments, but they are not surprised to find that it operates as a mini-World Bank, imposing the same conditions for the same kinds of projects.

Africa needs the debt cancelation; 100 percent of the debts owed by these countries to the multilateral creditors. The IMF and World Bank have tremendous resources, and given that people in Africa are slipping and its children are dying, we fail to see why these institutions continue to plow their money into the private sector.

I also want to say that, in conclusion, like Dr. Botchwey, that Africa needs an institution, an African Development Bank, that is something more than a junior partner or a surrogate to the World Bank.

I strongly believe that the role of African institutions is to effectively address the challenges that face Africa. Instead of more reforms, what is needed is clinics stocked with drugs and workers, schools with textbooks and trained teachers, safe water for all instead of privatization contracts for multinational corporations, free public education for African children just like for children in the U.S., policies that would put people before profits. There is a proven track record of investment and political will in the campaigns against polio, smallpox, and the campaign to immunize the world's children against the major vaccine-preventable diseases. We went from covering about 5 percent of the world's children in 1980 to covering 80 percent in 1990, saving 3 million children a year. Not only do we know what needs to be done. We know how to do it and have done it in a number of instances. The same can be true of Africa.

Again, I urge you to act in solidarity with African peoples and watch them succeed. Thank you.

[The prepared statement of Njoki Njoroge Njehû can be found on page 98 in the appendix.]

Chairman BEREUTER. Thank you very much for your testimony. Thanks to all three of you.

We will now proceed under the 5-minute rule for questions from Members of the subcommittee. As I announced earlier, we will recognize people based on their seniority on the subcommittee, for those who were here at the beginning, and then recognize those in order of appearance after we begin.

So the Chair recognizes himself first under the 5-minute rule, if the clerk will start the clock.

First of all, my own personal view is that the African Development Bank and Fund deserve our attention more than any other regional development banks. Because of the urgency of the concerns on that continent, not only do we have a responsibility for reauthorizing funding for the bank coming before us this year, but I think it is appropriate that we focus our attention.

I hope that we can give some good guidance to our Executive Director as we try to have an impact on making these two institutions more productive.

Dr. Sherk, you mentioned the Knox Report. My recollection is that it was issued in 1994. You quote the report that African nations who borrow from the bank complain that "the bank is absent when it should be present."

I would like to ask first you and Dr. Botchwey how do the bank's borrowers assess the bank's engagement with their development needs now?

We have seen a change in leadership there. How has it changed, how has their perception of the performance of the bank and its responsiveness to their goals changed, if at all?

Dr. Sherk, do you want to try first?

Dr. SHERK. Thank you, Mr. Chairman. I think that is a very fundamental question about how to improve the quality of lending for Africa. The African Development Bank after the criticism of the Knox Report, and by the way, to be fair to the African Bank, the Knox Report followed the Wapenhans Report on the World Bank, the Tapoma Report on the InterAmerican Development Bank and the Schultz Report on the Asian Development Bank, and all four of those major reviews of the bank's portfolio came up with remarkably similar conclusions about the deterioration in the project quality.

And in the case of the African Bank, the Knox Committee found that there were too many pressures to lend and too little attention given to the kinds of actions that would ensure that each loan met its intended objectives, supervision of the loans on perhaps a semi-annual basis, to institute sound post-evaluation of projects so that the lessons learned could be recycled into new lending so that the new lending wouldn't make the mistakes of the old lending.

These are activities which weren't given enough attention by the African Bank prior to the Knox Report, but they certainly are now. Both of those—many more supervisions per investment dollar goes on today.

We could talk a little about the partnership that is coming out of the World Bank and the African Bank that Dr. Botchwey and I worked on. And in that case, you get a much greater focus on what do the civilian society groups really want, how do you find out what they would really desire in terms of a rural, integrated rural development project or a rural road project or a health clinic or a primary education loan.

This is something that is sweeping the development institutions, but I am very pleased to say the African Bank has been in the front of that.

Chairman BEREUTER. Thank you.

Dr. Botchwey, would you care to comment on how attitudes have changed in Africa since 1994, if at all, attitudes about the African Development Bank that is?

Dr. BOTCHWEY. Yes. Thank you, Mr. Chairman. Let me be brief and absolutely candid. Mr. Chairman, we, as Don said, actually conducted a recent study in which we surveyed the views of many,

many African clients. I think it is fair to say that the prevailing view, the prevailing sentiment among the bank's African clients is that unquestionably there has been an improvement in product quality, in the balanced procedures and in management and governance of the bank.

There is a lingering concern that the Bank has been so preoccupied with getting these things right that it is taking a long time to kind of focus on a sharper vision and a niche in matters of African development.

Second, also, there is a lingering concern that the Bank, in spite of all of the efforts that have been made in these times, continues to kind of walk in the shadow of the World Bank.

Finally, Mr. Chairman, there is also some concern that the Bank is not present in many African countries. You know, the ADB used to have offices in a lot more African countries.

Well, the truth is that it was overdone in the past. They had just too many outside offices. I think the Bank has swung to the other extreme. It has shut down all of those offices. So there is certain yearning also for greater presence, I think, in African countries. Well, there is no question that there is a great deal of support for the bank among its African clients.

Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you. My time is expired.

Ms. Njehû, I will have a question for you on my second round.

The gentleman from Vermont is recognized.

Mr. SANDERS. Thank you, Mr. Chairman.

I want to focus on three areas which are devastating Africans right now: the AIDS crisis, the growth in poverty, and the chain of deep debt that many African countries are now facing.

And I recognize that the African Development Bank and the Fund are not going to themselves solve all of these problems, but what we need from our witnesses are thoughts as to how the United States Congress can go forward to address what are some of the major crises facing humanity today.

So, I would like to ask all three of you a question. We will start with Njoki Njehû. Could you comment on the AIDS crisis and the role of the pharmaceutical industry, and how we deal with growing poverty and the issue of debt forgiveness?

Ms. NJEHÛ. Thank you, Mr. Sanders. I think in your opening comments you very well addressed the questions—some of the challenges and some of the what I believe would be necessary responses that are needed from the pharmaceutical companies.

And I do think that at the same time, one of the things that I want to convey here is that in looking at the African continent in country after country and in community after community, that people are coming forward to try and address these issues in their own ways: In the clinics that they are building, in the ways that they are trying to establish relationships with companies, with hospitals, in countries like the United States and other parts of the globe to try and address the crisis that faces them, because their governments, because of, indeed, the international debt, are not able to do that.

On the question of debt, I believe that what needs to happen, as I said, is debt cancelation, total debt cancelation and that we need to be thinking outside the box, not be doing it the way that it has been done in the past, with a link to structural adjustment programs, mandating policies that have been filled for the most part, as is evident by the institutions that have been imposing them, trying to repackage them and redo them.

The HIV/AIDS crisis is a rather serious one and a tragic one, and one of the things that I want to put on the table today, in concluding with my remarks, is to say that in addition to the offense and the other issues that are very much talked about, there is a crisis in places like Zimbabwe where thousands of people are dying every day, an environmental crisis is emerging as trees are cut down to build coffins, that continue to increase the situation of poverty.

So I think that as we look at these crises, we need to look at ways in which other issues are coming up very clearly.

Mr. SANDERS. Thank you.

I want to go to Dr. Botchwey.

Dr. BOTCHWEY. Well, thank you. On AIDS, Mr. Sanders, you yourself gave the rather grim statistics indicating the real crisis that the continent faces.

I think that what the United States Government can do is to provide support to get—first, of course, to strengthen advocacy of prevention measures. Prevention by itself, Mr. Chairman, is not going to work. When people begin to appreciate that when they have been diagnosed with a disease they are simply waiting to die, they are not going to even get tested. So prevention by itself would not be effective, unless it is combined with a critical program of therapy and access to drugs.

So I think that the area of access to drugs is one area where the U.S. Government can help. There are many initiatives on the table now to develop some kind of a trust fund that would be used to finance bulk procurement of visionary drugs.

I think that with all the help that the U.S. Government can muster, we need it in getting around these so-called legislatable poverty issues, which you rightly noted are not the matter at stake.

Yes, access to drugs must be a complement for credible programs for prevention, and the U.S. Government, I think, can afford to and has an important role to play in that regard.

Growth and poverty. I think that the important thing to appreciate here is that even at the current rate of growth—first of all, all the African countries will need to almost double their current rate of growth, double their current rate of savings, which for most will be difficult, as well as perhaps double the current flows of development assistance in order to make it possible for poverty to reduce by half by the year 2015. So it is important.

And finally on debt, I agree entirely with Njoki, I think that it is very clear that there are issues that African countries cannot pay this debt and for the past decade they have paid the debts only because the debts have been refinanced by donors outside.

Mr. SANDERS. You believe in total cancelation?

Dr. BOTCHWEY. I do believe that total cancelation is the only credible route, of course, against the guarantees of good governance and the credible and sensible use of the resources.

Mr. SANDERS. I know we are running out of time. If Dr. Sherk could make a brief comment on those issues. Let us start with debt cancelation. Are you in agreement with the other two panelists?

Dr. SHERK. For the most part. I also want to add a word on poverty alleviation. I think the Chairman mentioned this document called the African Development Bank's Vision Statement, which is the new mandate for the Bank under President Kabbaj. Clearly, it establishes poverty alleviation as the number one principal goal of the bank, and I think that message has gotten through to the entire staff from the President on down to the bottom of the ranks.

Mr. SANDERS. What about debt cancelation? How do you feel about it?

Dr. SHERK. If you had a credible program of debt cancelation, as Dr. Botchwey added, with sufficient conditionality to ensure that the funds would be used for health, education, and so forth, and not spirited out of the country, which you and I both know sometimes happens, those conditions have to be in place. And at that time, yes, certainly debt consolidation would be seen as a major force for growth.

Thank you.

Mr. SANDERS. OK. Thank you very much.

Chairman BEREUTER. Thank you, Mr. Sanders.

The gentleman from California, Mr. Ose, is recognized.

Mr. OSE. Thank you, Mr. Chairman.

I noticed the comments in all of your testimonies about the changes in the mid-1990s to structural reforms at the bank in particular.

I want to make sure I understand clearly that the African Development Bank loans money to countries, and then the countries turn around and use the money as the countries decide? Is that accurate, Dr. Sherk?

Dr. SHERK. The typical loan procedure, Mr. Congressman, is for a loan to be appraised in terms of what elements of that project are required, and if it may be training for local villagers in the use of health facilities, that training would be paid for under that loan.

If it had to do with a road from the town center to the community health center, that would be paid for under the loan, so that every one of the loans are components of infrastructure, training, equipment. The obligation rests with the government, because the government may borrow $10 million, and $9.5 million of that would have been disbursed over perhaps 20 or 30 categories of expenditures from technical assistance, training, equipment, infrastructure.

Mr. OSE. My question then boils down to, how does the African Development Bank measure—that is not the word I want to use.

How does the African Development Bank assure itself that the capital it is providing to these countries is having the desired impact?

Dr. SHERK. Do you want me to answer?

Dr. BOTCHWEY. May I?

Dr. SHERK. Sure.

Dr. BOTCHWEY. Mr. Chairman, first of all, the fact is that every single loan operation or grant or whatever is given within the framework of strict and often tedious conditions.

Mr. OSE. Do we send people out in the field?

Dr. BOTCHWEY. Sorry?

Mr. OSE. Does the African Development Bank actually have project inspectors, if you will, or loan officers that go into the field?

Dr. BOTCHWEY. Yes. Yes. Absolutely. Absolutely. The projects are appraised. They are studied and appraised and costed before and during—they are regularly vetted and monitored and then exposed or also evaluated.

Mr. OSE. In the vetting process of the projects that are funded, is the money put up first and then the vetting is done afterward, or is the money released to the country after the Development Bank's loan officer has actually gone out and done the vetting?

Dr. BOTCHWEY. It is the latter.

Mr. OSE. It is the latter?

Dr. BOTCHWEY. Yes.

Mr. OSE. Much like a construction loan in the United States, where you have to actually put the sticks in the air before you get the money for the framing and the lumber?

Dr. BOTCHWEY. No, not exactly, Mr. Chairman. The loans, the disbursements are given, once the negotiated preconditions are set. If the precondition is indeed that the foundation of the building must be done by the government before the loan is given, yes, then that is what will happen.

If the precondition is simply that the general microeconomy framework be right, then that is what the government would need to do before——

Mr. OSE. I am not sure. I see Dr. Sherk shaking his head that, yes, the actual expenditure is confirmed before the money is provided, and then I hear you saying that it is more a function of the conditions in the negotiation between the bank and the country being met, and that is what I am trying to get at.

Dr. SHERK. Mr. Chairman, we are perhaps mixing apples and oranges. As you know, since about 1990, the banks, all of them, had started making a new type of loan called structural adjustment loans that aim to the policy environment prevailing in a particular country.

Many of the loans made by the banks historically have been specific project loans dealing with the actual physical hardware and training, and so forth, which can then be disbursed based upon invoices for materials submitted, invoices for materials that have actually been put into the project. These then can then be audited and they are. By the way, each loan has to be audited.

Mr. OSE. So, the bank sends somebody physically, if you will, to check on the invoices and the items listed in the invoice?

Dr. SHERK. Most of the cases those come in to a project entity, and then those documents have to be sent on to either the World Bank in Washington or on to the African Bank in Abidjan, but the auditing process goes from local level up to district or federal level, and then those documents are sent to the banks.

Mr. OSE. But, Mr. Chairman, if I might just ask, I just want to follow up.

Chairman BEREUTER. There is unanimous consent to extend the gentleman an additional minute.

Mr. OSE. 20 seconds.

I just want to make sure that I am understanding correctly. I don't hear anybody actually saying that somebody actually goes out and sees the physical project, is that accurate, that it is an audit capacity rather than a physical visit?

Dr. SHERK. No, the physical visit takes place at the time of the appraisal. It then takes place at the time of supervision. And one of the things about the Knox Committee that I served on was that we said the African Bank was right to supervise its loans, but they didn't supervise them enough times during a year. They sent a person to supervise a project once a year.

Mr. OSE. My time is up. We are going to come back to this.

Dr. SHERK. We said they should go much more frequently, and they are now.

Chairman BEREUTER. The time of the gentleman has expired.

Perhaps a couple of case studies and briefings would be good for the MDB projects.

Mrs. Maloney and Mr. Green were also here at the beginning of the hearing, and then thereafter Ms. Waters, Ms. Lee, Mr. Bentsen and Mr. Watt, Ms. Schakowsky and Ms. Carson, pardon me, and Mr. Manzullo if he comes back.

So next will be Mrs. Maloney, and then we will come to Ms. Waters. She is gone.

Ms. Waters, I will recognize you then.

Ms. WATERS. Thank you very much. Mr. Chairman, and members of the panel, I am going to open up a discussion that has been nagging me to no end. It may almost be naive, but I want to explore with you the contradiction of the riches of Africa and the poverty.

I want to know if the African Development Bank, or anybody, is involved in projects that explore and develop the natural resources for the benefit of the people. For example, in Zimbabwe there are unmined diamonds. I don't know why. I don't know how it works. Between oil, gold and diamonds in Africa, it appears to me that there should be economic development projects that mine these natural resources in ways that all of what we are talking about could be paid for.

Somebody explain to me what you do that could help that effort or what anybody is doing and if nobody is doing it, why not. I will start with Dr. Botchwey.

Dr. BOTCHWEY. Thank you very much. That is a very fundamental question. Now, first of all, we talk about Africa often in its aggregation, which is right if we want to see general trends. But the natural resources that you quite rightly talk about are not evenly spread.

Ms. WATERS. No.

Dr. BOTCHWEY. There are some countries that have them in abundance and others that don't.

Ms. WATERS. Let's talk about Zimbabwe, for example.

Dr. BOTCHWEY. Now, for those that do, say Zimbabwe, Ghana, the natural resources, mineral resources in the main are potential sources of wealth, they are in the ground.

Ms. WATERS. That is right.

Dr. BOTCHWEY. You will find that the development banks that we are talking about, including the bank, the World Bank itself, will very seldom provide resources on their own to exploit these because they believe that, with some justification, these are things that should be able to attract private sector flows, private sector investments to develop them.

In Zimbabwe there are even platinum deposits, but the ADB isn't there doing any investments in these or in mining, and there are many who would say they shouldn't. There are many who would say if the ADF is going to provide concessional lending, payable over 50 years, you know, with a long period of grace and so on, then they should go to the other sectors where it is typically difficult to attract private flows and so on.

So you don't get these institutions doing that, except in core financing agreements with others, meaning Ghana, the World Bank gave some loan facilities and ADB participated in rehabilitating some mines.

So your question is right, why—and you raise the whole business of the concentration of the fund of the ADF's resources and the ADB resources. First, there are not enough to start with, and therefore, choices have to be made between putting the money in investments that generate income, foreign exchange no less, as well as social setting investments that produce——

Ms. WATERS. Let me just, because we don't have a lot of time.

Dr. BOTCHWEY. OK.

Ms. WATERS. My naive thinking tells me it shouldn't be either/or, but it should be both. We know we must put money into the social sectors, because we have to deal with health and education in order to have any kind of reasonable development and opportunities for people to be able to help grow the country and earn money and have a good living. We know that. That is long range you have to put investment into that. But at the same time, we also know that if the bank is to grow and to be involved in economic development, it should also have investments in places that is going to give them a return—or substantial returns in this case.

And I guess what I am asking is, are there any joint ventures with government and the private sector? Are there any joint ventures with Africans and others in countries where we know the resources are just lying dormant there? Who is in control of that and who does this?

Because my naive thinking tells me that with this crisis that we have with AIDS, on top of everything else, that no matter how much support we give, how well-thinking we are, we have got to have a dramatic something to deal with these problems. I want to know how and who will help to develop the riches where they are? I mean, we know what is in Zimbabwe. We know what is in Angola. God forbid, we know what is in the Democratic Republic of Congo. Oil, gold, diamonds. Ghana.

How do we use these resources to literally pay for the cost of running the countries and assisting the people? I mean, it just nags me to no end.

Chairman BEREUTER. The time of the gentlelady is expired, but I would ask unanimous consent to extend the gentlelady another minute if any of you would like to respond to Ms. Waters' statement.

Ms. NJEHÛ. Sure, I would. Very briefly, I think that the question you are asking is the right one. And when, for instance, were you to ask that question to people in Ogoniland, they would probably say let the oil stay in the ground, given the experiences of having the oil drilled and the effects on the livelihoods, the quality of life and their environment.

So there are a number of outstanding situations and questions that surround this issue of resource exploitation. Part of it is that even in the places where it has been done, it has been done at the expense of local people. The kids of Ogoniland are certainly one of the most tragic examples. And that when the resource exploitation happens it is to the benefit of corporations, often foreign corporations, and therefore it is not necessarily in the interests of people to have these resources exploited.

I do want to say that for the record, even on the question of debt cancelation, that precisely the point is that whatever these initiatives are that they benefit ordinary people, the question is who determines and how that is implemented. We can mine the gold or we can mine the diamonds, but if it just means all the wealth goes to DeBeers, and there are a few mining jobs for people in Zimbabwe or Angola or the Democratic Republic of the Congo, one needs to look at the bigger picture. And I think that in doing that, the costs are too high.

There is also, of course, the question of resource diversion. There is a lot of money that has gone into the continent for corruption reasons, for misplaced priorities, that it is not held in education, but perhaps a third international airport or more tarmac roads, and those are the questions that we need to ask about what does development mean, and so far we have been found wanting.

Chairman BEREUTER. Thank you.

Again, the gentlelady's time is expired. Perhaps somebody would like to pursue this question further as we go down the line.

The gentlelady from California is recognized, Ms. Lee.

Ms. LEE. Thank you very much, Mr. Chairman, and thank you also for this hearing.

I want to thank the panelists for their very clear testimony today. Today earlier, my colleagues and I introduced a bill, the Debt Cancelation for HIV and AIDS Response Act, to provide for multilateral debt relief for countries faced with the HIV/AIDS pandemic.

I would like to find out from all three of you very briefly what, if any, steps you are aware of has the bank or the fund taken with regard to linking debt relief with HIV and AIDS? And have you seen any evidence that the bank or fund is placing sufficient priority to this issue?

Also, I would like to find out if you could explain the coordination between the World Bank and the IMF and the African Development Bank and Fund and is the relationship cooperative with the larger institutions or does the World Bank and the IMF make it harder for the African Development Bank to fulfill its functions?

Finally, let me just ask you with regard to user fees, do the loans provided under the African Development Bank require user fees? What are the major differences in lending policies between the African Development Bank and the IMF and the World Bank?

I would like to ask all of you if you can respond to any portion of my question, please.

Dr. BOTCHWEY. OK. Let me start briefly from the last question you posed, user fees. Yes, some of the ADB's operations in health have involved user fees in the past. I think there is a trend away from user fees now. I personally did a project with a bank and the ADB that involved user fees. It was a disaster. We opposed it. It was a disaster. And I think the evidence shows very clearly that there is often a very dramatic drop in attendance by the poor in these facilities when fees are introduced. I think that now there is much greater effort being made at devising more sensible instruments for health sector programs.

The Bank and the Fund and the relationship with the ADB, I think this is the subject of a particular study that we did. Unfortunately, we don't have copies of it here. But my own belief is that the ADB still is very much in its actual life, very much a general partner to the Bank and hasn't really come into its own.

I have to say this is partly because of reasons of internal management posture, as well as the difficult environment in which we operate with the Bank and the Fund. It is not just simply the institution, I think some of it is internal. So it is a difficulty.

Now, with the Fund it is even more difficult, because the Fund sets up the general macro-economy conditions in which recovery programs are instituted. And once that macro-economy framework with this financing agreement has been set, it more or less creates—it decides, it determines what kind of space the ADB has in doing anything.

So it is kind of swift to the tide and it is unable to develop its own sort of posture, whether it is in the macro-economic sphere or whether it is in the sector policies.

Finally, on AIDS, the bank hasn't done very much on AIDS, to my regret. Given that this is such a difficult and a serious pandemic, they have done very little. Even in the area of advocacy, frankly, this is something that I think most Africans find worrying.

I think that the best they have done, and this has to be said, they have incorporated AIDS—they have decided that AIDS must not be incorporated in guidelines for implementing the bank group's health sector programs. And the guidelines include ideas such as mainstreaming AIDS in all operations. That is fine. I don't know what it means in actual practice, but I think there is a recognition that more needs to be done.

And I think finally that the Bank is now trying to train staff internally in order to help the Bank upscale its interventions. Thank you.

Ms. LEE. Thank you, Mr. Chairman.

Let me ask Dr. Sherk and Ms. Njehû, if you could respond maybe to the priority that you see the bank giving to the AIDS question and what you think we need to do to make sure we move it forward more aggressively.

Ms. NJEHÛ. I think that Dr. Botchwey has answered the question in the way that reflects what I have been able to find in my own research.

I do want to say that one of the frustrations, if I may say, answering your question about the relationship between the African

Development Bank and the World Bank and the International Monetary Fund is to say that I think that for Africans we see the African Development Bank that it should be, if we use a medical phrase, a second opinion to the policies and the problems that are coming out of the World Bank and the IMF, but in fact it has acted as a junior partner and that is a big frustration.

In terms of user fees, the impact, whether it is held in education, increasingly a focus on water privatization, this is a very worrying trend. We are very, very concerned that the President's budget includes language that asks for the striking of the user fee amendment that was passed last year, and that given the evidence that we have of the disaster that user fees have on the African continent and elsewhere, we hope that this subcommittee will play a role in ensuring that the user fee amendment stays intact and is not repealed.

Chairman BEREUTER. The time of the gentlelady is expired.

The gentleman from Texas, Mr. Bentsen, is recognized.

Mr. BENTSEN. Thank you, Mr. Chairman, and thank you for your testimony.

I just have a couple of questions. I want to follow up a little bit on what Ms. Waters had brought up.

Dr. Botchwey, your response with respect to lending for mineral extraction and why the bank generally had shied away from that given that it was a more marketable transaction than the private sector could fund.

Is there any correlation, because I know this issue has been brought up as well that the idea, and Ms. Njehû had mentioned this, there is always the concern in emerging countries of exploitation of natural resources by foreign companies, and is there a case to be made for regional development banks to actually become a funding mechanism for regional companies or are regional partnerships that rather than having to go abroad to develop oil resources or develop mineral resources of some sort, is that something that regional banks have considered in the past and, therefore, to try and maintain some of the ownership of the resources within the country?

Dr. BOTCHWEY. Well, thank you. It is an interesting question, Mr. Chairman. The problem is that the whole mineral sector industry is really controlled, that is the truth, by a few large companies worldwide.

If you wanted to build an aluminum plant, for instance, in the country, there are about six, seven companies worldwide that you would have to go. And that is one area you must recognize.

Second, the question also is the prioritization of the areas of investment, given that the resources that the regional bank, this bank, its resources are limited. Now, I am talking about the bank.

Mr. BENTSEN. I guess the question I have is this, two things, I don't know if you are talking about the means of production or the means of distribution in the worldwide market.

Dr. BOTCHWEY. OK.

Mr. BENTSEN. But it seems to me that the issue that the gentlewoman from California raises has to do with the means of production.

Dr. BOTCHWEY. Yes.

Mr. BENTSEN. And the second thing is that it would appear from your testimony that the bank is increasingly moving toward industrial-type lending, it is project financed, but not project financed in the sense that we might think of it from the World Bank or lending 20 or 30 years ago where project financed were big public-type projects, but more industrial and private sector lending.

And in that context, we know that other regional banks had become lending vehicles for foreign interests going in to create economic development in countries, and that is one aspect. But why not focus some of the lending capability on domestic initiatives?

Dr. BOTCHWEY. On domestic initiatives——

Mr. BENTSEN. Domestic industrial initiatives.

Dr. BOTCHWEY. Well, the ADB does some domestic industrial initiatives. It is not a very prominent feature of its overall lending profile. It is very, very small indeed.

I do believe that what the ADB could do, for instance, would be to provide assistance in negotiating agreements that are really truly beneficial to the country, in addition to providing whatever incentives are required to bring the private shareholders in.

I have a second worry that really, if a country has gold or diamonds, you know, the resources that we are talking about, it is indeed possible, easier, as we all know, to attract private capital from domestic and foreign sources as part of these as it is to do other investments.

Very often, the problem is that the country is unable, even on its own sometimes, either for reasons of a lack of capacity or for reasons of corruption, to negotiate a framework that assures the country of the most rational exploitation of that resource.

So there is room for real skills, a development to do this, and then there is a need for resources as well. The bank does some core financing, for instance, in this area, which I think can be encouraged; the World Bank itself does some core financing to help the development of these assets.

But if you ask whether more of it should be done as against the other project areas, this other sector and so on, given the overall constraint in resources, my inclination would be to say that the least long-term concession of resources especially should be invested more, I think, in the area of the sectors and for poverty, you know, in the areas that benefit the poor more directly.

Mr. BENTSEN. Thank you. Thank you, Mr. Chairman.

Chairman BEREUTER. Thank you, Mr. Bentsen. The time of the gentleman has expired.

The gentleman from North Carolina, Mr. Watt, is recognized.

Mr. WATT. Thank you, Mr. Chairman. Sometimes the best laid plans you have can go awry. My intention was to be here and to hear the full testimony of all three of the witnesses. And just as soon as Dr. Sherk started testifying, I got called to the floor, so I missed everybody else's testimony.

So I want to start by apologizing for having to run out on everybody else's testimony, but sometimes these things have a way of working out for the best, because had I been here I probably would not have spent the time I have spent over the last 20 to 30 minutes reviewing Dr. Sherk's paper written in December of 1999, which is perhaps the best summary I have seen of the history and development of the African Development Bank.

It kind of puts in perspective for me the relatively short history that the bank has but, more importantly, the even shorter history that the United States has as a participant shareholder in the African Development Bank, and also puts in perspective something that I know the United States well enough to understand is always going to be a problem, which is that the United States has only 5.8 percent of the vote in the African Development Bank, and that the real decisionmaking gets made by the majority shareholders.

And I suspect that there will always be in this body, just knowing how you say mentality and congressional mentality works, a degree of discomfort about that. Notwithstanding that, I want to encourage and I hope all of the Members of our subcommittee and the full committee will read this history, because it is really a real testament to how this bank has made progress.

I am particularly looking at page 5, where you say that of the three regional development banks, the African Development Bank was capitalized by the smallest amount, $250 million originally as compared to $1 billion for the IDB and the Asia Development Bank, and you trace some of the—kind of the tensions, negotiations that have gone back and forth between the United States and Africa, the African countries, about the control of the bank, who is going to be the president, who is going to be able to purchase ownership in this bank.

And so I guess I am saying that one part of me is extremely encouraged that given the short duration that the bank has been in existence, given the very small, by comparison, investment that was originally made in the bank, given the period of negotiations and tensions about who was going to control the bank and how the United States was going to be involved as a participant in this, even against that backdrop, substantial improvements have been made in the lives of people.

And while I don't want to get carried away with bragging about the results of the bank, I do think that needs to be said and put in perspective, and in many ways the people who have been working with the African Development Bank deserve a tremendous amount of commendation for that history.

And I have taken my whole 5 minutes to talk about it.

Dr. SHERK. May I respond, Mr. Congressman?

Mr. WATT. I don't know what the question is, but respond to it, anyway.

Dr. SHERK. I would like to respond to your observations, because I think they are right on, and if I did anything——

Chairman BEREUTER. If you can do that in about a minute, please.

Dr. SHERK. Yes, one minute. If I did anything in that paper, I wanted to have it established that the other financial institutions around the world, most of them—of the major ones were created as a reaction to the World Bank, meaning that the World Bank wasn't meeting the needs as perceived by the developing countries themselves.

And they thought they would have a better shot if they would develop an institution in which they had greater voice. I think the fact that the U.S. joined those regional institutions was a recognition that the World Bank didn't have a monopoly on truth. If they did, the world would be developed now. The world is not developed, and, therefore, the more different points of view and opinions that can be shared about the courses of development, I think the better.

And so I am very pleased that you brought that specific issue out.

And then, finally, Mr. Chairman, if in 100 years IBM comes up with a machine that can calculate the rate of return on every dollar Congress appropriates, I would guarantee that the dollars appropriated by the United States toward its small participation in the African Development Bank would have a rate of return higher than 95 percent of the rest of the things that the U.S. Congress appropriates money for. I believe that.

Chairman BEREUTER. I thank the gentleman. That is an interesting statement. I hope he is right.

The gentlelady from Illinois, Ms. Schakowsky, is recognized for 5 minutes.

Ms. SCHAKOWSKY. Thank you. I, too, would really like to apologize to all the witnesses and do promise that I will carefully read the testimony.

Nonetheless, I am not shamed into not asking questions, I will do so anyway, and it may be on subjects that you have already touched, and I guess you will just have to forgive me.

Mrs. Njehû.

Ms. NJEHÛ. Yes.

Ms. SCHAKOWSKY. Am I saying it right? You talk in your testimony about hundreds and hundreds of alternative development models that have not been implemented for lack of resources and expertise, community level initiatives that are struggling and have not seen widespread implementation because of lack of resources. And you say, optimistically I think, that Africans are not looking for a handout, all they want is the chance and the support to enable them to succeed, and then later, instead of more reforms what is needed is clinics stocked with drugs, and so forth.

What is it about the structure of the bank that makes it difficult to get those resources?

And then let me also refer to Dr. Botchwey's comment about what you call tedious conditions, if we are talking about the same thing here, and if we know how to get from here to there—at least there is some hopeful roadposts that say how to get from here to there—then what is stopping us from doing that, and how can we get the tedious conditions or if there are inappropriate conditions out of the way and how can we target those projects that hold out the most hope and then maximize the resources therefore that are available?

Ms. NJEHÛ. I don't think that I have all the answers, because I think that there are many answers, and part of the problem that we have been enduring is this idea that there is only one economic model and one development model, and that so far the possibility of alternatives—in fact, Margaret Thatcher told us there is no alternative. There is no alternative, that the possibility of alternatives has not been given due credit. One of the things that you might have missed was a chart.

Ms. SCHAKOWSKY. I will just ask you is that lack of vision or is it rules that prevent those alternatives from fitting into the framework?

Ms. NJEHÛ. I think it is both. I think it is lack of vision. I think it is to some extent perhaps arrogance on the part of development professionals, economists and others who think that they have come up with the right idea, with the idea that is going to work and do not seem to entertain any possibility of being wrong or recognizing the signs and the evidence of the failure of the policies and projects that they put forward.

One of the documents that I had that is part of the record is this document that is from the World Bank research economist, who actually wishes to remain anonymous, but it shows that as loans have grown, have increased, growth has decreased.

And it is very startling, because then I would assume that the response would be to say, wait a minute, are we supporting, are we focusing on the right things? I think that when one looks—I am from Kenya, and Kenya supposedly owes $8 billion. When you look around Kenya, you do not see a country where $8 billion have been invested.

You see a country that has all of these massive needs, and I think it is true of many other countries. There is this question of misplaced priorities that governments are choosing the—and I could speak to my own country—building a third international airport, building a bullet factory in a region that is surrounded by Sudan, Ethiopia, Uganda and spitting distance from Rwanda and Burundi and the Democratic Republic of the Congo.

Surely, we don't need more bullets, perhaps we need schools and clinics. And it is not just the Kenyan government. It is that the funding of these projects was supported in one case by the government of Canada in support of a Canadian corporation and the government of Belgium in support of a Belgium corporation, with a bullet factory and the international airport respectively.

So there is a question of priorities. There is a question of one of the things that was raised about where the desire and the focus is in terms of where money is put within a country or within a region.

And the examples that I am talking about is they are local examples, that we don't get stuck in thinking that whatever model we come up with, whatever initiative we come up with, they have to be national or regional.

There are successful examples in India, one that I can think about where the government of the City of Kuran got resources and demanded to develop and they did quite well.

I think this is one of the possibilities that we can look at with the idea of thinking outside the box and not asking governments to do the same thing over and over.

Chairman BEREUTER. The time of the gentlelady has expired.

There are only three of us here. We will begin a second round.

Ms. Njehû, I noted from your testimony that you refer to the need for the African Development Bank to try bold new ideas, and break out of failed economic models. For example, you say you could pick a district in Mozambique and, "provide the government there with the resources to attract dedicated, intelligent individuals who know the area well, see if a government-owned cashew processing facility can provide employment and make a reasonable profit."

An interesting idea as an illustration. I am not focusing on the cashew production, but you go on to say you think there are hundreds of alternative development models that have not been implemented for lack of resources and expertise.

Is it all simply a matter of resources, inadequate resources? In your judgment, to your knowledge, is the ADB thinking outside the box, or are they trying untraditional development models?

Ms. NJEHÛ. I don't think that it is all a matter of resources, but I think it is a big part of it, because if you have a need—whether it is for a clinic or for a school with textbooks and teachers who are well-trained and paid to do their job, that if you don't have the resources to do that, even if you have a great plan, then it doesn't happen.

But, I do think that—and I think that Dr. Botchwey and I have mentioned this before—that it seems that the African Development Bank acts and follows the lead of the World Bank and IMF. I mentioned that I think that it should be accountability. It should be in the context of, to use a medical example, the idea of a second opinion. So that if the first opinion says structural adjustment programs that result in user fees or require user fees, that the African Development Bank could perhaps offer a second opinion. And the answer is that they haven't been doing that. There is a possibility that they do that, but they haven't been doing that to the best of my knowledge.

Chairman BEREUTER. Thank you.

My last question is for Dr. Botchwey and Dr. Sherk. Data provided in the Meltzer Commission Report last year suggested an average of 73 percent of all World Bank projects undertaken in Africa during the decade of the 1990s failed to achieve "satisfactory sustained results." That is a very incredible statistic.

Is it a credible figure to you? That is my first question. And relatedly, is the failure rate, by their definition at least, for projects that are underwritten by the African Development Bank fund, as high as that? Would you like to make a comparison between the two and whether or not you think that the Meltzer Commission was appropriate in their condemnation?

Dr. SHERK. Well, since I was sort of on the Meltzer Commission, I could support that. It is the question of how you define what you are trying to accomplish with the particular project, and I have always been a critic of the notion that you have got to lend more money at the end of the year to prove that you have done something. And I think that the focus finally is changing on let's take a look at every individual project and see what we are trying to accomplish with this particular amount of money.

I would also like to come up with this question of about does the African Bank follow in the footsteps of the World Bank, or are there things for the World Bank to learn from the African Development Bank? And I think, and I don't want to put words in my distinguished colleague's mouth here, but I think we did find in discussing with staff members in both institutions and indeed in our visits to the African countries that the African Bank was a reservoir of very good understanding of some of the deep, entrenched problems that that continent is facing, and that by encouraging this kind of joint mission work, developing a country strategy paper together, that you were finding a cross-fertilization that really was an improvement for both institutions.

And at the time I think when I first got into this field, the World Bank was very arrogant, I think someone on the panel used that phrase earlier, in saying that the regional banks didn't have much to offer. Well, I think they have learned a lot on 18th Street, and that is that they do have an understanding that oftentimes is deeper of individual societal problems.

And there is another factor in Africa that is harder for an American to get to articulate, but I saw it time and time again, and that is that Africans are more comfortable with the African staff members from the African Development Bank. They had a trust and a level of candor in their discussions that oftentimes couldn't be replicated by a group of World Bank staff getting off an airplane and then seeing some people and grabbing some papers and stuffing them in their briefcases and getting on the plane and leaving again.

Chairman BEREUTER. Understandable.

Dr. SHERK. So that is an important factor.

Chairman BEREUTER. Dr. Botchwey, would you like to respond to that?

Dr. BOTCHWEY. Yes. Briefly, Mr. Chairman. I think that the statistics of the Meltzer Commission published on poor air quality and failure in the Bank are indeed true. The Bank's own evaluation, in fact, confirms this, I think, and the causes of these failures include the Bank—as it was noted, the fact that all the projects simply didn't have enough local ownership. I think governments, they didn't feel that they really were a part—that these were projects that they would have liked to choose and design that particular way. So national ownership and commitment and the lack of it, actually, has been identified as all the main reasons why all these projects failed.

Now, as to the new ideas—Mr. Chairman, just one quick point—I think that it is true for a long time the whole strategy adjustment framework tended to be very monolithic, and there was very little room in negotiations to get alternative ideas tried. I think that that atmosphere is changing now, and this institution has changed very slowly, and, therefore, whatever the leading shareholders, including the United States, can do to really open the vents to allow a flourishing of ideas in that environment, a better place for the regional banks, I think it would be helpful.

Finally, Mr. Chairman, to offer—I would like to submit—Don and I, I think, for the record, we did a study of the relationship within the World Bank and the ADB and proposed a framework for a partnership between them that I believe the subcommittee would benefit from.

Chairman BEREUTER. We would like to have that, and without objection, that will be made a part of our record if you supply it.

Dr. BOTCHWEY. OK.

Chairman BEREUTER. Thank you.

[The information has been received and has been retained in the committee's permanent files.]

Dr. BOTCHWEY. And then finally, I also happened to have authored a paper on the AIDS—the impact of AIDS on economic development in Africa, which was a theme paper for a major meeting that the Economic Commission of Africa organized last year, which I would also like to make available to subcommittee Members.

Chairman BEREUTER. Thank you, and likewise, without objection, that will be made a part of the hearing record.

[The information can be found on page 80 in the appendix.]

Chairman BEREUTER. Would the gentleman from North Carolina like to be recognized? The gentleman is recognized for 5 minutes.

Mr. WATT. Thank you, Mr. Chairman.

I promise you I am going to ask a question this time, but I want to start the question with a starting point, and it really is an extension of where the Chairman, I think, was going. The question I will end up with—and you may have to help me frame the question, because I am going to have to struggle here. On Page 121 of Dr. Sherk's paper of 1999, he says, the Bank—the African Development Bank, that is—has adopted poverty alleviation as its, quote, central goal, close quote. It has incorporated into this project design processes, gender considerations, environmental review, private sector support and civil society participation in its country assistance planning.

Now, I take it if the goal—the central goal is poverty alleviation, I couldn't say, direct me to one particular housing project or construction project or project that you would consider a success story. Would I be saying that, or would I be saying, direct me to a country that you consider a success story? Which way would I frame this question, because I want to go to the question?

Dr. BOTCHWEY. You probably would have to be—it would be both. You want to go to a country where——

Mr. WATT. They have some success stories?

Dr. BOTCHWEY. They have success——

Mr. WATT. All right. Then my question is this, and this is against a backdrop where I presume at some point Members of this subcommittee would like to actually observe some things that the African Development Bank has done, and what my question is, would you all identify for me the three success stories, country and/or specific projects, and the three dismal failure stories, country and specific—and/or specific projects? If we were going to look at successes and failures in the history of the African Development Bank, where would we look? And that is the only question I have, because I think that might lead us somewhere at some point.

Dr. SHERK. Mr. Chairman, we are very fortunate today, because in the hall is the current United States Executive Director of the African Development Bank, and if she allows me to identify her, she could speak to the specifics of successful projects and unsuccessful projects, and I would ask for the Congressman's indulgence that a list of those projects be prepared and sent to you rather than relying on Dr. Botchwey and myself to pull them out of the air.

I do remember both good projects that I visited during my tenure at the African Development Bank, and I remember some bad projects, too. And, as a matter of fact, when a project was a bad project, we had a system in place whereby I would report back to the U.S. Treasury and say that this what we have found out about the particular project, and I don't think, in my humble opinion, that the project should go forward, and that the Treasury would then report back to me and instruct me to vote against the loan. And in a few cases, when you could get enough people to vote with you, you could either delay the project, get it reformulated, or, indeed, killed.

Mr. WATT. Maybe I—I think I may have asked my question too broadly to expect three examples. Maybe if you could just give me your favorite success story and failure story, and all three of you do that, and then I could ask permission from the chair to inquire of the current Executive Director to respond in a more comprehensive way to give us some success stories and some failure stories.

Dr. SHERK. Well, the ones that stick in your mind are the failures and not the real successes, because as I did——

Mr. WATT. I am disappointed to hear that.

Dr. SHERK. They become more controversial. There was a $100 million petroleum sector loan to Mr. Mobutu, and I probably spent more time opposing that loan than any other Board member on the Board back in the 1990s when that loan was made. It shouldn't have been made, I think everybody in the Bank would admit now that it shouldn't have been made, but at that time, as you know, he was an extremely powerful African leader.

The other one was a soybean loan to Cote d'lvoire, the headquarters of the——

Mr. WATT. Is this good or bad?

Dr. SHERK. It was not what you——

Mr. WATT. Positive.

Dr. SHERK. It was on the negative. And the reason it was on the negative side is that it was to introduce the cultivation of soybeans in a very fragile part of the country's ecostructure, which was on that band of land very close to the Sahara Desert, where it just began to be savannah and had a very thin layer of topsoil; that by plowing up for the soybeans, you could really increase the likelihood of desertification, and we felt that the fact that the project was wanted by the Ivorian government was not enough to get us to support it. And we had enough votes against that loan to kill it, until the president of the country got on the phone and called every head of state in Africa and said, I want you to instruct your executive directors to support this loan. And so they came in the next day and changed their vote.

Mr. WATT. Mr. Chairman, can you give me enough leeway to get at least one success story?

Chairman BEREUTER. I have unanimous consent. The gentleman will have such time as he may require to get answers from at least Dr. Botchwey.

Mr. WATT. And one success story.

Chairman BEREUTER. At least.

Dr. BOTCHWEY. Yes, Mr. Chairman. I will give you one success story to which I can speak honestly and without any restraint. This is the African Capacity Building Initiative, which the ADB helped spawn. It is based in Harare. It is run by Africans. It has a fairly functioning governing structure, and it has helped build capacity in the region, much of which has stayed in the region for microeconomic analysis, and it is now branching out and building capacity in civil society, in the private sector and the interfield between these two and the public. It is very successful.

And there is a cousin of this initiative, which has also been quite successful. This is the African Economic Research Consortium, which is recognized everywhere, really, as a preeminent network of good, you know, African economic reserves. So I can speak about these two as good cases of success.

And, Mr. Chairman, if I may make one short statement about poverty alleviation, because it troubles me, it is fast becoming a new bandwagon whose success is determined merely by self-assertion, I think. You say that we are resourceful in alleviating poverty in the country, when—and this is at the global level—that country moves from low-income to middle-income or high-income, judged by their respective income. Then we say, you now, we have done well. We don't say that we have done well in poverty alleviation if we put the Bank's money in one or two clinics or projects, and they are successful.

I think that it is important for us to appreciate that the business of alleviating poverty in Africa has been a sustained thing, and that the measure of its success will come when fewer and fewer people live in poverty. And that intent will only happen if there is employment-generating growth and if people can find work and be paid.

I just wanted to make this point. It is very important that we appreciate that that is what we are looking at, and it is wrong, in fact, to force development institutions in the name of poverty alleviation to be mechanically putting resources in education and health projects, defined narrowly, and not necessarily creating an overall environment in which the right investments have been made.

Chairman BEREUTER. I thank the gentleman, and I must say I appreciate very much, and I know the subcommittee does, the testimony, oral and written, of the witnesses here today. I like the one-panel kind of hearings, because you receive the attention, and not all of it went to the Executive Branch in the initial stages. And it is not fair to Executive Director Johnson to ask her to come to the table, but you have heard Mr. Watt's request that you might provide some examples of successes and failures, too, and I would join him in that request. And if you would, I would appreciate it if you could send that to the subcommittee so that we can share it. I see a nodding of the head in affirmation and willingness there. Thank you very much.

One final matter. Without objection, the hearing record will remain open for 30 days for Members to submit written questions and to place their responses in the record. And with that, again, and my appreciation to the witnesses, the hearing stands in adjournment.

[Whereupon, at 3:47 p.m., the hearing was adjourned.]

APPENDIX

April 25, 2001

Opening Statement
The Honorable Doug Bereuter
Chairman
Subcommittee on International Monetary Policy and Trade
African Development Bank and Fund
Wednesday, April 25, 2001

The Subcommittee on International Monetary Policy and Trade meets today in open session to receive testimony and to conduct oversight on the African Development Bank and Fund. Today marks the first hearing of this new House Financial Services Subcommittee.

I look forward to serving as Chairman of this Subcommittee which will focus on international financial institution and trade issues. Moreover, I am also pleased to be working with the distinguished Ranking Member of this Subcommittee, Mr. Sanders, from Vermont and all the members of this new Subcommittee.

This Subcommittee has jurisdiction over the multilateral development banks, including the African Development Bank and Fund. <u>It is important that this Subcommittee conduct an oversight hearing on the African Development Bank and Fund.</u> The U.S. is a non-regional member of both the Bank and the Fund, but over the history of the Bank's existence, the U.S. has contributed an average commitment of 5.6% of the Bank's capital. Furthermore, as I will discuss in more detail later, the Bank and the Fund have been the most fiscally troubled and perhaps managerially challenged of all the multilateral development banks.

Moreover, with the upcoming annual meeting of the Bank on May 29th-31st, this hearing record should prove instructive for the U.S. delegation in preparation for this meeting. It should also be noted that the U.S. will be negotiating a new replenishment agreement for the African Development Fund and our Subcommittee will likely be expected to authorize it next year (FY2003).

Before introducing our very distinguished panel of witnesses, I am going to briefly discuss the following four items, which among other things are important to the Subcommittee's examination of African Development Bank and Fund.

1. The Distinction between the African Development Bank and Fund.
2. The Institutional problems of the Bank and the Fund.
3. U.S. Policy towards the Bank and the Fund.
4. The Meltzer Commission's recommendation for the Bank.

First, with respect to the distinction between the Bank and the Fund, the Bank provides "hard" loans on commercial terms (non-concessional terms) to creditworthy borrowers including governments, official agencies and private sector clients. On the other hand, the African Development Fund gives loans on highly concessional terms to the poorest African countries. For example, the Fund gives "soft" loans at zero interest, although there is an annual service charge of .75 percent on outstanding balances.

Second, with regard to institutional problems, the Bank and the Fund both suffered a serious fiscal and managerial crisis in the early 1990's. Even though many African countries had become uncreditworthy, the Bank continued to extend them "hard loans" (non-concessional). In fact, by 1994, arrears reached $700 million.

However, in 1995, the Bank elected Omar Kabbaj, a Moroccan financial official, as the new President in 1995. President Kabbaj implemented fiscal and management reforms, including limiting the number of countries having access to the hard loan window and refocused the activities of the Fund on poverty alleviation. President Kabbaj was unanimously appointed to a second five-year term in May of 2000.

With respect to the current financial condition of the African Development Bank, in September 2000, Standard & Poor's rated the African Development Bank as an AA+ (AA indicates very strong capacity to meet its financial commitments). However, it is of concern that this rating did indicate a "negative" long-term outlook based on concerns over the deterioration in the asset quality of the Bank's loan portfolio since 1998. The Fund is not rated by Standard & Poor's.

Third, from 1993 to 1997, the U.S. made virtually no contributions to the Bank and the Fund. The U.S. also led the other non-regional members in suspending negotiations for a new replenishment for the Fund until the reforms had been implemented. However, as an endorsement of Kabbaj-initiated reforms, U.S. contributions to the Fund resumed in FY1998 and to the Bank in FY2000.

The U.S. pledge to the fifth general capital increase for the Bank will be completed in 2005. In addition, the Bush Administration's FY2002 budget request does include $100 million for the final installment on the U.S. share for the eighth replenishment of the Fund

Finally, as the Subcommittee examines the African Development Bank and Fund the proposals of the Meltzer Commission should be considered. The Meltzer Commission was created by Congress in 1998 to propose reforms of the international financial institutions including the multilateral development banks. This Commission, of which I am the legislative author, reported their views to Congress in March of 2000. The Commission proposed the transfer of World Bank development loan functions in Africa to the African Development Bank when it is ready for this responsibility.

To assist the Subcommittee in examining these issues, I am pleased that we will have the opportunity to hear from our distinguished panel of private witnesses. It should be noted that the U.S. Treasury will testify before this Subcommittee on the subject of the African Development Bank and Fund in the immediate future. The Members have the biographies of the distinguished private sector panel attached to their background materials.

First, Dr. Donald R. Sherk, a native of Iowa, will testify. Dr. Sherk was the U.S. Executive Director to the African Development Bank from 1985-1989. He is currently a Director of Management and Consulting and a Regional Representative to Africa for the International Business & Technical Consultants, Inc. In addition, Dr. Sherk in 1999 prepared a paper and provided testimony to the aforementioned Meltzer Commission on the subject of the African Development Bank.

Moving on, we are also honored to have Dr. Kwesi Botchwey as our second distinguished witness. Dr. Botchwey is the current Director of the Africa Programs and Research at the Harvard Center for International Development. Furthermore, he was Minister of Finance in Ghana from 1982 to 1995. As the Minister of Finance in Ghana, he helped implement one of the most far-reaching economic reform programs for Sub-Saharan Africa. Dr. Botchwey's distinguished legal education includes degrees from the University of Ghana, the Yale Law School, and the University of Michigan Law School.

Our third distinguished panelist is Ms. Njoki Njehu. Ms. Njehu, a Kenyan national, is currently the Director of "50 years is Enough: U.S. Network for Global Economic Justice." This organization is a coalition of over 200 organizations who focus on the transformation of international financial institutions. Prior to her current position, Ms. Njehu worked at Greenpeace International.

We welcome the distinguished panel to our hearing. And, without objection, your written statements will be included in their entirety in the Record. I turn to the distinguished Ranking Member of the International Monetary Policy and Trade Subcommittee, Representative Bernie Sanders, for any comments that he may have.

CURRENCY

House Committee on Financial Services
Michael G. Oxley, Chairman

For Immediate Release: Wednesday, April 25, 2001
Contact: Peggy Peterson, 202-226-0471

Opening Statement
Chairman Michael G. Oxley

Subcommittee on International Monetary Policy and Trade
Hearing
"U.S. Policy toward the African Development Bank and Fund"

I would like to commend the Chairman of the Subcommittee, Mr. Bereuter, for calling this hearing to examine U.S. policy toward the African Development Bank and African Development Fund and look forward to hearing the testimony of our distinguished private witnesses.

I also look forward to hearing from the Treasury Department in the future on U.S. policy toward this multilateral development bank. As my colleagues are aware, the Bush Administration has, in its FY 2002 budget submission to Congress, provided full funding for all 2002 scheduled payments to the Multilateral Development Banks, including $105.1 million for the African Development Bank and Fund. The President's budget also fully funds the U.S. commitment to the Heavily Indebted Poor Countries (HIPC) debt reduction initiative. I applaud the Administration's efforts and pledge my full support to Chairman Bereuter and his Subcommittee as they exercise their legislative and oversight responsibilities in these particular areas. Since the United States is the largest non-African donor to the African Development Bank and ranks second among all donors to the African Development Fund, it is incumbent on this Committee to ensure that U.S. taxpayer dollars that go to these institutions are used wisely and effectively, with concrete results.

I will not take time to comment on the many issues that I know will be covered by today's witnesses relative to the reforms that the Bank undertook in the 1990s. Instead, I would like to comment on a couple of concerns I have with respect to this region.

Africa is an important continent. United States private investment on the continent through 1999 is estimated at $15.1 billion, and U.S. trade in calendar year 2000 was estimated at $38.6 billion. While these numbers pale in comparison to worldwide U.S. investment and trade, Congress has demonstrated a growing interest in the region as exemplified by the enactment last year of the African Growth and Opportunity Act (AGOA).

Yet, despite the efforts of the United States and other countries to provide foreign aid, as well as improve trade and investment in Africa, the region – particularly sub-Saharan Africa – faces some of the most daunting challenges found anywhere on the globe today. In addition to the problem of heavy national debt, experts warn that the HIV/AIDS tragedy occurring on the continent threatens to actually reverse the course of economic development in the region.

I look forward to finding out how the Bank and Fund are using their resources to promote economic liberalization, including the privatization of state enterprises and the bolstering of private enterprise and free markets. As noted in a recently released World Bank report entitled, "Aid and Reform in Africa," foreign aid is most effective in nations that have strong internal commitment to economic reform. Clearly, the governments in many of these aid-recipient African nations hold the key to their economic futures, not the aid donors. In this connection, I look forward to learning what the Bank and Fund are doing to promote indigenous, sustainable economic reforms in the nations to which it lends so that overall foreign assistance – bilateral as well as multilateral – will achieve its intended goals in alleviating poverty and growing vibrant free-market economies.

Again, Mr. Chairman, I commend you for holding this hearing and look forward to hearing from our witnesses. Thank you.

OPENING STATEMENT BY REP. BERNARD SANDERS (I-VT)
RANKING MEMBER
SUBCOMMITTEE ON INTERNATIONAL MONETARY POLICY AND TRADE
HEARING ON THE AFRICAN DEVELOPMENT BANK AND FUND

APRIL 25, 2001

Thank you, Mr. Chairman, and welcome to our invited witnesses.

I want to thank you, Mr. Chairman, for holding this important hearing today -- and for the bi-partisan spirit this sub-committee is showing.

Mr. Chairman, as you well know, the people of Africa are facing crises of historic proportions -- from HIV/AIDS to extreme poverty to crushing foreign debt. I hope very much that today, and in the future, this Subcommittee and this Congress will pay as much attention as possible to these issues.

The United States Congress, as well as the rest of the world, must work as hard as we can to address the HIV/AIDS crisis in Africa, and elsewhere. In my view, we must fight to eliminate the crushing debts that desperately poor African countries cannot pay, and we must demand that the pharmaceutical industry, composed of some of the most profitable companies in the world, accept its moral responsibility to help alleviate this crisis, rather than perpetuate it.

Sub-Saharan Africa is the world's poorest region. Three hundred million people in sub-Saharan Africa (nearly half the population of the sub-continent) live in extreme poverty, which means they live on less than a dollar a day. And that poverty is getting worse -- because of the HIV/AIDS pandemic and the crushing burden of foreign debt.

The human cost of HIV/AIDS in Africa is shocking:

- 17 million people have died from AIDS in Africa since the pandemic began.
- 25 million people in Africa now live with HIV/AIDS -- more than twice the number in the entire rest of the world.
- Last year, there were 3.8 million new HIV/AIDS infections in Africa.
- Every single day, 5,500 African families lose a family member because of HIV/AIDS -- half of those who die are children.
- AIDS has left 13 million orphans in Africa. It will leave 27 million more orphans before this decade ends -- unless the world mounts a massive effort to contain this disease.

Incredibly, of the 25 million people in Africa who live with the HIV/AIDS virus, and the three to four million who are dying from AIDS, only about 10,000 have access to the anti-retroviral drugs they need – ¼ of one percent. I am pleased that the pharmaceutical industry recently dropped it's three-year lawsuit against a South African law to allow the government of South Africa to import affordable medicines and increase the use of generic drugs in its fight against the deadly HIV/AIDS virus. However, I am appalled at the thought of how many hundreds of thousands in South Africa have perished during this time because they did not have access to the prescription drugs that this law would have made available to them. In my view, the issue that we should be looking at here is not one of "intellectual property rights," but of criminal irresponsibility (and while that is certainly true of the AIDS crisis in Africa, it goes beyond that as well).

Over the past six months, several foreign drug manufacturers have begun marketing generic versions of these lifesaving drugs at fractions of the cost. For example, a year's supply of GlaxoSmithKline's Combivir, a drug used to treat HIV/AIDS, costs about $7,000 in the United States. Cipla Ltd., an Indian company that manufactures generic drugs, however, is selling a generic version of the drug at $275 for a year's supply. While Glaxo and a couple of other makers of popular AIDS drugs have cut their prices in Africa, the discounted prices are still significantly higher than the cost of generic drugs. At their lowest, discounted prices from the drug companies are still at least three times more expensive than generically-produced medicines. Mr. Chairman, I would respectfully suggest that we bring in some of these generic drug manufacturers into this Subcommittee to get their views on this issue, and to see how we might be able to work with them.

Meanwhile, the nations of Africa are being forced to devote scarce resources to servicing foreign debt -- often incurred by corrupt dictators who are now long gone -- instead of using those resources to fighting HIV/AIDS. It is clear that the burden of foreign debt is one of the main causes of poverty in Africa, and poverty (including the lack of basic healthcare and education) is a cause of the HIV/AIDS pandemic. They are all connected.

The nations of sub-Saharan Africa will spend $13.5 billion this year in foreign debt servicing -- roughly the amount that UNAIDS says these nations need each year to effectively address the HIV/AIDS pandemic.

Clearly, the problem of foreign debt is one of the main hurdles preventing the nations of Africa from addressing the HIV/AIDS pandemic. And that is something this Subcommittee can address directly, with its jurisdiction over the international financial institutions.

The world's most developed countries (the G7 countries) have promised to completely cancel virtually all debts owed to them by the Highly Indebted Poor Countries in Africa and around the world. But the IMF and the World Bank have agreed only to reduce debts owed to them by about half.

We should insist that the IMF and the World Bank do more. The amount of debt reduction provided so far by the IMF and the World Bank is not enough to allow the countries of Africa to fight the HIV/AIDS pandemic and extreme poverty. Twenty-two countries that have qualified for the IMF and World Bank debt reduction program are still paying more on debt servicing than they are spending on health care.

Zambia, a country that is participating in the IMF and World Bank debt reduction program, will spend only $76 million on its healthcare budget, while it will send $89 million in debt servicing to the IMF and World Bank this year. In other words, a country in which 14% of all children have been orphaned by AIDS and 20% of all adults carry the HIV/AIDS virus will spend more on servicing IMF and World Bank loans than it will spend on healthcare.

Mr. Chairman, the international financial institutions should do more to help the countries of Africa address the crises of debt, poverty and HIV/AIDS. And we, as a Subcommittee and a Congress, should insist that they do more. It is not only the right thing to do, it is in our national interest to do so. Indeed, the National Intelligence Council of the Central Intelligence Agency said this year that HIV/AIDS and other infectious diseases are a threat to the national security of the United States.

Mr. Chairman, I commend you for holding today's hearing, and I look forward to hearing from our invited witnesses about the role of the African Development Bank in addressing the crises of poverty, debt and HIV/AIDS in Africa.

THE AFRICAN DEVELOPMENT BANK AND THE UNITED STATES

Mr. Chairman, my name is Donald R. Sherk. It is a distinct honor and privilege to appear before you and your committee colleagues. The subject before the committee, the African Development Bank, is a subject close to my heart. Thank you for circulating to the committee my report on the African Development Bank that was prepared in late 1999 for the International Financial Institution Advisory Commission, better known as the Meltzer Commission.

If I may, Mr. Chairman, I would like to begin with a brief account of my background in the multilateral development banks in general and the African Development Bank in particular. After leaving the U.S. Army in 1966 I began teaching economics at Boston College and later at Simmons College in Boston. In 1975 I joined the staff of the Asian Development Bank at its headquarters in Manila, the Philippines. I served first as an economist in the ADB's research department and subsequently in the Bank's operations department. In 1977, I joined the Office of the Assistant Secretary for International Affairs of the United States Treasury. From 1977 to mid-1982 I held various positions in Treasury's Office of Multilateral Development Banks. These included: Asian Development Bank Desk Officer, Senior Economist for Bank Policy and finally Deputy Director of the Office of Multilateral Development Banks. During the course of 1982 I was a member of the Treasury team that produced the first in-depth report on the role of the United States in the Multilateral Development Banks. It is argued that this report was instrumental in obtaining support for active United.States participation in the MDBs by the Reagan White House.

In August of 1982 I rejoined the Asian Development Bank as the United States Alternate Director on the Bank's executive board. In 1984 I served for approximately one year as the acting U.S. Executive Director. Then in mid-1985 I was appointed U.S. Executive Director to the African Development Bank and remained at the AFDB until late 1989 when I joined the private sector. From 1989 to the present I have continued my involvement with the MDBs primarily as an economic consultant. I have had short-term contracts with all the major MDBs with the exception of the European Bank for Reconstruction and Development. My years in the private sector in the consulting industry were interrupted by a two-year appointment at the OECD as the senior multilateral assistance advisor to the Development Assistance Committee, or the DAC. During this time I became familiar with the multilateral assistance policies of all twenty-nine OECD Members and worked to help coordinate their policy positions vis-à-vis the different MDBs.

Two other assignments warrant mentioning in this introduction: during 1994 I was the only American selected as a member of the Knox Committee. The Knox Committee, was established to examine the quality of lending and the organizational strength of the AFDB. This committee, along with similar committees established to investigate the quality of lending at both the Inter-American Development Bank (the IDB) and the Asian Development Bank, grew out of shareholder reaction to what came to be known as the Wapenhans Report. Wapenhans, a former Vice President of the World Bank, was asked by the then President of the World Bank, Lewis Preston, to chair a review committee made up of World Bank officers whose mandate was to be: to examine the quality of the Bank's

$360 billion project and program portfolio and the effectiveness of Bank staff in implementing these projects worldwide. It was the Wapenhans' Committee's findings of significant deterioration in the quality of the Bank's portfolio that led the shareholders of the regional development banks, including the African Development Bank, to undertake similar investigations of the loan portfolios in the regional banks as well. And during the period 1993-1994 all three major regional MDBs came out with similar studies. It is noteworthy for this committee to understand that the results of all four MDB portfolio studies came to similar conclusions; to wit there had been a significant deterioration in project quality and that the Banks seemed more committed to making new loans than to ensuring that each existing loan had the maximum economic impact possible.

Then in 1998 I was appointed to a joint World Bank and African Development Bank Taskforce that reviewed the status of partnership between the two Banks to the end of greater synergy and effectiveness of the two most important development institutions for Africa. The report of the Taskforce incorporated recommendations that eventually led to the drafting of a memorandum of understanding between the two Banks about how they would cooperate in their programming and lending activities on the continent. Finally during the course of 1999 I served as a resource person for the Meltzer Commission and my paper prepared for this commission has been circulated to you in advance of this hearing.

Having served on the staff of one MDB, the Boards of Three MDBs (I had a brief tenure on the Board of the IDB as well), worked on U.S. MDB policies as Treasury staff, and on the MDB policies of the other 28 OECD countries, as DAC Secretariat staff, and participated in the drafting of three major MDB reviews, one solely American and two international, having been a consultant for four of the five major MDBs, I believe I probably know the Banks as well as anyone.

What are my thoughts? I continue to believe that the multilateral financial institutions are vital ingredients of a healthy and growing world economy. The MDBs together with the IMF and the WTO might be thought of as a "World Economic Safety Net." Had these organizations existed in the 1920s and 1930s the world might not have had to experience the disruption, dislocation and suffering brought on by the world depression and the Second World War.

But these institutions clearly do not work in the way we all hoped they would when they were created. Unfortunately the Multilateral Development Banks fall short in a variety of ways. All too frequently multilateral or global goals for the institutions are sacrificed on the alter of perceived "national interests." This shortfall between institutional achievement and institutional potential subjects them to periodic crises of confidence. Why does this happen?

I would argue that no two countries view the MDBs in the same way. Countries participate in multilateral institutions for a variety of reasons, noble and ignoble. The G7 members may appreciate the Banks for their geo-political advantages and their ability to mobilize sizable pools of non-budget funds. But for most other countries a variety of other motives can be mentioned: procurement, staff and management positions, resource transfer needs, regional and sub-regional associations, national pride, technical assistance, private sector collaboration, education, health, agriculture and infra-structure externalities and one could probably go on. But for most countries this package of perceived benefits is judged to be significantly larger than the costs of membership as to easily justify remaining involved. One would be hard-pressed to list more than one or two countries that chose to withdraw from membership over the half century of the institutions existence.

When it comes to how the MDBs are managed, problems endemic to each institution are all too visible. The Boards of Directors drawn from all over the world have no real "bottom line." There is rarely an important policy issue that is capable of uniting all the board members given the variety of motives prompting their membership in the first place. This diversity of goals across the shareholders makes a truly unified board most unlikely. Consequently the managements of the institutions are in a position to advance their own agendas by simply finding a group of sympathetic (read pliable) allies on the board. Of course, management's ability to determine lending volumes is a powerful inducement to insure the support in policy debates of the borrowing member countries. And, all too often, managements seek to fulfill predetermined global lending targets to establish conditions for further capital increases and soft fund replenishments. This might be called the mandate of institutional aggrandizement. It is an accident that the annual reports of all the MDBs typically begin by mentioning how much lending was achieved during the year and what percentage increase over the previous year this represented; **not how much development actually took place due to these loans.**

Before turning to the African Development Bank, I would like to focus briefly on the subject of shareholder influence in the MDBs and how that influence is used. The committee staff has circulated one of the papers that I prepared for the Meltzer Commission. That paper contains two appendicies. Appendix A lists the primary ways that shareholders can influence the policies and operations of the Banks, if you will, the "avenues of influence". The other appendix lists over fifty shareholder objectives that have been pursued by the United States in the MDBs using these avenues of influence. Those of you that have followed the development literature over the past several decades will recognize that a number of the objectives cited have more or less "faded from the scene" to be replaced by objectives given more currency in today's environment, i.e. "good governance", "civil society" and "transparency" have replaced "appropriate technology", "integrated rural development" and "environmental review" as current "hot button" issues. How much influence needs to be "spent" to achieve any one of the objectives is dependent upon many factors. Suffice it to say, the countries most adept at seeing their objectives incorporated into MDB operational guidelines are those that focus their objectives narrowly, stayed informed of Bank policies and procedures on a day to day basis and successfully lobbied other shareholding countries in support of their objectives most effectively. I personally have admired the way that the Scandinavian countries have succeeded in getting MDB policies to reflect their own goals so successfully. Basically these countries have joined forces to maximize their influence, done their homework diligently and have advanced their development goals most adroitly.

These general comments can only go so far. It would be a mistake to view all the MDBs as the same. Each has its own history, with a unique set of circumstances calling it into existence. Shareholder ownership varies widely from bank to bank, with key shareholders being similar but never the same. The staffs of each MDB, in spite of the similarity of their professional training, view the other MDBs differently and this difference often impinges on how cooperative each bank can be with the others. To be fair, one should point out that over the last two to three years and under the leadership of World Bank President Jim Wolfensohn, the MDBs have undertaken a review of their strong points and their weak points, or their comparative advantages in the development field. These reviews have begun to materialize in the form of Memoranda of Understanding among the MDBs that establish the principles and approaches of effective cooperation. I am most familiar with the MOU agreed to between the World Bank and the African Development Bank and early indications are that the two institutions are working together more effectively than heretofore. This is certainly a plus and whatever the U.S. Congress can do to help intensify this effort will pay dividends for both the developing member countries and for the MDBs themselves.

Allow me to close by some comments on the Bank you are focusing on today, the African Development Bank. In many ways the AFDB is the most interesting of the MDBs. I have gone into this Bank's difficult evolution in the paper distributed to you earlier. In the opening summary of that paper I conclude: "If the AFDB were held up against the World Bank and the other regional development banks, and compared by any common standard of business efficiency, the AFDB would most likely be ranked at the bottom. But if a more relevant yardstick of achievement and maturity were employed measuring how far the Bank has traveled in its thirty seven year history, in what is easily the most difficult working environment on earth, it would probably be ranked first.

In viewing the AFDB one should not lose sight of the importance of the Bank's remaining "African" to its original shareholders. This quality was a driving force in the Bank from its beginning and remains a strong force today. When the Bank was founded in 1964 immediately after the independence most African states, a key motivation was to establish a Pan-African development finance institution that would not be dependent on the industrial countries of the north. The AFDB would operate as an exclusive African Bank until 1972 when a soft fund window was opened and non-African developed countries were encouraged to contribute. Then in 1982, nearly two decades after the Bank was established, the African Shareholders agreed to allow non-African states to become shareholders on a limited basis. In total, non-African states were allowed to subscribe to a maximum of 33 and 1/3 percent of the total share capital keeping the African states, owners of the remaining 2/3 of the shares firmly in control. This 2/3-1/3 division of ownership existed until 1998 when the non-African states were allowed to raise their total shareholding to 40 percent.

Other restrictions were enacted to the end of maintaining the "African Character" of the institution: The headquarters was to be in Africa, annual meetings were to be held only in Africa (this restriction lasted until this current year, 2001, when the Bank's Board of Governors authorized the holding of the first annual meeting to be held outside of Africa—Valencia, Spain.) and the majority of Bank staff were to be African. Today most African Governments recognize these provisions as warranted pragmatism enabling their Bank to mobilize significantly more investment capital for Africa, while at the same time, remaining "their bank".

The United States and its OECD Partners joined the AFDB with their eyes wide open. The Bank had impressed the non-African states as one of Africa's few success stories. Admittedly the AFDB was not given much credit for the quality of its operations nor for the quality of its staff. But the Bank was seen as an institution capable of commanding loyalty from most African countries and a Bank that would improve with the assistance of its new membership. This has happened and there is little talk nowdays that the AFDB will not survive. Indeed the World

Bank's opinion of her sister institution has also grown steadily over the last decade stimulated in part by a genuine desire to cooperate with the AFDB in the development of Africa. As for the United States, her decision to join the AFDB in 1982 must be regarded as the right one. For the future one can only hope that the United States will remain on of the Bank's strong non-African supporters and will use it significant influence in that institution carefully and wisely for the benefit of the entire African continent. Thank you Mr. Chairman and I will be pleased to answer any questions at the time you so designate.

Donald R. Sherk
April, 25, 2001

THE AFRICAN DEVELOPMENT BANK: A RARE SUCCESS ON A TROUBLED CONTINENT

Donald R. Sherk, PhD

International Economist

Prepared for the International Financial Institution Advisory Commission

December, 1999

I. SUMMARY:

The United States has a major interest in the African Development Bank to a large extent because it is unique. This uniqueness stems from the Bank's still strong pan-African roots, from the Bank's visible emergence as a professionally staffed and well-managed institution in a continent subjected to multiple crises and perhaps the world's greatest concentration of absolute poverty. And it is unique because for nearly twenty years the United States sat on the sidelines, it was not a member. Unlike the World Bank and the three other major regional development banks, the Inter-American Development Bank (IDB), the Asian Development Bank (AsDB) and the European Bank for Reconstruction and Development (EBRD) the United States was not a founding member of the AfDB. Together with its industrial country partners of the OECD the United States was deliberately excluded from membership in the Bank. Non-African membership in the AfDB would not occur until 1982, nearly two decades after the Bank's opening.

The reasons for this exclusion can be found in the "mind-set" of the leaders of the newly independent African nations in the early 1960s. The Bank's founding members put great stock in maintaining the Bank as an African institution. They were well aware that this "go-it-alone" attitude would seriously reduce the resources available to the Bank for the economic and social development of the continent. However they wanted the African Development Bank to be their *own* bank, not another northern-controlled institution that just happened to have African members. And this strong desire for an independent, authentic African institution remains active some thirty-seven years after the Bank was begun.

the other regional development banks (the IDB, the AsDB and the EBRD) and compared by any common standard of business efficiency, the Bank would most likely be ranked on the bottom. But if a more relevant yardstick of achievement and maturity were employed measuring how far the Bank has traveled in its thirty-seven year history, in what is easily the most difficult working environment on earth, it would probably be ranked first. This paper addresses this unique institution, it historical roots, its curious membership pattern and its recent reform efforts. How the United States has dealt with this changing institution is central to the account.

II. INTRODUCTION:

The African Development Bank's history marks it as a unique experiment in North-South relations. Having been established in 1963,[1] literally months after many African states had emerged from colonialism, its founders intended the Bank to be exclusively a pan-African institution. Although the Inter-American Development Bank and the Asian Development Bank, founded in 1959 and 1966 respectively, were created, in part, as a reaction to the industrial countries' dominance over the World Bank, each of these two regional development banks built in important roles for the developed countries. Not so for the African Development Bank. The AfDB was conceived as a bold, some said fool-hardy, gesture of African solidarity and self-sufficiency. The founding members of the AfDB, themselves only recently independent, did not want to

[1] Meeting in Khartoum, Sudan, in August of 1963, a majority of African finance ministers approved the agreement establishing the African Development Bank and opened subscription to the Bank's capital. The agreement entered into force in September of 1964 when 65 percent of the Bank's authorized capital was subscribed by twenty African nations. (Today there are 53 African members and 24 non-African members for a total of 77.) The management and staff moved into its present day headquarters (Abidjan, Ivory Coast) in March of 1965 and in April of 1967 it approved its first two operations: an equity participation in the National Development Bank of Sierra Leone and a transport loan to Kenya.

financial dependency on their former colonial rulers. Consequently their bank would be independent of northern financial links. This self-enforced financial autonomy, quickly showed itself in the resource flow to the African continent, in dramatic contrast to its sister institutions the IDB and the AsDB.

Pan-African Exclusivity

Seen from today's vantage point one could be forgiven for failing to grasp the intensity of newly independent Africa's insistence on autonomy. But with leaders such as Nkruma, Toure and Nasser fervently advocating "nationalism" as the correct course for post-colonial Africa, the mood of the times clearly was one of "stand alone independence". In the words of one of the Bank's early presidents, Kwame Fordwar[1] "The bank was an expression of African determination to help itself and to demonstrate that it was free of its colonial-period dependence on non-African and largely imperialistic economic influences. For those of this view, to open up the bank [and admit non-African states] was precisely to admit that it was impossible to give concrete expression to this determination in economic terms. For them it was a total negation of a passionately held ideology which had inspired and sustained many of them through several years of often violent anti-colonial conflict."

From the very beginning there were a few African nations who predicted that pan-African exclusiveness for the new Bank would mean severely limited resources and probably a more ideological bank than would be the case had the industrial north been invited to join as was the case for the Asian and Inter-American Development Banks.

powerful oil-rich countries of Nigeria, Libya and Algeria and the die was cast. When the Bank's capital was finally opened to non-regional members nearly two decades later (1982) Libya and Algeria maintained their strong opposition but Nigeria changed its vote allowing the motion to finally pass. The three countries were able, however, to influence the terms and conditions that would be applied to the non-African states when they did finally join the Bank. (See Section V: The Opening of the Bank)

III. THE EARLY YEARS:

Of the three regional development banks the African Development Bank was capitalized by the smallest amount: $250 million as compared to $1 billion for the IDB and the AsDB. By 1968 initial AfDB subscriptions took up $218 million of which 50 percent was to have been paid up front in convertible currencies. However, given the financial shape of most African states, this turned out to be unrealistic and the AfDB ended up with 25 percent of the subscribed capital actually paid in. The Bank's limited initial capitalization significantly crimped its early lending potential. The Bank consequently got off to a very slow start. Disbursements through the end of 1969 totaled less than $1 million. And for the period 1970 to 1972 AfDB loan approvals were averaging only $21 million compared with $685 million for the IDB and $272 million for the AsDB.[2]

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[1] Kwame Fordwar, 1981, The African Development Bank: Problems of International Cooperation, New York, Pergamon Press, p.116. Quoted in Karen A. Mingst, 1990, Politics and the African Development Bank, University Press of Kentucky, Lexington, Kentucky.
[2] AFDB lending data obtained from English and Mule, The African Development Bank, 1996, The North-South Institute, P. 20.

1972 cumulative loan approvals totaled only 74 million Units of Account. [1] And over its first ten years of operations (1967-1976) the AfDB Group approved only 153 loans for a aggregate commitment total of roughly $327 million, (slightly more than 1.1 percent of the World Bank Group's 1999 lending level) an average of $2.14 million per loan. AfDB Group lending didn't really begin to reach significant levels until the Bank's third five-year operations period, 1977-1982, when total commitments for the period reached $952 million, nearly three times lending in the first ten years of Bank operations.

The Bank's early lending was concentrated in transport, telecommunication and power projects accounting for over 60 percent of disbursements to all sectors for the years 1967-1976. By the mid-seventies lending to agriculture had taken over as the principal lending sector for the Bank. Over its entire history (1967-1998) agriculture has remained its leading sector accounting for 23.1 percent of cumulative Bank Group[2] loan approvals against 21 percent for public utilities, 16.3 percent for transport and 15.8 percent for industry.

The early years of the AfDB clearly set the Bank apart from the other MDBs. Many of the Bank's early loans were co-financed operations where the AfDB was called on to serve primarily as a financer. In other cases the Bank financed projects already identified and pre-appraised by other international agencies such as the FAO, ILO and UNESCO. This allowed the Bank to compensate for its still limited staff and limited project experience. There was no "country programming" to speak of, macro-economic reviews of individual countries were practically non-existent and sector studies were rare

[1] From its inception the Bank chose to denominate its loans in the Bank Units of Account. Since 1971 a "BUA" has been the equivalent of one SDR.
[2] With the launching of the African Development Fund (AfDF) and the Nigerian Trust Fund (NTF) in 1973 and 1976 respectively, the AfDB was referred to as the AfDB Group.

favoring one African region over another.

The importance of an even distribution of lending across the continent is instructive. In an institution in which the President is democratically elected (i.e. not the exclusive choice of one country ala the World Bank and the Asian Development Bank), being seen as discriminating against one region or another could have severe political consequences. The "right" to borrow from Africa's Bank was seen by the AfDB's regional members as one of the distinguishing features between the AfDB and other MDBs. It is also true that once the non-regional members of the Bank took on a more influential role and called for the employment of performance standards in the allocation process (especially the case with respect to the AfDF) this proposal was opposed by most African members as being somehow "un-African".

IV. NON-AFRICAN MEMBERSHIP

A number of factors contributed to the erosion of African sentiment for remaining an "African-only" Bank. First, those African oil-exporting nations indicated their unwillingness to fund substantially higher levels of lending activity. Second the development model that had enamoured most of Africa in the Sixties--import substitution, state enterprise, foreign investment controls and an anti-private sector bias--began to be examined more critically. Finally, the proven success of the IDB and the AsDB in being able to increase substantially resource transfers to their respective regions without necessarily "selling out" their institutions to the industrial northern countries conveyed a practical lesson to many African shareholders.

It was therefore no great surprise to find the AfDB beginning to tentatively explore the possibility of tapping the financial resources of the OECD countries to establish a concessional fund. As early as 1968 the Bank contacted a number of donor countries including the United States to solicit support for such a fund. The Soviet Union and a number of eastern-bloc countries were also approached. Initially these approaches failed to generate much enthusiasm from either side. However the mood, at least on the part of the OECD countries, soon changed and more positive signals were received.

After nearly three years of discussions and negotiations, both outside and within the Bank, a draft agreement was produced calling for the establishment of an African Development Fund (AfDF). The final AfDF agreement was signed by the AfDB and 13 non-regional "State Participants" in Abidjan in November, 1972. Total initial contributions to the Fund came to only $83 million including a token $5 million contribution from the AfDB.

Fund operations began in 1973 patterned after the World Bank's soft loan window, IDA. The terms established for AfDF loans were much like IDA terms, fifty-year maturities with ten years grace and a service charge of .75 percent. The funds raised in the initial round of contributions, $83 million, were to be used over the years 1973-1975. This limited funding was justified by some as an amount that would allow the donors to become familiar with the AfDB but was not enough to make more than a small dent in Africa's growing appetite for concessional funds. Consequently for the first replenishment of the new AfDF the Bank asked its donors for the amount of $300 million. Two new donors joined the original 13 and the Bank was able to raise $295 million for the years 1976-1978. The second replenishment of the AfDF saw another doubling reaching $667 million raised from 21 donor countries.

To run the AfDF, a separate board of directors was established with 50 percent of the vote allocated to the contributing non-African countries and 50 percent allocated to the AFDB proper, allowing the regional members to be involved in Fund operations via their position in the Bank. The non-African AfDF board members were only given authority in dealing with AfDF matters and thus the Bank itself remained a fully African institution. The new AfDF board was composed of six non-regional directors and six regional directors representing the AfDB, for a total Fund board of twelve.

The Opening of the Bank:

Between the establishment of the African Development Fund in 1973 and the official opening of the Bank's capital to non-African nations in 1982, the subject of non-African membership was rarely off the Bank's radar screen. Beginning with the Bank's seventh Annual Meeting held in Kampala, Uganda in 1971 and carrying right through the 1978 annual meeting held in Libreville, Gabon, the subject was constantly intruding on Bank business. On five separate occasions a vote to admit non-African states into the AfDB was taken, and on five separate occasions it was defeated. However, the vote against opening the Bank's capital to non-regionals was dwindling with each subsequent vote. Finally Nigeria broke ranks with the opposition and the opening was approved.

"African Character of the Bank"

When agreement was finally reached it carried a very important proviso, to wit: non-African membership was approved as long as the "African Character of the Bank" was maintained. It would take four and a half more years before full agreement was reached and the opening of the Bank's capital became effective in December of 1982.

Much of this time was occupied in the often-heated debate over exactly what was meant by the "African character" of the Bank and how to maintain it. What the African character is, and what it is not remains a subject still very much with us today. [1]

The precise terms of entry were laboriously crafted involving numerous compromises on each side. AfDB management sought to assure African members that the introduction of non-African states into the Bank could be done in such a way as to allow the control of the Bank, for all practical purposes, to remain in African hands. These assurances were build upon changes in the Articles of Agreement that would limit the kinds and types of influence the non-regionals would have. These changes included the following points:

1) The President would always be a national from a regional member state;

2) The Bank's lending operations would be confined to Africa;

3) The Bank's headquarters would always be located in Africa;

4) Regional members were guaranteed a majority of 66.66 % of the votes;

5) The Board of Directors would be composed of 18 members, 12 of whom would represent regional member countries;

6) Recruitment policy will be formulated to preserve the regional character of the organization (i.e. the vast majority of the AfDB staff was to be African with staff coming from the non-regional states to be limited to a token representation.[2]

7) Non-regional membership should not result in reduced contributions to the AfDF.

8) Non-regional membership should not entail modification in the Bank's established policy of using only economic criteria in its loan decisions.[3]

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[1] For one of the best descriptions of the exhausting negotiations over the issue of non-African membership in the AfDB please see: Mr. I.K.N.E. Peprah, The African Development Bank: Taking Stock and Preparing for the 21St Century, C.C. Consulting Ltd. Ottawa, Canada, 1994.
[2] As of December 1998 there were 978 staff members of the AfDB Group. Of this number 869 were from regional member countries and 109 from 24 non-regional countries or 11.15 percent, or roughly 4.5 non-regional staff members per non-regional staff memebers. AfDB 1998 Annual Report, p. 56.
[3] See Peprah, op.cit. pp. 18-21.

9) The AfDB's annual meeting should always be held in a regional member country.

A non-African can appreciate the nervousness and uncertainty that greeted the brand-new non-regional executive directors when the newly opened AfDB held its first board meeting in January of 1983. In spite of the specificity of the above amendments, much remained unclear. When was the African character placed in jeopardy? What types of decisions, what types of activities and what types of loan conditionality might threaten this elusive concept?[1] As in any new organization, both sides had to feel the other side out and become comfortable in their collective decision-making responsibility.

Joining AfDB as a "minority shareholder" was especially hard for the United States. The U.S. ranked as the lead or co-equal shareholder in all the other MDBs: The World Bank, the Inter-American Development Bank, the Asian Development Bank and the European Bank for Reconstruction and Development. Although the U.S. couldn't dictate policies and procedures in these multilateral institutions, it was able to exercise considerably more influence on the Banks than other shareholders. This was not true in the African Development Bank.

Because the United States, under the terms of the 1982 agreement, was required to share 33 and 1/3 percent of the AfDB share capital with twenty-three other non-African states, it was limited to 5.8 percent of the capital. This placed the U.S. second to Nigeria in terms of voting strength. Subsequently Egypt acquired additional shares under the Bank's share transfer rules and moved from third to second place behind Nigeria.

[1] The author served as only the second U.S. executive director after the opening of the Bank's capital to non-regional members. The years were from 1985 to 1989. Even after the initial two years of working together as a board for the full Bank Group, there were numerous examples of splits along regional/non-regional lines accompanied by charges and counter-charges concerning the "African Character" of the Bank. These differences would become completely overshadowed by a major political crisis hitting the AfDB in 1994 involving some regional board members and the President. Following the election of a new President in 1995 and the departure of all of the long-serving regional board members there now does seem to be a new constructive spirit of partnership among both regional and non-regional directors.

Consequently today, the U.S. is the third leading shareholder with 5.6 percent of the Bank's capital. The top ten shareholders of the AfDB presents a unique mixture bearing on the subject to be considered next: influence and the AfDB.

LEADING AfDB SHAREHOLDERS:[1]

1) Nigeria	9.7%	6) Algeria	4.0%
2) Egypt	5.8%	7) Morocco	3.7%
3) USA	5.6%	8) Libya	3.6%
4) Ivory Coast	5.0%	9) Germany	3.5%
5) Japan	4.6%	10) France	3.2%*

* Tied with Canada

[1] 1998 AfDB Annual Report, African Development Bank, Abidjan, Cote d'Ivoire, 1999, p. 30

V. THE AfDB IN FLUX

The most obvious change non-regional countries made in their first few years as members of the African Development Bank was in the level of resources. Non-African membership in the AfDB brought significantly larger soft-fund replenishments and dramatically improved access to the major capital markets of the World. With the callable capital of the industrial OECD countries now available to serve as a funding guarantee, the AfDB could approach the capital markets on terms not significantly dissimilar to those given to the AsDB and the IDB.[1]

With a substantial fourth replenishment of the African Development Fund amounting to $1.45 billion agreed to in May of 1984 to cover the period 1985-1987 the AfDF was able to expand its lending significantly. Then in November of 1986 an AD HOC Committee on the Forth General Capital Increase, appointed by the Bank's Board of Governors, approved a 200 percent increase in the Bank's capital.[2] This raised the authorized capital of the AfDB from $6.3 billion to about $23 billion.

AfDB Group lending grew dramatically in the last half of the 1980s, from $1 billion in annual commitments in 1985 to a record of $3.3 billion in 1990. Much of this expanded lending came about through the advent of "policy-based lending" that allowed the Bank to engage in fast disbursing structural and sectoral adjustment loans. At the insistence of the AfDB board of directors, most of this type of lending was expected to be

[1] The key investment rating firms acknowledged the importance of non-African participation in the AfDB by rating their debt. In January and February of 1984 first Fitch Investor's Services, Inc. and then Moody's Investor's Services, Inc. rating AfDB senior debt as Triple A. Standard and Poors, the other leading investment rating firm, rated AfDB senior debt as Double A plus. However, in 1990 S&P upgraded the AfDB rating to Triple A matching the Bank's other ratings. Then in 1995, reflecting the Bank's arrears situation and its governance problems, S&P reverted to the Double A+ rating for the Bank's senior debt.
[2] This "AD HOC Committee" was established by the AfDB Governors at the 1986 Annual Meeting in Harare, Zimbabwe, May, 1986. The capital increase was approved by the Governors' vote at the 1987 Annual Meeting in Cairo, Egypt, June, 1987.

directed toward co-financed projects in cooperation with the World Bank. Another indication of the rapidity by which the AfDB Group expanded it lending in the late 1980s can be seen from the fact that from 1986 to 1990 AfDB Group lending increased by a total of $12 billion. Lending for the period 1967 to 1985 resulted in cumulative lending of a little more than half that amount at $6.8 billion.

The period 1983 to 1990 might be correctly referred to as the Bank's "honeymoon" period. The "marriage" between the regionals and non-regionals went relatively smoothly. There were, from time to time, differences that surfaced between how the Bank could best promote African development. Regional executive directors (E.D.s) expressed frustration with the approach taken by some of the non-regional directors over how detailed the loan approval process should be. Regional E.D.s saw the primary purpose of the Bank being the transfer of resources to the African countries. Non-regional E.D.s saw their responsibility as being the detailed examination and evaluation of each individual loan that the Bank's management proposed. Regional E.D.s thought that the function of project "post-evaluation" was of marginal value absorbing too large a share of AfDB staff and budget resources. Non-regional E.D.s wanted the post-evaluation function elevated in importance and advocated that the director of post-evaluation report directly to the Board and not the Bank's President. One particular loan intended for the Bank's host country, the Ivory Coast, was seen as inadequate in several respects. When it appeared that the Board might be intending to reject the project, an appeal to African solidarity reaching the level of heads of state resulted in a majority vote in favor of the project over the unanimous objection of the non-regional directors.[1]

[1] Normally votes on individual loans were rare, with the President seeking "consensus" prior to a final decision. In the case cited above a recorded vote was called for by an executive director.

However, such clear divisions of position were rare. But when they did occur, there was no question which side would win as long as the voting structure remained $2/3^{rd}$ --$1/3^{rd}$.

Undoubtedly the Bank Group in its eagerness to expand lending commitments to record levels let some loans slip by that should have been cancelled or substantially redesigned. Non-regional E.D.s in their desire to appear as good junior partners in a unique multilateral institution, often went along with loans and programs they might have resisted more strongly in another institution.

A more serious problem was the credit policy employed by the Bank in the 1980s. The management of the Bank adopted a policy that allowed African countries with low levels of per-capita income to borrow on Bank terms when the resources in the Fund were considered inadequate. As a result, some of the extremely poor African countries, countries that would be considered only "IDA eligible" by World Bank standards, took on AfDB debt with the corresponding higher interest rates and shorter maturities. The Bank board changed the credit policy to that employed by the World Bank in 1995 but it was too late and the Bank's arrears problem was intensified more than it needed to have been.

Still few saw the AfDB's problems as fundamental. A tightening of the lending process with some improvements in the Bank's operational procedures were thought all that was necessary. And with the plentiful resources provided by substantial AfDF replenishments and by the record 200 % capital increase, there was sufficient reason for the non-regional and regional executive directors to cooperate and get along. All this changed with the publication of the "Knox Report". [1]

[1] The Knox Report is the shorthand reference for " The Quest For Quality: Report of the Task Force on Project Quality for the African Development Bank, April 1994. The Chairman of the task force was David Knox, formerly World Development Bank Vice President.

The Knox Report

From 1992 through 1994 the three regional development banks followed the lead of the World Bank in assembling expert teams to review their own lending portfolios. The World Bank's report was known as the Wapenhans' Report after the former World Bank Vice President, Willi Wapenhans. The report caused a sensation as it found a serious deterioration in project quality at the World Bank. Coming from staff from within the World Bank its conclusion that the Bank was more interested in quantity of new lending than in quality of its individual loans was seen as confirmation of the concerns of many observers outside the Bank. [1]

Because of the widespread concern generated by the Wapenhans Report, the Asian Development Bank, the Inter-American Development Bank and the African Development Bank all launched in short order their own portfolio reviews. Although the findings in each of these reports were roughly similar, the Knox Report on the AfDB was the most critical and hard hitting.[2] After reviewing the Bank's internal systems and procedures, conducting numerous interviews with staff and with client country officials and reviewing available documentation on project evaluation, the Knox Committee began its report with the following direct statement: "The African Development Bank is facing serious problems of quality of lending." In the report's prologue it identifies three main problems needing to be addressed urgently: " First, the Bank is pulled in all directions by

[1] The World Bank, Effective Implementation: Key to Development Impact, Oct. 2, 1992.
[2] The Knox Report has received considerable praise for its forthright statement on AfDB weaknesses. For example in English and Mule's book entitled: The African Development Bank, the North-South Institute, Ottawa, Canada, one finds the following statement: "Only thirty-five pages long, it is probably the most complete critique of the ADB Group to date, and certainly the most credible." p. 34.

conflicting goals and attitudes of its shareholders. This is perhaps the most important cause of the Bank's inability to deliver quality sustainable project support to Africa.... Second, the gap between the Bank's lending policies and procedures and its practice. There are areas where policies and procedures could be strengthened. But, broadly speaking, they are sound. The problem is that they are not applied or not applied consistently....Third, the Bank has a great asset in the trust of its borrowers who look to it as an African institution to help overcome their problems. But, as borrower after borrower complains, the Bank is absent when it should be present." [1]

The AfDB took the report's findings to heart and immediately began to reform its operational procedures along the lines of the report's recommendations. An action plan was established and the Bank began to issue six monthly reports on the progress in implementing the called-for reforms.[2] Particular attention was given to the role of post-evaluation in helping the Bank avoid problems identified with earlier funded projects. Also, because the Knox report made much over the inadequate project supervision, the following year's administrative budget devoted significantly greater resources to this function than heretofore. Other areas of concern highlighted in the Bank's response to the Knox Report, entitled "The Action Plan for Improving the Quality of Bank's Operations" are portfolio review, lending policies and practices, resources and organization, and the Bank's operational culture. [3]

A complicating factor for the Bank in the immediate follow-up to the 1994 Knox Report was the emergence of a political crisis, having little if anything to do with the presence of non-regional members, impacting on the Bank's governance structure. Here

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[1] The Knox Report, pp. 1-2.
[2] The AfDB's response to the findings and recommendations of the Knox Report was contained in "The Action Plan for Improving the Quality of Bank's Operations." (AfDB, May 11, 1995).
[3] Action Plan, ibid. p. 2.

a dispute between the Bank's former President and certain long-serving regional executive directors tended to immobilize the Bank precisely at the time that shareholder countries were looking to the Bank's board and management for evidence of reform. Was the Bank moving seriously to address the weaknesses outlined in the Knox Report.? To get their message across, the principal AfDF donor nations postponed funding the AfDF for one year effectively stopping concessional lending in 1994/1995. As a consequence AfDB Group lending for 1995 plunged to 46 percent from its 1994 level (UA 450 million) continuing the sharp downward trend starting in 1992. [1]

The Bank got back on track in late 1995 with the appointment of a new President, Omar Kabbaj from Morocco, and the departure from the board of several long serving executive directors. (The AfDB's Board of Governors subsequently instituted a two-term limit for board members and for senior management). President Kabbbaj moved quickly to implement the promised reforms. Under its action plan the Bank began to issue yearly portfolio status reports reflecting improved project monitoring and supervision. Lending policies were revised to emphasize improved project monitoring and supervision. Lending policies were revised to emphasize improved technical work at the project designed stage and expanded staff resources were devoted to sector studies and other phases of the project cycle.

Particular attention is now being given to the role of project post-evaluation in helping the Bank avoid problems identified with earlier funded projects. Also, because

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[1] The sixth replenishment of the AfDF was originally scheduled to amount to $3.42 billion but shortfalls in contributions resulted in an amount significantly lower at $2.96 billion. These AfDF resources provided concessional funding for the years 1991-1993. Funding for AfDF VII to cover the years 1994-1996 was delayed considerably beyond its intended start time and wasn't approved until mid-1995 at a much reduced level of approximately $1.5 billion. As a result concessional fund lending dropped from $894 million in 1993 to $45 million in 1994 and $128 million in 1995. It was not until 1997 that concessional lending would rebound to earlier levels when AfDF VII resources became fully available. As a sign that the AfDF deputies were satisfied with the reform efforts undertaken by President Kabbaj, agreement was reached in January 1999, to replenish the AfDF by an amount of approximately $3.1 billion.

the Knox report made much over the inadequate project supervision, subsequent administrative budgets have devoted significantly greater resources to this function than heretofore. Other areas of concern highlighted in the Knox Report and addressed in the Bank's response include, cumbersome Bank procedures governing procurement, excessive centralization of decision-making, multiple levels of supervision (director, deputy director, etc.) with a shortage of low and mid-level staff, accountability and transparency in promotion and evaluation.

In addition to improving the quality of its operations, the Bank has changed its focus from a "project specific approach to a program or sector approach where all stakeholders, including targeted beneficiaries of the civil society, the donor community and borrower countries are involved from the onset of program design to its implementation to insure true ownership by the [regional member countries][1]." This shift in focus is intended to allow the Bank to work more closely with its development partners in responding to the development strategy of the client country. Just as importantly it puts the AfDB on a more orthodox level with respect to other multilateral and bilateral assistance providers, something the donor community has sought for a number of years.

Other significant changes of note under the Bank's Action Plan included the separation of approximately twenty percent of the staff (225), the appointment of 54 new managers and a major reorganization of the Bank. In April of 1995 the Governors of the AfDB adopted a new credit policy for the AfDF putting the fund on the same footing as IDA. This policy has substantially reduced the number of countries eligible to borrow from the Bank, limiting them to the smaller AfDF resource pool.

The AfDB's "Vision Statement" (see above) that was published in 1999 after extensive consultation with donors, NGOs, civil society representatives and borrowing country officials is also evidence of how far the Bank has moved in the five years since its governance crisis. In it the Bank commits itself to a poverty alleviation focus throughout the continent and identifies the sector that it will specialize in: agriculture and rural development, education and health, and private sector development. It has combined this sectoral approach with a focus on governance and the cross-cutting themes of gender, sustainable development and regional activities.

There is no question that the seriousness of the AfDB under its new management has been recognized and applauded by a variety of outside observes and most importantly, by the non-regional donor shareholders. Favorable reviews of recent AfDB reform activity have been received from the leading investment rating agencies. Moody's, Standard and Poors and Fitch have all given the Bank high marks for its reforms[2].

In addition, a recent year-long review of partnership between the World Bank and the African Development Bank, conducted by a team of independent experts, has also applauded the AfDB for its significant reform effort undertaken over the last several years.[3] This study had been strongly recommended by the principal donors to the recent African Development Fund replenishment (AfDB VIII) and by the donors to the recent IDA replenishment (IDA 12). It is seen as providing an important foundation for the

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[1] The Vision of the African Development Bank, AfDB, Abidjan, Ivory Coast, 1999.

[2] "Moody's attributes the stabilization in non-chronic arrears in part to the introduction in 1996 of a more stringent sanctions policy and better lending and monitoring procedures. Under the new sanction policy, loan approvals, signature and disbursements are suspended when arrears exceed 30 days. This policy is a much more restrictive policy that those of other MDBs, which generally follow a 60-day rule. In addtion, only the most creditworthy African Countries (totaling 13) are now eligible for new AfDB resources. ...The Bank's credible institutional reform program has also improved confidence in the institution's financial management." Moody's Investor Sevices, April, 1999. Standard and Poors credits the Bank's strong investment ratings to the Bank's "strong shareholder base. [and] its conservative leverage policies." Standards and Poor's Sovereign Rating Services, Sept. 1999.

[3] With reference to the AfDB's overall management, administrative, and operational competencies, the task force found: "under current AfDB leadership these problems have become the focus on major institutional reform initiatives." A Study on Strategic Partnership Between the World Bank and the African Development Bank, Report of a Team of Independent Experts", July 1999.

adoption of a memorandum of understanding between the two Banks to improve their overall effectiveness in Africa and to establish an understanding on comparative advantage and division of labor between the two institutions.

Perhaps the strongest sign of shareholder support for the AfDB reform efforts to date can be found in the 1998 agreement for a general capital increase (GCI V) of 35 percent. Under this increase the non-African shareholders will increase their holdings from 33 and one/third percent to 40 percent. Just as important were changes in voting procedures agreed to at the same time intended to insure that the regional countries would not be in a position to force through any change in Bank policy over the opposition of the non-regional members.

Finally the 1999 decision of the AfDB donors to replenish the Fund by $3.38 billion (AfDF VIII) up from $1.83 for the three years 1996-1998 (AfDF VII) was seen as additional evidence that the reforms underway in the Bank were being recognized as placing the Bank on a substantially higher operational standard of effectiveness.

VI. AMERICAN INFLUENCE IN THE AfDB

How can the results of sixteen years (1983-1999) of participation in the African Development Bank be summed up? On balance the Bank is a much more professional institution today than when the U.S. joined.[1] The Bank has adopted poverty alleviation as its "central goal". It has incorporated into its project design processes gender considerations, environmental review, private sector support, and civil society participation in its country assistance planning. In addition the Bank has committed itself to promoting "good governance" to include respect for the rule of law, accountability,

[1] A sampling of World Bank staff who have had dealings with the AfDB will bear this out.

financial transparency and "fighting corruption".[1] This mandate and its components have been strongly promoted by the U.S. and its G-7 allies. Changes in Bank policies and practices reflecting these goals have all been adopted over the course of the last several years. For a "minority" shareholder this is not a bad record.

But there is a risk that the U.S. sometimes attempts to overload the influence "circuits" by trying to obtain too many changes and not allow the new policies to make themselves part of the Bank's permanent landscape. Two appendices to this paper are meant to convey how influence can be either effectively utilized or squandered. The primary methods of influencing any multilateral institution are listed in Appendix A. Appendix B lists the sort of goals or changes the U.S. has sought in all the multilateral development banks going back to the late Seventies. The goals listed range significantly from the petty to the major themes of development policy. If influence of any member of a multilateral organization can be thought of as a finite asset, then clearly the more "non-economic" goals sought the less likely a country can employ its influence to achieve institution changes that reflect on the major development issues of our time.[2] Moreover, if the focus is on U.S. participation in a regional multilateral development institution such as the African Development Bank, the question has to be asked, what is the trade-off between institutional uniqueness and achieving changes in the policies and practices of that institution. With 5.8 percent of the vote in the AfDB, the U.S. has made

[1] AfDB, "The Vision of the African Development Bank", 1999, Abidjan, Ivory Coast.
[2] Most OECD members of the multilateral development banks believe the United States pursues far too many objectives in its dealings with MDB managements. Combine this with a record of rarely contributing its pledged amounts to soft fund replenishments of capital increases on time and the message becomes clear. The United States risks losing its recognized influential voice in the most important *multilateral* development finance institutions in the world.

this relatively small voting share accomplish a very respectable record. But a line does exist where the voting strength will begin to decrease in effectiveness as the goals sought are seen as more and more peripheral.

Through its membership in the African Development Bank the U.S. is buying participation in what is seen to be the most respected multilateral development institution in Africa. In the words of the Bank: "This pan-African ownership, governance structure and staffing have made it possible for the Bank to accumulate unique experience and institutional memory of development possibilities, and constraints in Africa...In the area of governance the Bank is generally accepted as a trusted partner on politically sensitive issues of governance and thus has a special role to play". [1]

Is this important to the United States? Is an institution such as the AfDB capable of assisting Africa move toward sustainable development, working for the elimination of conflict situations that seriously erode the strength of involved countries, helping deal with the widespread AIDs crisis, and a host of other challenges confronting the continent in the 21st century? I think the answer to both is an unequivocal yes. There is an added benefit that in the United States is often overlooked. Learning to operate effectively in an international, uniquely African, institution as a minority shareholder is not inconsequential. It is a skill that will serve the nation well in the years to come and it needs to be strengthened.

[1] AfDB, Vision Statement, op.cit. p. 3.

APPENDIX A

SHAREHOLDER INFLUENCE ON THE MDBs

1) MEETINGS WITH MDB PRESIDENT AND SENIOR MANAGEMENT

2) ANNUAL MEETING SPEECH

3) INITIATION AND/OR REVIEW OF MDB POLICY PAPERS

4) PROPOSING SELECT NATIONALS FOR KEY STAFF POSITIONS

5) VISITS TO MDB HEADQUARTERS:
   A) GOVERNMENTAL
   B) PRIVATE SECTOR
   C) NGOs
   D) MISC.

6) REPLENISHMENT NEGOTIATIONS (LINKING SPECIFIC DEMANDS TO POTENTIAL CONTRIBUTION LEVELS, ALA IDA 12 AND AfDF 8)

7) CONSENSUS BUILDING WITH LIKE-MINDED SHAREHOLDERS (I.E. G-7 MEETINGS OR NORDIC BLOC)

8) COFINANCING PARTNER INFLUENCES (BILATERAL DONORS/ PRIVATE SECTOR)

9) BOARD CONTROLLED REVIEW COMMITTEES/FUNCTIONS: EVALUATION, AUDIT, INSPECTION PANEL, ETC.

10) OVERSEAS NETWORKS: DIPLOMATIC POSTS, AID MISSIONS, PRIVATE SECTOR

11) CAPITAL MARKET ENTRY (AUTHORIZATION TO ENTER)

12) INSTRUCTIONS TO EXECUTIVE DIRECTORS (ABSTENTIONS/NO VOTES, COMMENTS)

13) MEETING PAYMENT COMITMENTS (IDA TRANCHES, ETC.)

APPENDIX B

SHAREHOLDER INFLUENCE OBJECTIVES
(WHAT SHAREHOLDER INFLUENCE GETS "SPENT" ON)

1) Gender Issues
2) Appropriate Technology
3) Micro-Credit Designs
4) Basic Human Needs (BHN)
5) Poverty Alleviation
6) Environmental Policies
7) Environmental Projects
8) Private Sector Promotion
9) Recurrent Cost Coverage
10) Country Assistance Strategies (CAS)
11) Local Currency Financing
12) Project Implementation Units (PIUs)
13) Lines of Credit
14) National Development Banks
15) Local vs. Foreign Consultants
16) Rural Health Projects
17) Primary vs. Secondary Education
18) Post Evaluation
19) Capacity Building
20) Renewable Energy Projects
21) Regional Integration
22) Corruption
23) Auditing/Accountability
25) Ownership
26) Civil Society
27) Performance Standards
28) Post-Conflict Policy
29) NGOs
30) Structure Adjustment Loans (SALs)
31) Sector Adjustment Loans (SECALs)
32) Local Offices
33) Transparency
34) National Sovereignty
35) Program Lending
36) Staff Quotas
37) Integrated Rural Development
38) Financial Sector Reform
39) Maintenance Systems
40) Debt Profile Management
41) Southern NGOs
42) Poverty Profiles
43) Privatization
44) Institutional Reform
45) Conditionality
46) Impact Studies
47) Social Safety Nets
48) Graduation
49) Exchange Rate Regime
50) Trade Policy
51) Rule of Law
52) Project Supervision
53) Partnership
54) Staff Benefits
55) Travel Policy

THE FUTURE OF THE AFRICAN DEVELOPMENT BANK: OUTLINE OF STATEMENT MADE BY DR. KWESI BOTCHWEY TO THE SUBCOMMITTEE IN INTERNATIONAL MONETARY POLICY AND TRADE OF THE HOUSE COMMITTEE ON FINANCIAL SERVICES WASHINGTON DC, APRIL 2001

The African Development Bank (AfDB) was established in 1963 by 23 African Governments with an initial capital of $250 million and a staff compliment of about 10 at the commencement of operations in Abidjan in 1966. From these modest beginnings, the Bank became and continues to be the Sub-Saharan African region's preeminent development funding institution, operating alongside the three other regional development banks - the Asian Development Bank (AsDB), the Inter-American Development Bank (IDB), and, more recently, the European Bank for Reconstruction and Development (EBRD). In December 1982, with the admission to membership of the so-called non-regional states, the bank's authorized capital rose to $US6.3 billion from $US2.9 billion.

The African Development Fund (ADF), the AfDB's concessional window, was established in 1972 and, in turn, commenced operations in 1974 with an initial capital subscription of $US244. Its membership is made up of the AfDB and about 25 non-African states including the United States.

The third institution in the group, the Nigerian Trust Fund, was established in 1976 by the Nigerian Government, taking advantage of its tremendous oil resources, to augment development financing resources to the less privileged countries of the region.

From its initial almost exclusive reliance on project lending in the first decade of operation, the Bank Group now employs a variety of lending instruments much like the World Bank's. They include traditional Project loans, sector investment loans, credit lines, so-called policy-based loans – sector adjustment and structural adjustment loans, as well as technical assistance operations.

At the end of 1997, the Bank Group's total lending stood at just over $US33 billion, most of it from the ADB (US$20billion), followed by the ADF (US$11billion). For the Group as a whole, the sectoral distribution of lending is dominated by agriculture and infrastructure (transport and public utilities). At the end of 1997, agriculture accounted for about 23.5% of the Group lending while infrastructure accounted for about 36%.

Disbursements stood at the end of 1997 at a total of about US$222billion, with the bulk of it ($14.2billion)
coming from the ADB, followed by the ADF (US$7.6billion), and the Nigerian Trust Fund (about US$205million). While this is relatively small compared to the World Bank and even to the other regional banks, it nevertheless makes the AfDB Group an important regional funding source.

For about a decade following the admission of the non-regionals to membership of the ADB, a fairly harmonious climate prevailed among the African and non-African membership. But the strains began with the onset of the nineties and came to a head with the publication of the findings of a major study in 1994, the Knox Report (named after its chairman, David Knox). The report drew attention to a number of weaknesses and problems and set the stage for a long period of internal discussion, reviews, attempts at reform and quite a bit of recrimination in the dialogue between the regional and non-regional members of the bank. Among other things, the Report raised the issue of the poor quality of lending generally and stressed three main areas that needed urgent attention. It is important to reiterate these here because they do have, to some extent, a rather current ring to them. The three areas were (I) the Bank's focus—the Report noted that the Bank was "pulled in all directions by the conflicting goals and attitudes of its shareholders," (ii) lending policies and procedures compared to practice, and (iii) the Bank's largely unrealized asset as an African institution in which the African shareholders especially reposed a great deal of trust. The crisis generated by the Report came to a head when the donors suspended funding for the ADF leading to a sharp fall in lending operations.

Where is the Bank Now?

There can be no question that under the Bank's current president the Bank has moved resolutely to address the issues of management and governance that plagued the Bank and led to the bitter recriminations between the African and non-African members of the Bank. There has been a remarkable improvement in project quality and management. Moody's has acknowledged the improved regime of sanctions lending and monitoring procedures. The Bank has a new Vision Statement which was promulgated in 1999. A recent study, in which I had the privilege to participate, noted that the institutional problems that plagued the Bank for so long have to a large extent been alleviated. Thus, unquestionably, the Bank has been quite successful in addressing the management problems identified in the mid-nineties.

The Role of the AfDB compared to the IMF and the World Bank in fostering economic development in the African region

The Bank's potential in this area remains largely unrealized. This is mainly a resource problem. The World Bank and the IMF between them simply deploy more funds than the AfDB. But this is only part of the story. The other part has to do with the AfDB's focus based on its real or potential comparative advantage and the acknowledgement of this advantage by the partner institutions and donors.
The issue of grants versus loans is to some extent a non-issue. A combination of grants and long-term concessional loans with a large grant element should be sustainable. I will provide further elaboration of this point.

For me, the debate over infrastructure or poverty alleviation is also a confusing one. Poverty alleviation is the ultimate goal that all development activity must strive to achieve. It is the ultimate benchmark against which all economic reform efforts must be judged. This requires investments and a sound macroeconomic policy framework in which the goals on poverty alleviation are explicitly recognized. An important part of the poverty alleviating reform effort must include significant investments in infrastructure, especially rural infrastructure, as well as regional infrastructure, both areas in which the AfDB ought to be prominent.

The AfDB and Market reforms, debt relief and the fight against HIV/Aids

The AfDB's role in this area has been marginal at best. Clearly, this is again partly a resource problem and also a problem of management vision and initiative. I will elaborate.

The Future of the Bank

The Bank is clearly well positioned to become a leading source of knowledge and development financing for the African region. The internal management problems that caused the Bank a loss of market and donor confidence have largely been resolved even if at the cost, at least initially, of lowered staff moral. In spite of much talk of strategic partnership especially with the World Bank, the AfDB still remains and is perceived as a caricature of the World Bank. Its resource base will need to be strengthened and its focus sharpened to enable it to fully exploit its potential as a credible African development institution. I see three areas in which the Bank can develop its niche:

I. Governance issues in Africa

II. Regional Public Goods including support for regional public health interventions

III. Promotion of regional integration initiatives.

HIV/AIDS AND ECONOMIC DEVELOPMENT IN SUB-SAHARAN AFRICA

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[1] The views expressed here are those of the authors and theirs only. We are grateful to Professors Jeffrey Sachs and David Bloom and to Amir Attaran for their helpful comments

INTRODUCTION

The global epidemic

It is a tragic irony that almost three decades after the Alma-Ata Declaration elevated health to the status of a basic and fundamental human right and explicitly recognized its relationship with economic development, we are witnessing, at the threshold of a new millennium, what may amount to the biggest health and development challenge the world has ever confronted- a disease which UNAIDS correctly notes, is unique in its devastating impact on the social, economic and demographic foundations of development. It is hard to believe that a disease, that was all but unknown barely two decades ago, has - to date - caused the death of 18.8 million people globally, among them 13.7 million from Africa alone. (UNAIDS 1999a).

The number of people infected with HIV in the world has already reached an estimated 34 million with about 95 per cent living in the developing world and a staggering 70 per cent in Sub-Saharan Africa alone. What is more, the rate at which the epidemic is spreading is alarming. In 1999 alone, an estimated 5.4 million people were infected, a number which, when netted off against the estimated number of deaths (2.6 million), still increases the number of people infected worldwide by 2.6 million (UNAIDS 1999a: 3)

Table 1.1 Global summary of HIV-AIDS epidemic (December 1999)

People newly infected with HIV in 1999	Total	5.4 million
	Adults	4.7 million
	Women	2.3 million
	Children < 15 years	620,000
Number of people living with HIV-AIDS	Total	34.3 million
	Adults	33.0 million
	Women	15.7 million
	Children < 15 years	1.3 million
AIDS deaths in 1999	Total	2.8 million
	Adults	2.3 million
	Women	1.2 million
	Children < 15 years	500,000
Total number of AIDS deaths since the beginning of the epidemic	Total	18.8 million
	Adults	15.0 million
	Women	7.7 million
	Children < 15 years	3.8 million
Total number of AIDS orphans[1] since the beginning of the epidemic		**13.2 million**

Source: UNAIDS 2000. Global Summary of the HIV-AIDS Epidemic, end 1999.

[1] UNAIDS defines orphans as 'children who lost their mother or both parents to AIDS when they were under the age of 15' UNAIDS 2000: 5)

The disease has taken on different forms in different parts of the world. In some populations, the epidemic is equally prevalent among men and women, while in others, certain vulnerable groups have been disproportionately affected (Anarfi et al. 1997; Orubuloye et al. 1993); in many cases, the situation is dynamic and the disease has moved between different sub-populations evolving with time (Essex 1998: 427)[2]. Explanations for these distinct patterns are to be found in diverse factors including biology, behaviour, gender, geography, culture, poverty, mobility and the interplay among these factors (Moses et al. 1994; J. Oppong 1998).

HIV-AIDS in Africa

The African continent has the highest incidence of HIV-AIDS in the world today with some 23.3 million people infected. While the global HIV-AIDS prevalence rate is 1.07%, the sub-Saharan African average is 8.57% (UNAIDS 2000:124). Across the continent, regional differences in HIV-AIDS prevalence are considerable; however, no country has escaped the virus.

The countries with the highest prevalence rates are in the east, southern and central parts[3]. The very worst affected countries on the continent – indeed, in the world – are in Southern Africa[4]; Botswana has an infection rate of 35.80% and Zimbabwe 25.06% (UNAIDS 2000b; 2000c). In West Africa, infection rates are climbing rapidly.[5] Significant differences in rates of infection also exist *within* countries (J. Oppong 1998:437) among different sectors of the population, living in different parts of the country. National prevalence rates therefore, while capturing the overall infection rate of a country, often mask enormous internal differences.

[2] 'AIDS was initially considered to be a disease of homosexual men, hemophiliacs, and injecting drug users. Based on current global incidence rates, it fits more closely to the pattern of a classical tropical disease, such as malaria' (Essex 1998: 427).

[3] The 'main AIDS belt' comprises – Uganda, Rwanda, Burundi, Western Kenya, Western Tanzania, parts of Eastern Democratic Republic of Congo, Malawi, Zambia, Zimbabwe, and Botswana (J. Oppong 1998: 437).

[4] All the countries in Southern Africa (with the highest rates of HIV infection) are experiencing the epidemic of HIV-1C (Essex 1999: 3).

[5] In June 2000, UNAIDS put the HIV-AIDS prevalence rate for Ghana as 3.6%; however, the National AIDS Control Programme in Ghana put the figure at 4.6%.

Table 1.2 The African HIV-AIDS epidemic by country and region[6]

Region / Country	Adult Rate (%)	Orphans Cumulative	Deaths 1999	Total Population
WESTERN AFRICA				
Benin	2.45	22,000	5,600	5,945,000
Burkina Faso	6.44	320,000	43,000	11,633,000
Cote d'Ivoire	10.76	420,000	72,000	14,534,000
Gambia	1.95	9,600	1,400	1,266,000
Ghana	3.60	17,000	33,000	19,699,000
Guinea	1.54	30,000	5,600	7,375,000
Guinea-Bissau	2.50	6,100	1,300	1,188,000
Liberia	2.80	31,000	4,500	2,941,000
Mali	2.03	45,000	9,900	10,976,000
Mauritania	0.52	---	610	2,602,000
Niger	1.35	31,000	6,500	10,414,000
Nigeria	5.06	1,400, 000	250,000	108,995,000
Reunion	---	---	---	690,000
Senegal	1.77	42,000	7,800	9,251,000
Sierra Leone	2.99	56,000	8,200	4,721,000
Togo	5.98	95,000	14,000	4,515,000
CENTRAL AFRICA				
Burundi	11.32	230,000	339,000	6,587,000
Cameroon	7.73	270,000	52,000	14,704,000
Central African Republic	13.84	99,000	23,000	3,550,000
Chad	2.69	68,000	10,000	7,462,000
Congo	6.43	53,000	8,600	2,867
Congo (DRC)	5.07	680,000	95,000	50,407,000
Equatorial Guinea	0.51	860	120	442,000
Gabon	4.16	8,600	2,000	1,196,000
Rwanda	11.21	270,000	40,000	7,238,000
EAST AFRICA				
Comoros	0.12	---	---	676,000
Eritrea	2.87	---	---	3,717,000
Ethiopia	10.63	1,200,000	280,000	61,123,000
Kenya	13.95	730,000	180,000	29,507
Madagascar	0.15	2,600	870	15,502,000
Mauritius	0.08	---	---	1,149,000
Somalia	---	---	---	9,718,000
Uganda	8.30	1,700,000	110,000	21,209,000
Tanzania	8.09	1,100,000	140,000	32,799,000
SOUTHERN AFRICA				
Angola	2.78	98,000	15,000	12,497
Botswana	35.80	66,000	24,000	1,592,000
Lesotho	23.57	35,000	16,000	2,108,000
Malawi	15.96	390,000	70,000	10,674,000
Mozambique	13.22	310,000	98,000	19,222,000
Namibia	19.54	67,000	18,000	1,689,000
South Africa	19.94	420,000	250,000	39,796,000
Swaziland	25.25	12,000	7,100	981,000
Zambia	19.95	650,000	99,000	8,974,000
Zimbabwe	25.06	900,000	160,000	11,509,000

[6] ***Source:*** Report on the Global HIV-AIDS epidemic – June 2000 (UNAIDS 2000)

The main modes of transmission - for adults living with HIV-AIDS – and the behaviours associated with infection - differ considerably across the globe. In Africa, transmission is overwhelmingly heterosexual and vertical transmission is also significant[7] [8].

Differences in the underlying biology of the virus partially explain geographic disparities in prevalence both globally and within Africa. 'The recognized differences in transmission and virulence of HIV-2, compared with HIV-1, indicate that HIV viruses can have different pathogenic potentials' (Kanki et al. 1999: 68). HIV-2 subtypes 'are less virulent and less transmissible in humans' (Essex 1998:427). In Africa – home to the worst of the epidemic – all ten HIV-1 subtypes have been reported and it has been established that within one population 'HIV-1 subtypes may themselves differ 'in their progression time to AIDS'[9] (Kanki et al. 1999:68). HIV –1B, the strain of the virus that caused the epidemic in North America and Europe is all but absent in sub-Saharan Africa (Essex 1998:427).

Another critical biological factor is that the existence of sexually transmitted diseases (STDs) augments the risk of acquiring HIV-AIDS (UNAIDS 1999c) [10] [11]. According to some estimates, there is a four-fold increase; other estimates put the increased risk as high as twenty-fold (Sai 1999:9; UNAIDS 1998b)[12]. In poorer African countries, with inadequate access to health care, STDs often go untreated.

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[7] The main mode of infection in Ghana is heterosexual transmission, thought to represent 80% of cases. The second major mode is vertical transmission (mother-to-child) representing 15% of cases. The rest are believed to be the result of blood transfusions (IPAA 1999: 5).

[8] By way of contrast, in Eastern Europe and Central Asia, IDU and MSM transmission predominate.

[9] From 1985 to 1997, a prospective study of registered female sex workers in Senegal tracked the introduction and spread of HIV-1 subtypes A, C , D, and G. In clinical follow-up, the AIDS-free survival curves differed by HIV-1 subtype. Women infected with a non-A subtype were 8 times more likely to develop AIDS than were those infected with subtype A, the predominant subtype in the study. These data suggest that HIV-1 subtypes may differ in rates of progression to AIDS. (Kanki et al. 1999: 68).

[10] A higher prevalence of STDs in the population as well as the higher numbers of uncircumcised men partly explain the differences in HIV prevalence between Kisumu and Ndola in East Africa (20% and 23% prevalence rates respectively) and Cotonou and Yaounde (3% and 4&) in West Africa.

[11] Caldwell hypothesizes that lack of circumcision is a risk factor since uncircumcised men are at 'greater risk of genital ulcer disease and consequently, and probably separately as well, of HIV-AIDS' (Caldwell 1993: 840).

[12] There is a four-fold increased risk of acquiring HIV-AIDS in the presence of a genital ulcer (such as caused by syphilis) and a significant - although lesser - increased risk associated with the presence of other STD's such as gonorrhoea, chlamydial infection and trichomoniasi (Sai 1999:9).

I. ESTIMATING THE ECONOMIC IMPACT: POTENTIAL LIMITS

In order to fully appreciate the enormity of the crisis unleashed by the HIV-AIDS epidemic in Africa, as elsewhere, it is necessary not only to understand the epidemiology of the disease but to also understand its impact on economic development.

Classical economic theory sees health as the more or less benign product of the development process: wealth leads to improved health. Although this is supported by an apparent correlation between GDP and life expectancy, there is an abundance of evidence suggesting that this relationship is by no means a mechanical one, and that improved health does not always come with high income growth. More recent research has, however, begun to establish that countries with healthy populations tend to grow faster (particularly in a good policy environment) and that this apparent correlation between health and wealth operates through a number of channels including the effects of improved health on demography, education, the labour market, and investment.

Wealth and health then are intricately and unquestionably related (Hamoudi and Sachs,1999).). Although the nature of this relationship is as yet not quite fully understood, we know that it is a dialectical one and that depending on the overall policy environment, it can either produce a "virtuous circle" in which improved health promotes economic growth , or a "vicious circle" in which poor health and poverty become mutually reinforcing. (Hamoudi and Sachs) and (Bloom et al. 2000a). The G-8, at their Okinawa Summit in June this year, captured this sentiment completely when they declared: *"Health is key to prosperity. Good health contributes directly to economic growth whilst poor health drives poverty."*

In terms of methodology, these recent studies have used either macroeconomic growth modeling to establish the relationship between health and economic growth, or have done so by examining the historical record directly. Thus studies by Gallup and Sachs (2000) and others have, by using cross-country measures of malaria prevalence to explain cross-country growth, shown that high malaria prevalence is correlated with low rates of economic growth.

With particular reference to HIV-AIDS, it is fair to say the initial orientation of academic and policy research was to see the epidemic as a public health problem, not a development one as such. However, there is now general agreement that the relationship between HIV and economic development is, like the relationship between health and wealth generally, a dialectical one: HIV has a trenchant effect on the economy and the economy in turn affects the level and distribution of HIV. There is now a growing body of studies, but by no means a torrent of them, showing the working of this complex relationship, mostly in high seroprevalence countries in Africa.

A number of studies, notably, Cuddington (1991) on Tanzania, Kambou, Devarajan and Over (1991) on Cameroon and by Myers et al (1991) on Thailand have shown that the economic costs of HIV are colossal. They come in the form of reduced growth, declines in savings and investment rates, and huge health care costs. These and other studies that have come in their wake, have been extremely valuable in improving our appreciation of the threat posed by the epidemic. Even so, it is important to acknowledge the limitations in the techniques and methods employed in these studies and the caveats with which their conclusions must be taken. As Cohen points out, the estimation of the long-term effects of HIV depends in turn on our ability to predict the likely course of the disease. Yet we do not know enough about the epidemiology of the disease to be able to do so with absolute certainty. Nor is the estimation of the effect of HIV on the domestic savings rate and on labour productivity any easier. Indeed, even the widely used measure of disease burdens- the disability-adjusted life years (DALYs) and its various refinements, do not capture the full economic costs of disease especially as they fail to take account of the effects of a disease burden on future generations and even the full measure of indirect costs of today's generation. (Sachs, 2000)

These caveats are not at all meant to suggest that there is less cause for alarm. On the contrary, the real likelihood is that the full economic costs of HIV to economic development in Africa (and elsewhere) are probably underestimated. The caveats are sounded here as a reminder that we don't know everything; that we cannot credit these estimates with the exactitude of microscopes and chemical reagents. At the same time, they are meant to serve as a reminder that there can be no fatalism of inevitability to these estimations of the economic costs of HIV on economic development. The economic impact which they quantify, are potential consequences and effects that can be averted by conscious policy action.

A. General macroeconomic effects

The extraordinary impact of HIV-AIDS on development is attributable to its ability to undermine three main determinants of economic growth, namely physical, human and social capital. (Bonnel 2000). Current estimates suggest that HIV-AIDS has reduced the rate of growth of Africa's per capita income by 0.7 per centage points a year and that for those African countries affected by malaria, growth was further lowered by 0.3 per centage points per year (Bonnel 2000:1). Clearly then, not only is HIV-AIDS having a detrimental effect on the growth of African economies, it is reversing the modest gains made in recent times (Over 1992)[13]. The effects on growth - at the macro-economic level - are gradual and drawn out over time, partly due to the long incubation period of the virus (Bonnel 2000: Annex 5 : 3).

Broadly speaking we know that poverty, income inequality, labour migration, gender inequality, low levels of education, and a range of context-specific socio-cultural variables and initial health conditions facilitate the spread of HIV-AIDS and are associated with higher prevalence rates[14] (Bonnel 2000).

There is econometric evidence that macroeconomic outcomes[15] are adversely affected by HIV-AIDS (Bonnel 2000:7; Over 1992)[16]. The epidemic affects the quality of regulation and the effectiveness of governments as well as a broad range of institutions[17]. The relations between HIV-AIDS and economic development are complicated, for while the disease 'reduces economic growth, economic growth can increase or decrease the spread of the HIV epidemic'. The disease can increase when economic development is associated with inter-and intra-national labour migration and investment in large projects (which amplifies local inequalities); and HIV-AIDS can be slowed down if increases in education and employment – particularly female – occur, accompanied by infrastructural developments which facilitate access to health care and safe water (Bonnel 2000:15-16)[18].

HIV-AIDS impact *physical capital.* The accumulation of physical capital is a function of the savings rate of the economy. It will tend to reduce household savings both in absolute terms and also as a per centage of household income. Moreover, households will likely tend to invest less towards retirement

[13] 'Such reduction is large when compared with the historical growth of 0.4% achieved in 1990-97 (Bonnel 2000:1).

[14] This is supported by evidence from 'cross-country regression of the HIV prevalence rates for some 60 developing countries..[the evidence is that] education, increased job opportunities for women, and cultural beliefs associated with circumcision reduce the prevalence of HIV. Their coefficients are highly statistically significant even when controlling for the level of income per capita and infrastructure by countries. Similarly, income inequality, ethnic fractionalization, and the age of the epidemic increase the spread of HIV-AIDS. In total, these factors explain about 70 per cent of the variation of the HIV prevalence rate among developing countries.' (Bonnel 2000: 6).

[15] 'As measured by the World Bank ratings of macroeconomic performance of developing countries' (Bonnel 2000;7).

[16] The opinion that HIV-AIDS has an insignificant effect on the growth rate per capita (Bloom and Mahal 1997) has since been disproved.

[17] Seventy developing countries were classified into two groups, those with HIV prevalence rates above or below 0.4%. In all cases, the institutional rating (Macro Policies, Democracy, Political Instability, Government Effectiveness, Regulation, Law and Graft) were much worse for countries with an HIV prevalence rate above 0.4% than for those countries with HIV prevalence below 0.4% (Bonnel 2000: 10).

[18] Bonnel suggests that, 'what separates these two alternative outcomes is how long the HIV epidemic has been ongoing without any national HIV prevention activities. A key implication of infectious diseases is that they tend to spread exponentially in the population once some threshold is reached. Empirically, this threshold seems to be an adult prevalence of about 5 per cent for Africa. The implication is that the growth effects of the HIV epidemic will be more pronounced the older the HIV epidemic' (Bonnel 2000:16).

as the expectation of a lower life-span takes hold. HIV-AIDS will also impact physical by lowering the volume and uses of domestic savings of governments[19] (Cohen 1992: 4). Budgets are affected by increases in costs associated with treating and caring for AIDS-related diseases. Other expenditures, such as pension payments, increase as civil servants are forced to take early retirement. The training of newly hired teachers and health professionals – to replace those lost to the disease - also affects national budgets. Thus, fiscal deficits tend to worsen generally, as few countries are to offset the fiscal cost of the HIV-AIDS epidemic by cutting other expenditures or raising taxes' (Bonnel Annex 5 2000:3). In sum, reductions in household and government savings lead to 'less investment, less productive employment, lower incomes and a slower rate of GNP growth, and possibly a lower level of GNP' (Cohen 1992: 4; Over 1992) leading to reduced long-term economic growth[20].

HIV-AIDS also has an impact on human capital accumulation. As previously noted, HIV-AIDS affects the most economically active age-groups, thereby reducing both the quantity and quality of available labour (Cohen 1992:16; Seghal 1999: 6). Entire generations of teachers, health workers, civil servants and other skilled and professional people are being lost. Shorter life expectancies are raising the costs of schooling[21] and training, thereby reducing the short-term returns (Bonnel, 2000) Since a significant amount of human capital accumulation takes place within the household, the death or sickness of a parent, particularly a mother, can have a disruptive impact on the inter-generational transmission of knowledge. Moreover, children may be forced to leave school to help replace lost income or production caused by the loss of a parent, as family finances come under increasing strain. Thus the *human capital* of African nations is being eroded and incentives to invest in the education training of replacement labour are being reduced (Bonnel 2000, Annex 5: 4).

HIV-AIDS affects not only a country's physical and human capital, but its social capital as well. The epidemic is eroding social networks and traditional support mechanisms as well as challenging the efficacy of legal and regulatory institutions to respond. The quality of countless lives is being eroded and a generation of children are growing up without the emotional and financial support of their parents (Bonnel 2000: 5).

Although the foregoing assessment of the macroeconomic impact of HIV-AIDS provides a a useful summary view of the economic impact of the epidemic. It is perhaps more useful to trace and further explore its impact through some of the context-specific and sectoral transmission modes through which the macroeconomic effects are shaped.

B. Impact on households

1. The cost of treatment and lost productivity

It is inadvisable to draw quick general patterns about the socio-impact of the disease in every location.[22] However, there can be no doubt that the most immediate impact of HIV-AIDS are felt at the individual and household level (Seghal 1999; Over, 1998;Bolinger et al, 1998)

Perhaps the most direct cost to households of HIV-AIDS and the one that is usually measured by cost of illness studies is the cost of treatment and the cost of work time that is lost. There is a wealth of literature on the subject which predictably cite costs that include increased expenditures, lost income

[19] Local governments are greatly affected by the epidemic (Smart 1999).

[20] Countries that have access to external financing can mobilize these resources to offset the shortfall in domestic savings (Bonnel 2000; Cohen 1992).

[21] The secondary school enrollment rate for 64 developing countries fell in 1990-95 as a result of the epidemic (Bonnel 2000:8).

[22] Topouzis et al, (1994) in a study of three districts in Uganda concluded that "HIV and AIDS follow different patterns in each locality and it is difficult, if not erroneous, to generalize on the basis of two villages. Geographic and ethnic factors, agro-ecological conditions, religion, gender, age and marital status play a role in the pattern and impact of the HIV epidemic….."(section 2:1).

and reallocation of responsibilities within the household[23] Death brings further expenditures and the death of a mother often increases the probability of the death of her children. On the direct costs themselves, some studies estimate for instance, that the cost of treatment and foregone productivity in Tanzania from a single HIV infection is about $2462-$5316 in 1985 dollars. High as these costs obviously are, the reality is that there are substantial additional secondary costs. (Sachs, 2000). When note is taken of the fact that most of the countries where the burden of the disease is particularly high are at the same time those with low incomes and a record of slow growth. it becomes clear that the most devastating impact of HIV-AIDS on an afflicted household is a dive into poverty. The AIDS affliction itself becomes the cause of household poverty or the further exacerbation of poverty as households are driven into crippling levels of indebtedness and assets are depleted to pay for health care and other basic needs. According to the World Bank, a study of households and people that have become poorer over time showed that illness, injury or death is the single most important cause.

An assessment of costs to the family will not be complete without mention of how the disease impact on the most vulnerable groups within the household, namely widows and orphans.

C. Widows

An analysis of the impact of the epidemic on young widows, in three districts in Uganda, found that the epidemic contributes to an increase in female-headed households; the feminization of poverty; 'crippling anxiety' over their sero-status and the infection of extended family members by the inherited widow (Topouzis et al. 1994). The profiles and case studies of individual women, clearly highlight the cumulative impact of the disease and the vicious cycle of poverty that unfolds after the death of a husband in rural Africa.

D. Orphans

The impact of the disease on individual children depends on a variety of factors, such as their sex and age, the socio-economic status of their families, the number and age of their siblings, etc. (Topouzis et al. 1994, section 2:12). The care of these children often falls on the extended family – over-stretching their limited and declining resources. In many other scenarios, such as the one described by Ayieko in parts of Kenya, children have no caregivers in their households and 'manage their own household activities without the supervision of an adult' (Ayieko 1997: 11). Many children are therefore heading households and are more likely to be out-of-school, malnourished, less likely to receive heath care, and are usually extremely poor. Many end up on the streets where they may be abused and sexually exploited, vulnerable to contracting HIV-AIDS (Ayieko 1997; World Bank 1999:14; UNAIDS 2000:26).

A study of children in three Ugandan districts found that orphaned children generally face the following situations. They may be uprooted from towns and sent back to the village; run away from home to escape the stigma and poverty: taken out of school and sent to work; or sent to live with relatives or neighbors (Topouzis et al 1994). The impact of the epidemic on the young people of Africa are clearly devastating. Opportunities for education and prospects of future income are being constrained and poverty – at individual, household and national levels - is on the increase (Bonnel 2000:15).

E. Other Economy-wide effects

HIV-AIDS affects all sectors of the economy (Ainsworth & Over 1994) and the costs that are incurred as a consequence of the disease are not just financial in nature but fundamentally social and

[23] See especially Devereaux and Eele(1991).

psychological (Cohen 1992;). There is no conceivable way of measuring *all* these costs. However, it is possible to explore the ways in which the disease affects different economic sectors. In all sectors, HIV increases the rates of absenteeism, reduces productivity, imposes additional costs in training and hiring new recruits and increases spending on health care, retirement and death benefits (UNAIDS 2000; Bollinger et al.1999).

Governments as employers and as the custodians of national economies are faced with the mounting and mammoth task of responding to the epidemic, their employees in the civil service, the health sector and education – as we shall see – are being affected, the very same people needed to advance national economic development.

1.Health Care

Health care systems – on the front-line in coping with the AIDS crisis – are overburdened by the epidemic and the services that African countries can provide are woefully inadequate (UNAIDS 2000; World Bank 1999). For not only is Africa the worst HIV-AIDS-affected region, it is also the world's poorest region with the lowest access to and quality of health care [24]. Health care systems are having to deal with increasing numbers of patients with AIDS-related illnesses such as tuberculosis[25] and spending on HIV-AIDS is diverting scarce resources from other major health concerns[26] (UNAIDS 2000: 30; Over 1998). Governments are having to make some harsh choices and are facing trade-offs between: treating AIDS versus preventing new infection; treating AIDS versus treating other illnesses; and spending for health versus spending on other sectors (Bollinger et al. 1999:6).

'In Cote d'Ivoire, Zambia and Zimbabwe, HIV-infected patients occupy 50 to 80 per cent of all beds in urban hospitals' and 70% of beds in the Prince Regent Hospital in Bujumbura, Burundi (World Bank 1999: 15; UNAIDS 2000: 29). Not only are beds filling up with AIDS patients but sickness and death is also high among health personnel in some African countries and their skills are hard – sometimes impossible - to replace A study in the Zambia showed that in one hospital, *'deaths in health care workers increased 13-fold over the 10 year period from 1980 to 1990, largely because of HIV'* (UNAIDS 2000: 20).

2.Education

The education sector, in the hardest-hit countries, has been devastated. HIV-related illness takes its toll in a number of ways and teachers, administrators and pupils alike are affected. *'Skilled teachers are a precious commodity in all countries' but in many African countries they are leaving schools and dying at an unprecedented and shocking rate* (UNAIDS 2000: 27). The Central African Republic has a third fewer primary school teachers than it needs yet between 1996 and 1998 almost as many teachers died as retired; 85% of them were HIV positive and died on average ten years before the minimum retirement age of 52 (UNAIDS 2000:27). In Zambia, during the first ten months of 1998, 1,300 teachers (equivalent to two-thirds of all new teachers trained annually) were lost to AIDS. The quality of education is undoubtedly affected as class sizes are on the increase and there is evidence that urban-rural disparities in educational access are growing[27]. The psychological damage inflicted is unimaginable.

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[24] 'Because access to health services is generally dependent on the level of income, there is a positive association between income inequality and HIV-AIDS' (Bonnel 2000: 3).

[25] Hospital data from Africa indicate that as many as 40% of HIV-infected patients have tuberculosis (UNAIDS 2000).

[26] 'The hospital sector in Kenya has seen increased mortality among HIV-negative patients, who are being admitted at later stages of illness' (UNAIDS 2000: 30; Over 1998)

[27] In Zambia 'in a national survey of 6-15-year-olds in 1996, over 70% of those living in cities were enroled in school, compared with just over half of those in rural areas. Rural postings are already unpopular among teachers in many countries, and the Zambian study suggested that the need to be close to a source of health care – a town or city – acted as an extra disincentive to teachers to go to rural areas' (UNAIDS 2000: 28).

Sick and dying care-givers take their wards out of school for economic and social reasons (World Bank 1999:15; UNAIDS 2000: 28; Bonnel 2000; Cohen 1999: 6; Over 1998). Girls are more likely to be removed than boys, resulting in lower female education; more-out-of school youth (who are harder to reach with effective AIDS-prevention programmes) putting the health and lives of these same children at risk. In a study of commercial farms in Zimbabwe, where deaths of most farm-workers were attributable to AIDS, *'48% of the orphans of primary-age who were interviewed had dropped out of school, usually at the time of their parent's illness or death, and not one orphan of secondary-school age was still in school'* (UNAIDS 2000:28). The direct and indirect costs of AIDS on the education sector are immense; both the quantity and quality of services, skills and personnel are being eroded at a time when they are vital.

3. Agriculture

'Agriculture is the largest sector in most African economies, accounting for a large portion of production and employing the majority of workers[28]' and earnings from agricultural exports pay for essential raw materials and imports necessary for development (World Bank 1999: 16; Whiteside et al.2000: 3). Recognition of the impact of the HIV-AIDS epidemic on the African agricultural sector is growing as is the fact that the costs of the epidemic are 'largely borne by rural communities' (Topouzis 1998: 7). The epidemic affects farm households by depleting both the 'human capital base' - 'through reducing the availability of labour skills and time, and the capital available through remittances or savings, which may disappear or be diverted to cover costs related to sickness[29] and death' (Guerny 2000; UNAIDS 2000; Bollinger et al. 1999; Egal et al. 1999). The resulting impact invariably affect both agricultural production and food security[30].

AIDS impact agricultural production by reducing the area of land under cultivation[31]. If less farm labour is available then more remote fields may be left to lie fallow and those under cultivation may receive less timely attention[32] for tillage, planting and weeding, resulting in declining yields (UNAIDS 2000; Guerny 2000; Topouzis 1998; Over 1998). Crop varieties are declining and changes in cropping patterns are occurring. Cash crops are abandoned in favor of less labour-intensive subsistence crops[33] (Guerny 2000; UNAIDS 2000; Topouzis 1998). Livestock production is also affected as animals are sold to generate cash or are sacrificed. Surviving households bear the added weight of feeding surviving children[34] and women in particular are faced with the greatest burdens.

Thus the quality and quantity of food is rapidly declining in the hardest hit countries resulting in malnutrition and a reduction in food security. At the macro-economic level changes in the supply and quality of farm labour as well as changes in the supply and demand for agricultural produce, entailed

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[28] 'Even if agriculture constitutes only 20% of a country's total GNP, it can provide the survival base for as much as 80% of the population' (Whiteside 2000:3).

[29] 'A 1997 study by the Food and Agriculture Organization of the United Nations (FAO) showed that in mid-west Cote d'Ivoire, care for male AIDS patients cost on average about US$300 a year, representing a quarter to half of the net annual income of most small-scale farmers' (UNAIDS 2000: 30).

[30] "Research in Kagera, Tanzania, finds that the death of an adult form AIDS depresses per capita food consumption in the poorest households by 15 per cent' (Over 1998).

[31] 'In Kagera Region of Tanzania there is an observable and measurable decline in the productivity of the mattooki/coffee bean smallholding systems because of labour losses to households...and reduction in export capacity (of coffee). Both food and non-food production in Kagera are no longer sustainable systems' (Cohen 1999a:4).

[32] A recent study in rural Bukoba district, in Tanzania found a major shift in labour time allocation was occurring; a woman with a sick husband spends on average 60% less time on agricultural activities than she would normally (UNAIDS 2000; 31).

[33] There is evidence that in Burkina Faso, in the Provinces of Sanguie and Boulkiemde, there has been a reduction in the amount of land under cultivation for market gardening; in Cote d'Ivoire cotton, coffee and cocoa plantations are being scaled back (UNAIDS 2000: 31).

[34]Returning infected migrants also increase the pressures on surviving rural households; not only do remittances from towns cease but caring costs increase and rural-urban disparities are widened (Guerny 2000).

by the epidemic, will alter the relative prices of commodities on local and international markets as well as interest rates and wages (Cohen 1992: 10).

4. Business

HIV-AIDS impact the business sector by 'increasing expenditures and reducing revenues' (World Bank 1999:16). Many industries are facing increased levels of absenteeism and are having to recruit replacement labour as their staff fall sick and die in turn, incurring costs in recruitment, training, health-care, medical insurance, sickness and burial payments (Seghal 1999; Cohen 1992: 5; Bloom 1999a; Bloom 1999b). In a recent survey of businesses in thirty African countries, *'time lost to AIDS-related sickness' followed by 'healthcare costs' were ranked as the two main impact of the epidemic on their workforce and business operations* (Bloom et al 2000b).

A specific example of the impact of the epidemic is provided by the case of a sugar estate in Kenya which calculated the cost of the epidemic as follows: '*absenteeism (8000 days of labour lost due to sickness between 1995 and 1997 alone), lower productivity (a 50% drop in the ratio of processed sugar recovered from raw cane between 1993 and 1997) and higher overtime costs for workers obliged to work longer hours to fill in for sick colleagues'* (UNAIDS 2000:31).

Ultimately, resources available to firms – savings - for financing 'capital expenditure' and for expanding will be reduced; the very viability of many firms on the continent is in question[35]. Not only are labour supplies changing, but demands for certain products are likely to be affected as consumers re-prioritize and allocate more of their income to health expenditure (Cohen 1992: 11).

Some sectors are clearly more vulnerable than others to the vicissitudes of the epidemic. Labour-intensive industries (for example, transport[36]) and those requiring migrant labour (such as mining) are the worst affected, as well as sectors employing highly skilled labour since their employees are harder to train and recruit and are fewer in number. For example, Malawi is suffering from losses of skilled water engineers who are very difficult to replace (Topouzis 1998: 25). In these circumstances, the design, construction and maintenance of dams, roads, schools, public health centres, irrigation systems, power stations, etc. will be affected, given the losses in skilled human resources. Indeed, it has been suggested that a high disease burden – say from malaria or HIV-AIDS- may have adverse indirect effects on the rate of technological advance. This is because technological advance depends very much on the level of education and the skills of the labour force. Indigenous innovation and the adaptation of foreign technologies will also depend on the availability of a core of highly skilled scientists and engineers. In an environment that is heavily impacted by disease and where the level of human capital will, as we have noted, tend to be lower, such skills will typically be absent. Moreover, to the extent that technological advancement comes from the direct investment of high technology foreign firms, the very process of technological diffusion may be affected if such investments are deterred by the prevalence of disease. (Sachs, 2000).

National economies are clearly at greatest risk when their principal foreign exchange earning sectors are affected by the disease[37], for example, there is evidence from Kenya that the Government's delay in establishing a national prevention policy was driven by the fear of losing its valuable tourist industry (Cohen 1992: 11).

[35] 'The Indeni Petroleum Refinery in Zambia spent $US 26,400 on AIDS-related costs in 1994, more than its declared profits of $US 25,514 in that year (Bollinger et al. 1999:5)

[36] 'A survey of bus and truck drivers in Cameroon found that they spent on average of 14 days away from home on each trip and that 68 per cent had sex during the most recent trip and 25 per cent had sex every night they were away' (Bollinger et al.1999:6).

[37] The mining sector has been badly affected in Southern Africa.

II. COST POSTPONED

A. Demographic Impact

Health in general can affect economic performance through its impact on demography. Shorter life expectancy from HIV-AIDS prevalence will tend to inhibit investments in education and human capital accumulation, and where a greater proportion of the population becomes dependent, that is, consumes more resources than it produces, the rates of savings and capital investment and therefore of economic growth will be affected. (Kelly and Schmidt, 1996) HIV-AIDS has a devastating impact on the demographic profile of infected nations and reduces the size of the economically active population.

'Projections from the US Census Bureau indicate that by 2003 Botswana, South Africa and Zimbabwe will be experiencing negative population growth' and that several other countries - including 'Malawi, Swaziland, Namibia and Zambia will see their population remain constant' a situation which until recently was believed to be improbable (Bonnel 2000, Annex 5: 2).

While demographic projections vary in predicting the effects of the epidemic on population growth, there is general agreement that there will be a decrease in annual population growth in the region by 2010 (World Bank 1999: 13) In some countries, life expectancy has plummeted and is continuing to do so (Logie 1999). Between 1990 and 1995, out of eighteen Sub-Saharan counties that experienced 'declining' or 'stagnating' life expectancy rates, all but one (Togo) were undergoing a *'generalized' HIV-AIDS epidemic*[38] (World Bank 1999). In Botswana - Africa's most economically successful nation in recent years - *'a regional leader in literacy and healthcare'* - life expectancy at birth will be cut *in half* over the next 10 to 12 years, from perhaps 65 years down to about 33, entirely as a result of HIV-AIDS (Essex 1999: 1). Hard-won gains in development (achieved in recent decades) are fast unraveling.

As we have already noted, HIV-AIDS affects the most productive members of societies, therefore increasing the dependency ratio. More young children and older people – those less economically productive and more in need of care – are being supported by decreasing proportions of economically active adults (Cohen 1992: 2; Bollinger et al. 1999).

Not only is adult mortality increasing - as a result of the epidemic - but infant and child mortality has increased as well. Countries with high adult HIV-AIDS prevalence rates – such as Zambia and Kenya have also experienced a *'steep rise in child mortality'* primarily due to vertical transmission (UNAIDS 1999: 22; Wekesa 2000). In fact 'a child born in Zambia or Zimbabwe today is more likely than not to die of AIDS' (World Bank 1999: 5). To date the epidemic has left 13.2 million orphans globally – currently, 95% of the world's AIDS orphans live in Africa. In the worst affected countries, such as Zimbabwe, AIDS has orphaned 7% of *all* children under the age of 15 (UNAIDS 2000: 27).

B. Gender impact

Significantly more women than men are living with HIV infection in sub-Saharan Africa (UNAIDS 1999a: 15). Social, economic and cultural factors as well as biological and economic conditions mean that women are disproportionately affected. The interplay of these factors and the nature and extent of gender inequality clearly differ contextually (C. Oppong 1995; Hamblin & Reid 1991). A key consideration is the difference in the age patterns of HIV infection for men and women. Women tend to become infected younger for both biological[39] and cultural reasons[40] and for every 10 African men

[38] An adult prevalence rate of more than 5 per cent (World Bank 1999).

[39] The disease is more efficiently transmitted from male to female than female to male.

infected, between twelve and thirteen women are infected (UNAIDS 1999a). In most African societies, more men have extramarital partners than women (Caldwell 1993: 818; C. Oppong 1995: 42) and women are generally less informed about the potentially negative consequences of unprotected sex and/or are often unable to negotiate their sexual relations (UNAIDS 1999b).

Women may be forced into transactional sex through economic necessity and a real or perceived lack of market employment opportunities (UNAIDS 1999b).

C. Migration

In Ghana, in the early 1980s, the difficult economic situation created a substantial exodus of economic refugees who migrated temporarily into high HIV-AIDS prevalence regions and indulged in high-risk activities (J. Oppong 1998: 447; Anarfi et al 1997). Many of those who left the country were women. At the start of the epidemic in Ghana in 1996, *all* reported cases of HIV were female with a history of travel outside the country.

Migration then is undoubtedly an important factor in the spread of HIV-AIDS. Labour migration – with its resulting concentration of individuals in urban areas, the 'relaxation of social norms' and the adoption of risky behaviours - is associated with an increased risk of HIV-AIDS infection (Cohen 1992: 2; Seghal 1999: 5). Apart from the Ghanaian example there are countless others, such as the mines and commercial farms of Southern Africa with their concentrations of single men and widely available commercial and casual sex.

D. Inter-generational consequences

Changes in the numbers and composition of populations - as a result of HIV-AIDS - undoubtedly affect the ways in which societies are organized as well as the ways in which priorities are set for coping with the crisis. Nonetheless, '*while it is inevitable that massive rises in death among young, economically active adults will effect national economies, it is not easy to isolate or measure that effect*' (UNAIDS 1999a: 17; Bollinger et al. 1999:7). The relationship between the epidemic and economic performance is a complex one, best illustrated by studying specific economic sectors and groups within populations.

The tremendous economic burden of HIV-AIDS and associated diseases is thus not limited to the current generation alone. "*In essence, a high disease burden in a poor society can create a poverty trap, in which both disease and impoverishment are reproduced from one generation to the next*" (Sachs, 2000) Typically, cost- of- illness studies or monetary loss calculations of DALYs do not capture this intergenerational consequence.

[40] According to several recent studies conducted in African countries, girls between the ages of 15-19 are around five or six times more likely to become HIV positive than boys of the same age (UNAIDS 1999a)

III. THE ECONOMICS OF PREVENTION AND TREATMENT

The old saying '*Prevention is better than cure*' has a ring of self-evident truth which underpins the very logic of traditional cost/benefit analysis. Yet, as Cohen points out, it is by no means clear yet that Africa has embraced this wisdom in the area of public policy towards HIV-AIDS. This is to some extent understandable. With Ministries of Finance constantly preoccupied with severe constraints on resources and their implications for macroeconomic stability, it is not easy to appreciate the tremendous longer-term benefits of investments made today in HIV-AIDS prevention. Yet this is the challenge of priority setting and economic management. The indications are that even if we focused on the narrowest interpretation of the economic cost of HIV-AIDS, that is, direct treatment costs plus lost output, the return on investment is huge by any standards. A 1991 study on Thailand estimates that the return on such investment is as high as seventeen times.

There is not much information currently available on the relative cost and likely impact of various interventions in different socio-economic settings. Attempts at estimating the cost of prevention programmes are fraught with at least two problems: the first is to obtain available data on the cost of current programmes, and the second, to scale up the costs of these programmes. Because of low coverage of most national programmes in Africa, even where cost data are available, they are derived from individual projects of facilities usually operating on a small scale. Consequently, some cost estimation attempts are based on modeling techniques (Kumaranayake and Watts, 2000) which are helpful, but like all models, have their limitations.

A major cost estimation exercise is currently underway by one of the working groups established by the WHO Commission on Macroeconomics and Health which should help provide hopefully reliable guides to reinvigorated national programmes. The working group is working at costing HIV-AIDS programmes found in Sub-Saharan Africa and will also include an estimation of costs associated with highly active antiretroviral treatment (HAART). Although some have cast doubt on its current feasibility. (Panos, 2000). Accordingly it will cost the following prevention programmes:

1. Youth-focused programmes (in and out of school)
2. Sex worker programmes
3. Strengthening of public sector condom distribution
4. Condom social marketing, male condom only
5. Strengthening STD services
6. Workplace programmes
7. Voluntary counseling and testing (VCT)
8. Strengthening blood transfusion services
9. Programmes to reduce mother-to-child transmission (MTCT), including VCT
10. Mass media campaigns

It will also cost the following care and treatment programmes:

1. Palliative care
2. Clinical Management of Opportunistics illnesses (OI)
3. Prevention of OI – Prophyalaxis
4. Home-based care
5. Care for children

6. Support for Orphans
7. Support for people living with HIV-AIDS (PLWA) including psycho-social support, counseling and networks
8. Treatment – Highly active antiretroviral treatment (HAART)

These and other studies currently underway at the Centre for International Development at Harvard should go some way in helping to determine among other things, how much drug combination treatments would cost if they were available at marginal cost production rather than full patent protected prices. National prevention and care programmes will also have to go beyond HAART to explore the possibilities for applying other treatments for opportunistic infections such as TB. Preliminary indications show, predictably, that the cost of scaled up prevention and care programmes will cost multiples of what countries are spending now from their own resources plus what is available from international sources.

A. Finance & Equity

Resources invested in African countries, research institutions and industry ought to be 'drastically increased' (Piot 1998: 1845; Jha et al. 2000). As the Secretary General of the United Nations, Kofi Annan, noted, '*donors - the OECD countries - must make more resources available to fight the epidemic.*"

At the global level, the '*ultimate challenge"* for HIV research will be the development of an effective and affordable vaccine[41]. Nevertheless, there is much that can be done at the present time to ensure that the extraordinary scientific progress[42] achieved, in the prevention and treatment of HIV-AIDS, is equitably distributed worldwide (ibid.). The research and development-based pharmaceutical industry charges as high prices as the market can bear; their purpose is to maximize profit (Myhr 2000). African countries cannot afford patented (brand-name) drugs and ironically these same drugs are usually more expensive on the African Continent than in wealthier parts of the world[43]. Drugs that are no longer patented may face generic competition and the evidence points to the fact that generics are cheaper (Myhr 2000: 4). Therefore, it is critical that generic drugs are introduced early and that they are widely available and affordable. The pressure is on pharmaceutical companies and governments[44] (and all concerned parties) to face up to their moral obligation) to reverse the inequitable pricing and distribution of life-saving drugs.

[41] 'Developing a cost-effective vaccine for HIV remains a formidable task' (Lee 1997:605)

[42] '...the rate of scientific progress on HIV and the rate at which advances are applied for the prevention and treatment of HIV infection are with few precedents in the history of biology and medicine. We know more today about the biology of this recently discovered virus and the infection it causes than for most other microorganisms and infectious diseases, demonstrating the power of modern biology when applied with intensity and the necessary resources"(Piot 1998: 1844).

[43]A study of the prices of 'originator' brands of antiretrovirals in Kenya, Uganda and Norway found that nevirapine is 'twice as expensive in Kenya as in Norway' (Myhr 2000).

Nevirapine is an anti-retroviral used in the suppression of HIV – it decreases the viral load. It is used to reduce the risk of vertical transmission from approximately 30% to 2%. (Myhr 2000).

[44] There is much that governments can do to promote cheaper generic drugs. Myhr outlines the following; 'make optimal use of the safety clauses in international patent legislation when making their own patent law; permit compulsory licensing and parallel import; optimize tendering procedures for public sector and license reliable international suppliers; review current legislation and strengthen control of drug pricing policies to ensure that add-ons are not higher than they need be; introduce measures to stimulate generic prescribing (Myhr 2000:9).

B. National response

1. Inclusive national policies

At the national level the response should be inclusive, 'such that the epidemic is taken into account when planning or implementing programmes in *[all]* sectors that are affected by and [impact] on the HIV-AIDS epidemic (Tarantola 1998: 9). Therefore, national policies ought to be multi-pronged and all ministries *should be involved*[45], *from health and education to planning and infrastructural* development[46].

2. Research and reform

The fundamental causes of HIV-AIDS need to be addressed if the epidemic is to be effectively challenged. Long-term structural policy reforms, aimed at combating gender inequality and the economic and social vulnerability of women will be of paramount importance in this endeavor. There is considerable scope for intervention at various levels: the individual, the child, the household and the community (Seghal 1999: 7). Households have to participate in economic growth if they and their communities are to rise out of poverty. '*This means addressing the legal or social constraints which adversely affect the capacity of seropositive individuals from participating in economic activities*' (Bonnel 2000: 17; Bollinger et al. 1999).

Governments have much to learn from experiences gained in other African countries[47] and the challenge is to 'incorporate…effective interventions into comprehensive national [programmes] (World Bank 1999:18). For example, studies[48] have shown that a combination of voluntary counselling and testing, condom social marketing, peer education[49] and the treatment of sexually transmitted diseases can 'change behaviours and reduce the risk of HIV' (World Bank 1999.17).

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[45] 'In Zambia, different ministries have made specific commitments to addressing HIV-AIDS. The Cabinet Office has developed HIV counselling services. The Office of the President has encouraged the inclusion of HIV prevention messages in all speeches of the country's top political leaders. The Ministry of Defense has developed a plan for creating an orphan's fund to help with the upkeep and education of orphans of officers and men of the defense forces. The Ministry of Agriculture, Food and Fisheries proposes to train extension workers in social mobilization techniques for HIV-AIDS prevention and care, and in coping mechanisms for rural populations. The Ministry of Local Government and Housing is reviewing land policies and establishing AIDS offices in all units across Zambia. The Ministry of Tourism is incorporating HIV-AIDS into the curricula of wildlife management schools and hotel and tourism institutes' (Tarantola 1998)

[46] For example, we know that development programmes can in themselves exacerbate the epidemic and the building of highways and dams or the creation of free-trade zones can create social dislocation, rapid urbanization, exacerbate gender inequality and promote the spread of AIDS. These effects can be long-lasting as evinced by the example of the Volta River Dam at Akosombo in Ghana four decades ago. The rates of HIV-AIDS infection are 'five to ten times higher' near the dam now than in the rest of the country (Topouzis 1998: 24). Infrastructure policies therefore need to build-in mechanisms to reduce the spread of the disease, before, during and after construction (Topouzis 1998).

[47] In September 2000 the Cabinet of the Government of Ghana went on a two-day retreat to discuss national HIV-AIDS policies. They invited the chairman of the Uganda AIDS Commission, Bishop Emeritus Barnabas Halem'Imana, along in order to learn from the experiences of Uganda (Segbefia 2000).

[48] 'Studies in Mwanza, Tanzania, show that early, continuous treatment of STIs in a rural community was associated with a 42 per cent decline in newly acquired HIV infections at a cost of $US 10 per person treated' (World Bank 1999:18 quoting Grosskurth et al., 1995).

[49] The education sector is fundamentally important in this fight and 'experience has already shown…that when AIDS prevention programmes include a strong school-based awareness and skills-training component, schooling can encourage safe behaviour' (UNAIDS 2000: 41).

IV. CONCLUSION

In spite of the weaknesses and limitations in existing methodologies and models for measuring the economic impact of disease burdens generally and of the impact of HIV-AIDS in particular, there is sufficient evidence that the overall economic impact of the epidemic is devastating. Indeed the indications are that current estimates based on traditional cost- of- illness studies underestimate the economic impact of the disease.

A full quantification of the overall economic effects of HIV-AIDS on African economies will need to take account of the direct economic effects of adult HIV-AIDS on labour productivity, the economics of childhood HIV-AIDS. It should also take account of changes in household behaviour attributable to the disease, as well as changes due to the very risk of HIV-AIDS. Thirdly, it should measure the economic effects at the national level, including effects on the fiscal situation and therefore on the stability of the macroeconomic environment, and effects on enterprise productivity and investments as well as related externalities flowing from lost skills. When all this is done faithfully, the probability is that the economic impact of HIV-AIDS will add up to a lot more than the annual loss of GDP of 2% estimated by the World Bank.

Judging from the sheer scale of these costs, it clear that the return on investment in scaled up efforts at prevention would be enormous. What is required is a comprehensive program for total national mobilization, backed by scientific and technological know how, significantly enhanced levels of international donor support and improved access to drug therapies. Finally AIDS research, including, especially, research by African scientists and institutions, ought to be given the highest priority.

Subcommittee on International Monetary Policy and Trade of the

House Committee on Financial Services

Hearing on U.S. Policy toward the African Development Bank and

African Development Fund

April 25, 2001

Testimony by Njoki Njoroge Njehû

Director of the 50 Years Is Enough Network

Mr. Chairman, thank you for the opportunity to testify before the Subcommittee on International Monetary Policy and Trade of the House Committee on Financial Services as it examines U.S. policy toward and participation in the activities of the African Development Bank and the African Development Fund.

As an African, a Kenyan woman and Director of the 50 Years Is Enough: U.S. Network for Global Economic Justice, I welcome both the privilege and the responsibility that comes with this invitation.

50 Years Is Enough: U.S. Network for Global Economic Justice is a coalition of over 200 U.S. grassroots, women's, solidarity, faith-based, policy, social - and economic- justice, youth, labor and development organizations dedicated to the profound transformation of the World Bank and the International Monetary Fund (IMF). The Network works in solidarity with over 185 international partner organizations in more than 65 countries. Through education and action, the Network is committed to transforming the international financial institutions' policies and practices, to ending the outside imposition of neo-liberal economic programs, and to making the development process democratic and accountable. We were founded in 1994, on the occasion of the 50th anniversary of the founding of the World Bank and IMF. We focus on action-oriented economic literacy training, public mobilization, and policy advocacy.

Your letter of invitation, Mr. Chairman, asked me to address a number of specific issues and questions: the issues facing the new administration relative to U.S. interests and participation in the African Development and Fund; a comparison between the role of the African Development Bank in addressing economic development in Africa with the role of the World Bank, IMF, and other major bilateral assistance donors; the debate on grants vs. loans and lending for poverty alleviation vs. physical infrastructure; and if the African Development Bank is playing a significant role in promoting free market reforms and private enterprise, debt relief for highly indebted poor countries, and the challenge of HIV/AIDS to economic development in sub-Saharan Africa.

These are important questions which are at the heart of the future of the African continent, not only from the perspective of the role of the African Development Bank and Fund, but also of the IMF, the World Bank, and other institutions and countries that lend and provide donor assistance in Africa. I believe that in looking at these questions one of the key distinctions to make must be between intent and outcome. While the intentions of those lending and providing donor assistance to African countries are often clearly articulated - poverty alleviation, debt relief, structural and policy reforms, etc. - the question that we must ask over and over is whether the outcome matches the stated intent of policies and projects of the multilateral financial institutions.

When one looks at the realities that are experienced by Africans, as well as the peoples in other regions of the Global South (Asia/Pacific, Latin America, and the Caribbean), it is undeniable that the outcomes of implementation of structural adjustment programs, free market reforms, debt relief and privatization have failed. The fact is that aspects of these policies and programs --such as cuts in food subsidies, cuts in credit to farmers, non-food cash crop farming, user fees for health and education and water privatization -- condemn millions to hunger, malnutrition, poverty, and death.

Africans work hard and survive against many challenges. Life in rural Africa today, for the majority of people, is very similar to what I knew growing up: raising a wide range of crops, both to sell at local market and for family consumption; raising chickens or selling the family cow when extra income was needed for school fees; no electricity; dirt roads that cover you with dust in the dry season and mud in the rainy season; planting trees to fight desertification; pooling your resources with neighbors to bring piped water, a clinic, or a school to your village in the spirit of Harambee or "pulling together". And above all never losing hope: in my mother tongue we say, Gûtiri ûtukû ûtakîa -- "there is no dark night that is not followed by daybreak." This is why people never lose hope, but keep fighting and struggling for lives and livelihoods of dignity even when everything seems to be working against them. African parents, like parents everywhere, work hard to provide the basics for their families -- food, shelter, education, safe drinking water, and health care -- and hope that their children will do better than they have.

There are many questions about why Africa remains impoverished. There have been so many development projects, yet the quality of life of the majority of people seems to get worse instead of better, and the projects fall apart so quickly? The Kenya I left in 1986 to attend college in the United States was, like the rest of Africa, better off than today's Kenya. At the time the talk was about how much worse things had gotten -- higher prices, worse roads, fewer jobs, lower-quality health care and education -- in the previous few years. Sometimes economists or social commentators say a country has "hit bottom." In Kenya, Mozambique, Nigeria, Malawi, Ethiopia, and the other countries of Africa, we keep finding new bottoms, or to be more precise, that there is no bottom that can't get worse. The external debts grow even as we pay more and more to service the debt.

When I return to Kenya now to visit my family, I find that prices have continued to soar and people -- people I always thought of as "not poor"-- are unable to buy the things they thought of as necessities. People are being laid off or getting the "golden handshake" (early retirement), and university graduates routinely find no hopes for employment. New religious sects spring up to offer people some hope that all the old ways seem unable to deliver; farmers are unable to afford fertilizers, and coffee farmers choose to dump their coffee rather than accept the below-cost prices being offered them. Today my widowed grandmother cannot support herself selling coffee from her 1,500 bushes that once supported her and her ten children. In the meantime a cup of coffee costs over a dollar at Starbucks, and Kenya AA coffee sells for 10 - 12 dollars a pound! Public hospitals sleep two patients to a bed, require families to go to pharmacies to buy the medication administered to patients, as well as provide all the food for in-patients Most families cannot afford the school fees (user fees) imposed on education from nursery school to university, which often result in girl children not being educated because they are not a priority.

In this context of a continent faced with tremendous challenges that seem almost insurmountable, we must ask some questions about the role of the African Development Bank African Development Bank, now over three decades old, , an institution that was founded to finance projects that would provide the basis for employment, technology, and a way out of poverty. Instead of an Africa where promises have been kept, we see an Africa that has been in a rapid and a long decline -- an Africa that has endured worsening economic circumstances since the time of the Bank's founding. This subcommittee can help begin to chart a new direction for the African Development Bank one that would provide the basis for employment, technology, and a way out of poverty in support of African peoples' initiatives.

Sub-Saharan Africa is rich in human and natural resources, but faces many challenges: an almost unimaginable AIDS crisis, with 17 million already dead, and 25 million more infected; a lack of formal job opportunities, with government budget cuts constantly terminating more and more of the best-paying jobs; a crisis of food security, with so much of the best land devoted to export crops at the insistence of policies from the World Bank and the IMF, , leaving people vulnerable to even short disruptions in rainfall; environmental destruction that exacerbates already existing serious problems; illiteracy; conflicts and civil wars; high levels of maternal and infant mortality; and a huge debt burden.

The African Development Bank has many historical shortcomings which I will not dwell on because unlike my co-panelists I am neither an economist nor someone with experience at the Bank itself. I would just point out that the original institution now lends to very few sub-Saharan countries; its "soft-loan" affiliate, the African Development Fund, has a wider reach. This is so because most of the continent's countries don't qualify for the Bank's market-rate loans. The Bank itself, even as it recovers from its management crisis of the 1990s, is losing relevance to most of the people of the continent.

I want, then, to focus today on what I believe most Africans themselves would say about development and economic recovery on our continent. In a nutshell it's this: it isn't working. The way development is done now, and has been done since the beginning of Africa's economic decline, has harmed Africa more than it has helped it. Our access to services, our employment prospects, our nutritional standards, our overall standard of living have all been declining since 1980.

What changed around 1980? Certainly there was the oil price crises of the 1970s, which hit many African countries very hard. And the worldwide bump in interest rates as the U.S. Federal Reserve fought inflation here also had a negative impact on Africa countries' debt burdens. The debt crisis that swept Latin America in the early 1980s also hit Africa. The differences were, first, that the amounts our countries owed were not so large as Mexico's or Argentina's debts, so we didn't make headlines, and second, that the crisis, which despite the lower numbers was just as serious for us in proportion to the size of our economies, has never stopped.

Sub-Saharan Africa continues to pay back more to the World Bank and the IMF than it gets from those institutions. And despite this tremendous diversion of resources, and in several cases despite even a country's acceptance into the IMF/World Bank "debt relief" program, our debt levels continue to rise. Social services continue to be cut, people continue to be laid off, prices continue to rise.

Indeed, it is obvious that development is not working for Africa. And while African governments and even the African Development Bank have made many mistakes that have contributed to the failures of development, I believe we have to look deeper. We have to recognize that since around 1980, most of the governments on the continent have been attempting to implement programs designed by the International Monetary Fund and the World Bank. They have had little choice in the matter: to get any access at all to capital and international markets, they have had to accept the recommendations of those institutions. The African Development Bank Group itself defers to, accepts, and enforces the policies of the IMF and World Bank.

The governments haven't always implemented these "structural adjustment" programs completely, but the core of the economic policies of these countries has been the IMF/World Bank vision of "sound economic reform": polices that liberalize trade laws, abolish subsidies, make labor "flexible" (meaning easier layoffs and lower minimum wages), privatize government-owned companies and industries, open up economies to multinational corporations, provide incentives like high interest rates for international investment (even when those same rates exclude small farmers and businesses from accessing capital), slash public services, and re-orient entire economies away from subsistence and toward exports.

I am less interested in talking about economic ideology or intentions here than I am in talking about actual results. The results of these programs have been devastating. Attached to my testimony is a chart prepared by a World Bank staff economist which demonstrates quite graphically the almost perfectly inverse relationship between structural adjustment programs and growth. The point here is not whether different incentives are needed, whether governments are to blame for not adhering to the programs, or how some changes in emphasis might produce better results. We have in fact spent years arguing with the institutions and government officials about precisely these questions. What is important here is creating change. How do we end the user fees that these programs have mandated for health care and education, which prevent girls from going to school and the sick from getting medicine? How do we get reasonable credit for farmers so they don't have to sell their land to large agricultural businesses and move into the cities? How do we build an Africa where people have enough to eat, with rising levels of literacy, decent health care, access to water, and environmentally sustainable practices?

It is not going to happen through more of the same. Structural adjustment conditions imposed by the IMF and World Bank are no less harmful when imposed by the African Development Bank or African Development Fund. Loans for development to already severely-indebted countries do not add less to that debt burden if they come from Abidjan instead of Washington.

The market plan has not worked for Africa. We need a Marshall Plan. When Europe was devastated by World War II, the U.S. recognized that lending to devastated economies was an illogical way to develop, since the debt would continue to burden the fragile beginnings of new industry. Instead, recognizing its interest in a healthy European economy, it implemented the Marshall Plan, moving about two percent of the U.S. GNP to Europe for free. Africans and other peoples of the Global South need nothing less and nothing more than what was accorded Europe. Africa, which was brutalized by colonialism, with its borders re-drawn, its peoples sold as slaves, and its resources exploited for the profit of foreign interests, became "independent" in the 1950s and 1960s and told to develop itself. As assistance it was given some grants and a lot of loans. When these countries, which had never been part of the global economy on an equal footing, got into debt, they were given more loans -- like taking out one credit card to pay off another. As that debt treadmill continued, more and more conditions were put on the countries. They were told they could be just like the U.S. or South Korea by following those countries' policies. The trouble was that those countries developed with the aid of protectionist or isolationist policies. Africa was thrown to the mercies of the markets after a few years of independence. The debt we incurred was used as a coercive weapon to force us to accept policies representative governments would never have independently decided to implement. And predictably the policies have failed.

The much-vaunted Heavily Indebted Poor Countries (HIPC) initiative has fallen short of the goals of relieving Africa's debts. Some beneficiaries of the HIPC Initiative will pay as much, if not more, in debt service after "graduating" from the program. After World War II, as the Marshall Plan was providing the kickstart for European economies, Germany negotiated terms that allowed it to pay no more than 3.5% of its annual export income on its foreign debt, and nothing at all if it did not have a trade surplus. In Africa, countries have found themselves paying 40, 50, or 60 percent of their annual export income on debt. The Heavily Indebted Poor Countries (HIPC) Initiative of the IMF and World Bank, when it accepts countries into its scheme, and when it works as it promises to do, aims to reduce those payments to between 10 and 15 percent of annual export income, with no provision for years when a trade surplus cannot be achieved.

People in Africa think the system is fixed. They see new economic programs that welcome more foreign companies into their countries and offer incentives to grow more cash crops or work in assembly plants, but they still see their standard of living decline. They hear that the African Development Bank will be rescued from its morass by wealthy governments, but they aren't surprised to find that it operates as a mini-World Bank, imposing the same conditions for the same kind of projects.

Africa needs debt cancellation -- one hundred percent of the debts owed by these countries to their multilateral creditors. The IMF and World Bank have tremendous resources. Given that the people of Africa are slipping, and its children are dying, we fail to see why those institutions continue to plow their money into private sector "investments" in Asia and Latin America, all the while declaring that Africa and the end of poverty are their overriding concerns. They say they cannot "afford" to cancel the debts owed them, but their spending elsewhere suggests otherwise, as did an independent audit released last week by the Drop the Debt campaign in the U.K. We believe that they can not only drop the debt owed them, but that they can make a sizable contribution to wiping out the debts owed the African Development Bank Group.

If Africa is to move forward and overcome the present challenges, bilateral and multilateral funders must move from loans to grants. Loans create more debt in the midst of trying to address existing debt problems. It does not make sense to be creating debt with one hand while trying to eliminate it with the other hand.

Africa needs freedom from structural adjustment conditions, which have failed for over twenty years but keep being revised, renamed, and expanded by the multilateral institutions.

Finally, Africa needs its Development Bank to be something other than a surrogate or junior partner to the World Bank. I am not suggesting that it become a charitable foundation. I know that it will not have unlimited resources. What I am suggesting is this: that the intractable economic crisis of Africa be recognized as such, and that the African Development Bank be given a mission to design and implement creative solutions. These programs should be designed independently with the particular circumstances of a specific country, or specific part of a country, taken fully into account. And these programs should put in place bold new ideas, breaking out of the failed economic models recommended for so long by the IMF and World Bank. Rather than finding new ways to privatize or liberalize, pick a province or district in Mozambique, say, and provide the government there the resources to attract dedicated and intelligent individuals who know the area well, and see if a government-owned cashew processing facility can provide employment and make a reasonable profit.

There are hundreds upon hundreds of alternative development models that have not been implemented for lack of resources and expertise. There are community level initiatives throughout Africa that are struggling and have not seen widespread implementation because of lack of resources. Africans are not looking for handout;, all they want is the chance and the support to enable them to succeed.

I am not here to propose a new model to replace the old one because I believe that there can be no single model of development that will work for all. I believe that geography, culture, size, climate, amount of available resources, and political system affect the success or failure of a development or economic model. What we do see is that the current system does not work, and until we find a better one the people of Africa will be living in increasing poverty. The only way to change that is to allow the people of Africa to experiment with new approaches to development. Some will fail, certainly. But how much worse than today's failures will those be? When we find the ones that succeed, we will surely be on the way to finding solutions that can be applied to more and more of Africa.

The African Development Bank Group, which today does little that is unique to it, is uniquely positioned to do this work. It is the only major development bank on the continent, and it is staffed by nearly a thousand African experts. So long as it exists, it is surely a waste to have it duplicate the kind of work the World Bank does on a larger scale in Africa. I hope that this subcommittee, in considering future U.S. involvement at the African Development Bank Group, will consider recommending that this institution take advantage of its unique capacities and adopt a mandate to innovate and experiment in addressing the economic crisis that deprives so many Africans of hope, opportunity, and even life itself.

In the meantime, while Africans struggle and seek out their future and the future of their continent, it would serve them well to have the support of the rest of the human family. We need opportunities for people and countries to determine their own future, not more hoops like the new Poverty Reduction Strategy Process (PRSP) of the IMF and World Bank. We need grants to allow Africans to follow dreams of development and get a fair chance to succeed without mortgaging our grandchildren's future to more loans and therefore more debt. We need credit for farmers growing food crops, not more land reform programs designed by bureaucrats who have never visited a small rural farm, let alone been a farmer. We need access to basic health care, not more user fees which result in many children dying because their parents cannot afford three cents for immunization. We just need a chance to succeed and to live with dignity.

I strongly believe that the role of African institutions is to work to effectively address the challenges that face Africa. Instead of more reforms, what is needed is clinics stocked with drugs and workers; schools with textbooks and trained teachers; safe water for all instead of privatization contracts for multinational corporations; free public education for African children just like for children in the U.S. states; policies that put people before profits. There is a proven track record of investment and political will in the campaigns against polio, smallpox, and the campaign to immunize the world's children against the major vaccine preventable diseases (measles, tetanus, diphtheria, whooping cough, polio,). We went from covering about 5% of the world's children in 1980 to 80% in 1990, and have saved about three million children a year. Not only do we know what needs to be done, we know how to do it, and we have done it in a number of instances. The same can be true for Africa. Again I urge you to act in solidarity with African peoples and watch them succeed!

Njoki Njoroge Njehu

50 Years Is Enough: U.S. Network for Global Economic Justice

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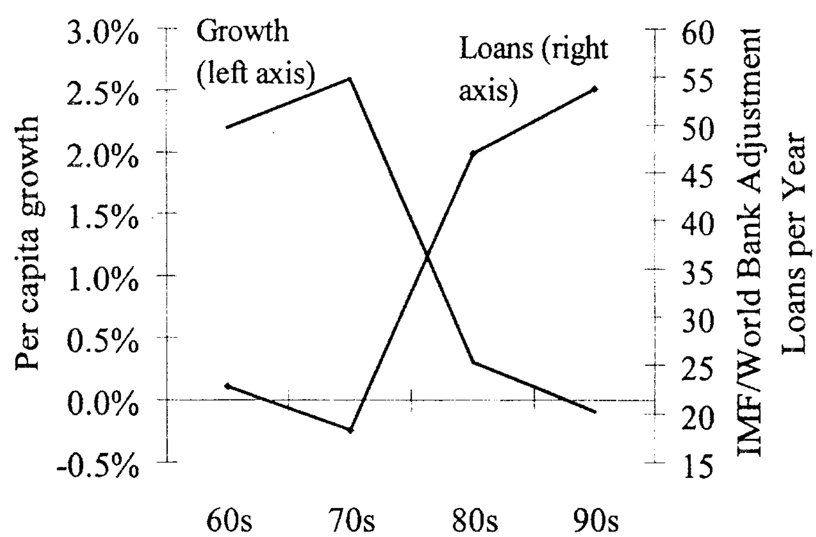
From One of the World Bank's Own Research Economists . . .

IMF/World Bank Adjustment Lending Failed to
Ignite Third World Growth



This chart, prepared by a World Bank research economist (who wishes to remain anonymous), demonstrates the inverse relationship between IMF/WB structural adjustment programs and economic growth. This directly contradicts the neo-liberal ideology the institutions have used to justify the nearly-universal imposition of those tremendously damaging programs.

Africans Denounce IMF, WB as Wolfensohn & Köhler Visit (1)
- Mali -

The following statement was issued by civil society organizations in Bamako, Mali as James Wolfensohn, President of the World Bank, and Horst Köhler, Managing Director of the International Monetary Fund, met with heads of state from West and Central Africa between February 18 and 21, 2001.

IMF-World Bank in Africa: A Plea for Co-Responsbility and Civic Control

To better help Africa, the International Monetary Fund (IMF) and the World Bank decided to come to a meeting with African heads of state. Twelve presidents came to Bamako (Mali) for discussions from 18 to 21 February 2001 with Horst Köhler, Managing Director of the IMF, and James Wolfensohn, President of the World Bank.

This initiative, apart from being somewhat strange and worrisome, is dishonest when one considers the international environment in which it is happening. It serves to distract Africans, at the same time as it helps excuse the Bretton Woods Institutions that have a considerable responsibility as much for the failure of African development, as for the sometimes chaotic nature of the transition to democracy.

If today the World Bank and IMF are so contested, and increasingly so throughout the world, it is precisely because of the grave failure with the high social, political and ecological costs of their policies said to salvage economies, which they have more often than not imposed on debt- ridden states. Today, African civil society has been swept aside and humiliated by this meeting that only confirms their exclusion, and adds to the injustice to which Africa is subjected. Civil society considers that these two institutions, that owe so much to Africa, cannot continue to fool the world by putting themselves forward as judges, at the same time as allies, without ever having recognized their part in making mistakes and their responsibility in aggravating the economic, social and political situation. The mandate that civil society has accorded its leaders has been handed over to these institutions in the name of the market and profit. Today, civil society feels itself dispossessed of its democratic rights and its future.

This meeting is humiliating because these two financial institutions limit such meetings with heads of state accountable to their people only in Africa - and not in Asia, or Latin America or Europe. Is it the poverty of this continent that allows such arrogance? Or is it because the strongest permit themselves to sweep aside international rules this way?. As for the objectives of this meeting, we deplore the instrumentalization by these institutions of several major concerns of the African people with an aim to better impose the neo-liberal order, and the control by foreign powers of African resources and economies.

Their approach to poverty and the solutions they offer, only exacerbate poverty. We contest the dogma that consists of fighting against poverty by further liberalization and by liquidating public property and heritage, particularly the privatization of basic services (water, energy, education). We believe that savage commercial liberalization translates into the exclusion of the people, especially the 50% who are impoverished and disconnected from the international market.

We reject the programs to reduce the debt as defined by the World Bank and the International Monetary Fund, which are accompanied by so many economic and political conditions, and only deepen dependency.

What we want is a straightforward cancellation of African debt -- something which citizens' organizations are now demanding all over the world.

We want our leaders to re-establish our national sovereignty, which they have surrendered to the World Bank and International Monetary Fund in allowing them to decide economic and social policy. This is the only way they will be able to respond to our people's aspirations, and make full use of our resources for our benefit and the benefit of future generations.

The lack of democracy within these institutions, and the WTO, marginalizes Africa in the economic, financial, commercial and political international rules. This lack of democracy puts them in no position to lecture Africa on good governance.

We are calling on African leaders not to get involved in any new round of trade negotiations, and to stick to the common position established by the OAU in Algiers and Cairo: first, there should be a proper evaluation of the existing agreements, necessary corrections should be made, and equitable trade rules should be established.

On the issue of AIDS, we consider that it is nothing less than genocide to make access to generic drugs conditional on the acceptance of agreements on intellectual property rights dictated by the WTO and the big pharmaceutical companies. We hold these bodies responsible for the levels of mortality from AIDS in Africa. African leaders must find solutions which will allow AIDS sufferers access to the medicines they need, quickly and at an affordable price, even if it means breaking these murderous agreements.

Africa's civil wars and armed conflicts are not just caused by tribal and religions factors. Neo-liberal fundamentalism, and intellectual terrorism also play a part. The economic and financial conditions imposed on Africa are bleeding it of its resources, including its intellectual ones.

These wars would never have reached their present bloody intensity if it hadn't been for the involvement of the great powers by supplying with arms, including anti-personal mines.

We invite our leaders to be accountable to their people, and work for a free, independent and united Africa.

Africans Denounce IMF, WB as Wolfensohn & Köhler Visit (2)
- Tanzania -

The following statement was issued by the Tanzania Gender Networking Programme in advance of the visit of World Bank President James Wolfensohn and International Monetary Fund Managing Director Horst Köhler to Dar es Salaam, immediately after their Bamako meetings.

Statement from Gender Groups to Chief Executives of the World Bank/IMF at Their Meeting in Dar es Salaam

21 February 2001

The Tanzania Gender Networking Programme (TGNP) and other gender groups have followed with interest the visit this week by the IMF and World Bank heads to Africa, and Tanzania in particular. In their press release, these visitors from the two major International Financial Institutions have declared their interest in listening to the voices of Africans when designing and implementing policies. However, these drivers of the world's macro-economic policies have yet to demonstrate that they are following a very new or different approach to development. For example, in their schedules of consultative sessions in Tanzania, they only plan to devote a one-hour session on the last day of their visit for meetings with civil society actors. This practice seems to directly negate these institutions' proposal to work in partnership with the civil society in Africa. Therefore, we expect this one-hour meeting to be quality time with the Chief Executives of both institutions and not only with officials.

The issues on the agenda for discussion at this week's meetings with African leaders, namely the economy, HIV and AIDS, trade liberalization, and corruption are of vital interest to women, men and youth in Tanzania. However, they have not put on the agenda for discussion the larger frameworks driving their policies, such as liberalization, privatization, and debt. In the past, the strategies designed have not taken into account the needs of various stakeholder groups in Tanzania and other African countries, and their impacts have been more destructive than positive. For example, a major evaluation of the Bank's work in Africa commissioned by Norway concluded that the design and implementation of the economic liberalization packages [in Malawi, Zambia and Zimbabwe] have at best had a limited impact on current poverty and at worst contributed to an increase in poverty.

World Bank and IMF economic and social policies, including privatization and liberalization of markets, to date have had negative effects on the livelihoods of people in Tanzania. This is nowhere more evident than in agriculture, where many smallholder farmers face financial ruin, due to the failure by government to create viable, competitive markets, and the unjust trade practices adopted by the large-scale agribusiness corporations to purchase their crops. Crop prices are falling, farm input prices are rising, and many of these vital inputs are often not delivered at all, or not on time. The food security of the whole nation is now at risk, as a result of liberalization, and its negative impact on food production carried out by smallholder farmers, especially those in the south and west of the country, which was formerly the breadbasket of Tanzania. In addition, pastoralist livestock-keepers have been completely neglected by these policies.

While the Bank claims to uphold the importance of equity as the basis for stable society and economic growth, little in its policies seems to actualize this goal. In terms of imports and exports, most of the imports have been detrimental to the local markets, such as used clothes and milk. Factories that have been privatized since the introduction of structural adjustment programmers (SAPs) have been working at lower capacity, with fewer staff, and a number have gone out of operation. For example, the textile industry, once a major growth industry in

Tanzania, has collapsed. The initial perception of job creation from the privatization exercise has not proven to be valid.

Due to user fees and privatization of public services, fewer people are accessing education and vital health services. One result of this is that enrolment rates in primary school have declined from 93% in the 1980s to 66% in the 1990s. Supposed exceptions of users fees for the provision of health services in relation to pregnancy, AIDS, mental illness and other health issues are not functioning in Tanzania, particularly burdening poorer social groups. A dual system of education and health has emerged, such that the rich and their children monopolize high cost private schools and medical facilities, leaving the poor to use the under-financed public social service system.

The issue of debt has not been on the agenda for discussion with African countries, although it is an issue that clearly requires dialogue between Africans and the Bank, as the current debt relief arrangement is inadequate. As Tanzania has carefully followed the guidelines set down by the IMF and the World Bank, it will now be eligible for debt relief through the HIPC initiative (Heavily Indebted Poor Countries). This initiative was used as an incentive for Tanzania to comply with thirty additional adjustment conditions, many with heavy social costs for Tanzanians, youth and women in particular. The amount of money being saved from debt relief is marginal compared to the total money being used for debt servicing. In fact, debt service payments will actually increase in 2001 through 2004 (compared to 1999-2000), and Tanzania is expected to pay 145.1 billion shillings for debt servicing in the year 2001/02, at least 9 times more than it spends on health care. This has serious implications, particularly for a country where 40% of the population dies before the age of 35.

Most invidious of all, however, is the timeframe of twenty years, which really means twenty years of debt bondage and twenty years of forced compliance with structural adjustment measures, euphemistically called "economic stabilization." Most critics agree that economic stabilization based on World Bank and IMF prescriptions only furthers poverty and inequality, and in no way reduces them.

During their visit, one of the goals of the World Bank and IMF Chief Executive's visit is to discuss ways to decrease poverty and decrease dependency. In order to actualize these objectives and to work with Africans, men women and youth, we propose the following major recommendations:

- Development by the World Bank and IMF of clear and transparent planning, implementation and monitoring processes. Civil society actors from the Global South as well as the general public, women, men, and youth should be involved as actors and beneficiaries of these processes at all levels.
- Ending promotion of privatization of basic government services, including health, education, water, and sanitation, and abandoning the promotion of user fees for basic services.
- Cancellation by the IMF and World Bank of all debts owed them. This would provide a serious burden impeding the development of Tanzania and provide a base for a more realistic type of partnership with the Global North.
- Ensure that conditions of structural adjustment and macro-economic reform, which have increased poverty and inequalities, are redesigned to address poverty eradication in line with the priorities of the poor themselves.
- Consider new structures, existence and policies of the World Bank and IMF that are determined through a democratic, participatory and transparent process. This process should accord full consideration of the interests of the women, men and youth most affected by the policies and practices of the institutions and include a significant role for all parts of civil society.

For more information on the Tanzania Gender Networking Programme, visit their website, www.tgnp.co.tz.