"Debt and Development: How to Provide Efficient, Effective Assistance to the World's Poorest Countries"

Testimony for the House Committee on Financial Services, Subcommittee on Domestic and International Monetary Policy, Trade and Technology

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Introduction

Chairman Pryce, Vice Chairman Biggert, Ranking Member Maloney and Members of the Subcommittee: thank you for this opportunity to appear before the Subcommittee today to talk about U.S. development policy vis-à-vis the poorest countries in the world. I would like to ask that my full testimony be entered as part of the record, and I will then briefly summarize my major points.

In 2001, I helped found the Center for Global Development, an independent, non-partisan think tank based in Washington, D.C. that is dedicated to improving the policies of the rich countries as they relate to the poorest countries. Our core mission is to work with the developed countries, first and foremost the United States, and the major multilateral institutions to develop more effective international development policies that will ultimately reduce global poverty and inequality.

As many of you know, 2005 is turning out to be a key year in creating momentum at the global level for progress in the fight against global poverty. In January, the United Nations Millennium Project led by Jeffrey Sachs issued a 14-volume report on what actions are needed if we are to meet a series of international goals to reduce poverty, curb disease, and tackle underdevelopment called the Millennium Development Goals (MDGs). In March, under the leadership of Tony Blair, the UK Commission for Africa released its blueprint for how rich countries can form a new partnership for Africa that is geared toward improving the quality of daily life in the world's poorest continent.

Just last week, Paul Wolfowitz began his tenure as the new president of the World Bank, signaling renewed support from the Bush Administration for that institution's development mission. (New presidents have also been or will be appointed this year at the Asian, African and Inter-American Development Banks.) Next month, in July, the United Kingdom will host the annual G-8 Summit in Gleneagles, Scotland—an event which will focus on development first and foremost.

Moving to September, heads of state from 191 countries will convene in New York on the floor of the General Assembly to assess international progress on development, security, and human rights and chart a way forward on the difficult issues of UN reform. Finally in December, the next round of WTO ministerial-level trade talks will take place in Hong Kong, where hopefully the world will take concrete steps toward a multilateral trading system that is more friendly to developing countries.

This unusual confluence of events and increased global attention to development reflects the deepening recognition—among national officials, international organizations, and throughout civil society—that the changes wrought by the new wave of globalization make reducing poverty and global inequality more possible, more compelling and more necessary than ever. As the world's only superpower and a leading "shareholder" in the international financial institutions and the United Nations, the United States has a particular responsibility and its own key security and other interests in ensuring progress on this global development agenda.[1]

The question before us is what specific steps in addressing this agenda the U.S. should take. Will the United States, as has historically been the case, be a leading supporter of an emerging global development agenda? What should the U.S. propose and endorse at Gleneagles in July, in New York in September, in Hong Kong in December, and beyond?

In my remaining time, I want to discuss five development initiatives on which the world needs the U.S. to step forward – in more active support of its allies' development efforts, and in some cases with its own forceful leadership. These are initiatives where the support of Congress, working with the Administration and with our allies, is critical if the United States is to sustain its traditional leadership of international efforts to bring prosperity and security to the world's poorest countries.

A common thread running through these proposed steps on the part of the United States is the need for the U.S. to not only lead by example in a unilateral way, but to take leadership in what is an increasingly *multilateral* system. In summary form they are:

- *Aid Effectiveness and Aid Accountability.* Commit this year to increased levels and an increasing proportion of the U.S. aid budget going through multilateral channels; and to the pooling of some MCA and PEPFAR resources with other donors' funds in selected eligible recipient countries; take leadership in creation of a consortium of donors and recipient governments to institute independent evaluation of the impact of selected development programs in poor countries;

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[1] One of the most challenging, emerging security threats derives from weak state capacity in the developing world. These so-called "weak" and "failing" states pose a direct security threat to U.S. national security (not to mention regional and international security) because of the interconnectedness between state incapacity (lack of development) and a diverse array of transnational threats, ranging from terrorism to drug trafficking and health epidemics. See Commission on Weak States and U.S. National Security, On the Brink: Weak States and U.S. National Security (Washington, D.C.: Center for Global Development, 2004), available at: http://www.cgdev.org/weakstates.

- *Debt Relief.* Compromise with the Europeans on a common approach to reaching 100 percent debt reduction for the poorest indebted countries—agreeing to additional contributions from the U.S. to the IDA window in return for European agreement to the creation of a special grants-only sub-window of IDA for the poorest countries;

- *Making Markets for Vaccines.* Take leadership at the international level in the setting up of an "advance market" for the guaranteed purchase of malaria and AIDS vaccines, to create incentives for private research and development;

- *Trade and Market Access.* Strengthen the African Growth and Opportunity Act (AGOA), including by extending its duration; and take leadership on a WTO-based system to help countries losing trade preferences finance the needed economic adjustments;

- *U.S. Leadership at the World Bank.* Encourage and support actively the new President of the World Bank, particularly in efforts to ensure that the developing countries, including the poorest, are better represented in the Bank's own governance.

Aid Effectiveness and Aid Accountability

The key issues of aid for the poorest countries are to increase the quantity provided and the "quality" and thus effectiveness of the resources. In the report of the Commission on Africa led by Prime Minister Tony Blair, there is a call for as much as a tripling of aid to Africa between now and 2015 from the current figure of about $25 billion, adding $25 billion annually between now and 2010, and then assuming reasonable progress, adding another $25 billion until the year 2015. Several countries of the European Union have meanwhile agreed to increase the proportion of Gross Domestic Product (GDP) they spend on aid to 0.7 percent within the next ten years. Japan has also committed to a major increase in its foreign aid budget over the next several years.

The proposal of the UK for financing aid by borrowing on private capital markets against future public aid allocations (called the International Finance Facility) is meant to increase the amount of aid in the short run, and at the same time to make aid flows much more predictable from the point of view of recipient countries. In the poorest countries, a responsible finance minister cannot easily commit to a major expansion of health systems or of schools without some assurance that aid will continue to flow to fund the ongoing annual costs of managing and staffing expanded systems. The Europeans have also called for aid to be better coordinated among the many donors operating at the recipient country level, to reduce the administrative and management burden on small and poor countries associated with dealing with dozens of donors and thousands of separate projects.

The proposed increases in aid are trivial in terms of the rich world's wealth, and are well below amounts other countries received at critical moments in their

development. South Korea received nearly $100 per person (in today's dollars) in annual aid between 1955 and1972. Botswana, the world's single fastest growing country between 1965 and 1995, received annual aid flows averaging $127 per person. (It did so by combining rapid expansion of diamond exports with exceptionally good governance.) By contrast, annual assistance to sub-Saharan Africa today averages about $28 per person—not nearly enough to build a foundation for sustained growth and development.

At the same time, there is room for concern about ensuring that any aid increases are used effectively. In the best-performing countries aid as a proportion of GDP is currently more than 20 percent of gross national income in Malawi, Mozambique and Ethiopia, and more than 15 percent in Uganda, Tanzania, and Rwanda (in both cases, among others). It is about 12 percent of GNI in Ghana. In these countries with reasonably good performance, where aid is already financing virtually all new public investment, there are risks in rapid infusions of new aid. These risks include reducing the receiving country's ability to compete in export markets (if aid puts upward pressure on exchange rates or induces people to leave productive private businesses to work in government and aid-financed public programs), overwhelming fragile preventive health efforts and road maintenance programs as attention shifts to new investments, and in the worst case, creating new pressures for corruption and patronage as procurement and expenditure management break down. In countries whose governments are less willing or able to absorb aid increases, there are even greater risks that conventional aid programs will not be effective.

Reacting to the European proposals for increasing the level of aid, especially to Africa, the Bush Administration has emphasized the need to ensure that whatever aid is provided is used effectively. The Millennium Challenge Account (MCA) reflects that emphasis. It promises ample aid to those countries most likely to use aid well, and makes explicit the logic of allocating different amounts of aid for different countries, depending on country governance.[2] The Administration has also noted that U.S. aid to Africa has already tripled. If the MCA appropriations rise, as they should, and are combined with the continuing and ideally increasing appropriations for U.S. financing to fight the AIDS pandemic, U.S. foreign aid spending will increase still more, especially to Africa.

However, it is still the case that overall U.S. aid levels are the lowest among its G-8 allies, with the possible exception of Japan. Even with recent increases, U.S. aid represents amounts to just $.16 for every $100 of our GDP. The trend, in short, is good—but from an embarrassingly low base for the leader of the free world.

Still, differences in the point of view of the United States and the Europeans on aid issues should not be exaggerated. There is common ground on the need to raise aid levels and to improve the coordination, predictability and effectiveness of the multilateral aid system. If I had to advise Congress and the Administration on what "aid initiatives"

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[2] I and colleagues are concerned about the levels of Congressional appropriations to the Millennium Challenge Corporation and the speed with which those appropriations are being disbursed to MCA-eligible countries.

the United States should be pushing for at the upcoming G-8 Summit in Gleneagles, I would offer three suggestions.

First, the United States should lead the G-8 in agreeing to maximize new donor contributions through multilateral channels, which are less subject to political and other sources of volatility, thus ensuring that aid flows are more predictable from the point of view of recipient countries, and less burdensome on recipient countries than the multiplicity of programs, rules, protocols and negotiations implied by many different bilateral programs. The United States at the moment is the most "bilateral" of all donors; the proportion of its aid that goes through multilateral channels is, at about 15 percent, the lowest. It should take the lead in committing to having an increasing proportion of its aid going through multilateral channels over the next five years. For example, the Congress could indicate support for the Administration's announcing this year that in the next round of replenishments of the IDA and the other soft windows of the regional development banks it will ask for increases in the U.S. contributions of at least 10 percent overall (across all the banks). Multilateral agencies also include the Global Fund to Fight Aids, TB and Malaria—where the U.S. should continue to take a leading financial role.

In the same spirit, the United States could also commit to serious efforts to have some proportion of MCA funds go into programs that provide pooled funding from several major donors for the best performing poor countries—for example to support sector-wide programs in education and health. This would make particular sense in the case of education. Four countries, including Mozambique and Ghana in Africa, are both eligible for the MCA and have been "qualified" by a consortium of bilateral and other donors as eligible for major support to their primary education programs under what is called the Fast Track Initiative for Education. The MCA could invite those countries to request that the MCA cover some of the costs of those agreed programs—making the MCA at least in this area in effect part of a multilateral effort. The same is true with regard to PEPFAR, the President's emergency program to combat AIDS. Wherever possible, PEPFAR resources should be pooled with other donors' funds to maximize recipient countries' ability to deploy overall external resources as efficiently and effectively as possible against their own priorities.

Second, as the champion of aid effectiveness and results-based aid, the United States should begin discussion with its G-8 partners on the creation of a completely independent system for evaluating the impact of selected development programs—funded by all sources, including recipient countries themselves. Independent evaluation of aid-financed programs has been a constant recommendation of various independent and congressionally mandated commissions over the last decade.[3] Becoming serious and systematic about such evaluation is particularly critical if the case is to be made for sustaining the major increases in transfers beyond the next several years which may well be warranted. I return to this point below in discussing next steps at the World Bank.

[3] These include the International Financial Institution Advisory Commission (also known as the "Meltzer Commission"), the Overseas Development Council Task Force on the Future of the IMF, the Commission on the Role of the MDBs in Emerging Markets (known as the "Gurría-Volcker Commission"), and a recent World Bank working group of the Center for Global Development.

Third, the United States could take initiatives in four other areas: debt relief, trade, a vaccine initiative, and reform of the World Bank, which I discuss below. In each of these areas, there is great potential to exploit possibilities for making aid for the poorest countries more effective.

Debt Relief [4]

Debt relief is an extraordinarily efficient use of aid resources. For countries with adequate policies and anti-corruption efforts, debt relief's automaticity and predictability increases their ability to fund their own programs without separate projects, reports, missions, contracts, or negotiations with individual donors. For many countries the prospect of debt relief, like the MCA, creates an incentive for governments to act responsibly, particularly in the way they manage their economies, in order to become eligible.

The United States is in a good position to seal a deal, hopefully at the Gleneagles Summit, on debt reduction for the world's poorest countries. First, it should commit a limited amount of additional aid money to finance 100 percent elimination of the debt owed by the poorest countries to the World Bank and other multilateral banks. The Administration has informally proposed eliminating the debt, but by using existing resources of the World Bank rather than committing additional resources. Congress would ideally indicate to the Administration that it would be prepared to appropriate the modest additional funds needed, including for example by increasing the contribution of the U.S. to the IDA window at the Bank as I said above.[5] In return the U.S. should secure from the Europeans their agreement on its proposal that going forward countries that are very poor (for example with annual per capita income below $500) should receive only grants from the World Bank, not loans, to ensure that they do not again accumulate unsustainable debt.

Second, to finance the write-off of debt owed by these same countries to the IMF, the United States should agree the sale of a limited amount of IMF gold, under special arrangements that would protect gold price stability in the global gold market.[6]

In 2002, John Williamson (of the Institute for International Economics) and I proposed that the International Monetary Fund sell or revalue some of its gold reserves to

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[4] For a detailed summary of this section, see Nancy Birdsall and John Williamson, "Gold for Debt: What's New and What Next?" (Washington, DC: Center for Global Development, 2005), available at http://www.cgdev.org/docs/CGD%20Note_IMF%20Gold.pdf.

[5] The United States could offer to finance 20-25 percent of the costs of the write-off, for example by contributing to IDA and the other multilateral creditors enough to offset the lost repayments. My colleague Steven Radelet at the Center for Global Development has estimated very roughly that the cost under the latter proposal would be about $200 million a year—just over 1 percent of the current total aid budget.

[6] A gold sale at the IMF requires approval of 85 percent of the members' votes. The United States holds 17 percent of the votes, so its consent is necessary.

help address the debt problem of the world's poorest, most heavily indebted countries.[7] Even then the idea of using the IMF gold to provide help to those countries was not a new one. During the period 1976-1980 sales of IMF gold provided $3.3 billion to help finance highly concessional loans—well below the cost to recipients of conventional IMF loans—to low income countries. And in 1999, the Board of the IMF authorized off-market transactions in gold to help finance IMF participation in the internationally agreed HIPC (Heavily Indebted Poor Country) initiative.[8]

Since 1999, the price of gold has risen (by about 50 percent), easing the fears of gold producing countries, and the evidence has hardened that many countries, despite benefiting from debt relief, still have unsustainable debt burdens. The IMF could raise about $7 billion by selling around 16 million ounces—about 15 percent—of its current gold. Were the United States to agree to sales up to that amount, the resources could be used to write off 100 percent of the debt to the IMF owed by selected with incomes below, say $500 per capita. In addition, there would be a small reserve to be tapped to "insure" eligible poor countries for some period (e.g. 10 years) against the financial and fiscal risks of drought, floods, a collapse in the price of a key export (coffee or peanuts) or an increase in the price of a key import (oil). That would help well-run poor countries manage future shocks, giving them time to diversify their economies and creating the conditions for private sector-led investment.[9]

The sale of gold could be managed under the existing agreement among central banks which limits the amounts that go to the market in any period, to ensure gold markets are not disrupted. Agreement to limited sales of IMF gold would have no budgetary cost to the United States, and would almost surely help lock in the long-sought compromise with the UK and other European allies on the mutually shared objective of major debt relief.

Making Markets for Vaccines

In recent weeks, there have been calls from diverse quarters for a "Marshall Plan for Africa." The idea behind such a plan is that the rich world (including the United States) should dedicate substantial new resources toward helping raise millions of Africans out of poverty. But as a noted development economist wrote recently, one could think of expanding this concept so that instead of only considering aid to Africa in the narrow sense of financing development projects on the ground, we include aid that could

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[7] See Nancy Birdsall and John Williamson, Delivering on Debt Relief: From IMF Gold to a New Aid Architecture (Washington, DC: Center for Global Development, 2002), available at www.cgdev.org/Publications/index.cfm?PubID=42. See also Nancy Birdsall and Brian Deese, "Delivering on Debt Relief" (Washington, DC: Center for Global Development, 2002), available at www.cgdev.org/Publications/index.cfm?PubID=31.

[8] The off-market transaction kept the gold off the open market, avoiding resistance in such gold-producing countries, rich and poor, as Canada, Ghana, South Africa, Uganda and the United States who feared that putting IMF gold on the market would lower gold prices.

[9] See Birdsall and Williamson (2005).

best be spent outside Africa, where absorption constraints will not bind, but that will ultimately benefit Africa.[10]

Let me give you one example of what I am talking about. Africa and other poor regions constitute poor markets, and because of their poverty, private companies, including in the United States, have little incentive to create the technologies that are relevant specifically to them. African countries are poor because of limited technological opportunities (for rain-fed agriculture in Africa's soil conditions, for example), but in turn these opportunities are difficult to create because of the region's low income. The research that led to the Green Revolution in Asia was almost wholly publicly funded. It yielded among the highest economic returns of any development investment.

In health, the problem is particularly acute, as lives are literally at stake. An estimated 90 percent of all research undertaken by rich country pharmaceutical firms is on diseases prevalent in the rich world—that affect less than 10 percent of the world's population. Pharmaceutical companies have much less incentive to invest in vaccines for diseases that are prevalent in low-income countries but not rich countries (such as malaria) because poor people have less capacity to pay the prices necessary to recoup R&D costs. Rich country governments can address this problem in a simple yet powerful way. They can make a legally binding promise to reward the creation of new technologies, be it via "prizes" or via agreements to purchase a fixed amount of the resulting product or process. With such a promise, the rich world would guarantee a minimum financial return to research undertaken by private firms for the benefit of developing countries.

Under this plan, first proposed by Harvard Professor Michael Kremer, the United States and other rich countries would promise in advance to buy millions of doses of vaccine, thereby creating an incentive for private companies to invest in research and development, and producing the vaccines when they have been developed. This differs from most programs that fund medical research that finance research costs as they are incurred; it provides incentives much closer to those created in privet R&D markets. Rich countries would pay for the vaccines only when and if they are proven to be effective.

The financial and legal outline of this kind of advance market mechanism, at an estimated cost of $3 billion, has recently been developed for the case of a malaria vaccine.[11] It is entirely feasible within current budgetary and legal systems, and would provide an adequate incentive to both biotech firms and large pharmaceutical manufacturers. This approach of providing an incentive for pharmaceutical innovation is not unknown. In fact, the United States (with Congress in the lead) has successfully used it in the case of the Orphan Drug Act. Bioshield I and Bioshield II (now under discussion) also recognizes the importance of public sector action to "create a market" if none exists for essential public health products.

[10] See also Jagdish Bhagwati, "A Chance to Lift the 'Aid Curse,'" The Wall Street Journal, March 22, 2005.
[11] The proposal and its legal, financial and budget implications are set out in Ruth Levine, Michael Kremer, and Alice Albright, Making Markets for Vaccines: Ideas to Action (Washington D.C., Center for Global Development, 2005), available at: http://www.cgdev.org/publications/vaccine/.

The proposal is fully in tune with U.S. values—based on creating incentives for the private market to act, while meeting people's needs, in this case potentially saving millions of lives. The Government of the United Kingdom has strongly stated its support for such an advance market commitment—and this is one area where an agreement between the UK and the US on a development priority could be achieved. The Bush Administration could signal its support at the G-8 Summit by indicating its willingness to work with Congress to make such an advance purchase commitment, and by urging that the details be worked out with other G-8 countries, and relevant stakeholders, by the time of the Millennium Review in September.

Trade and Market Access

I would hope that the Congress will work with the U.S. Trade Representative (USTR) and the Administration to ensure a sensible agreement on the reduction of agricultural subsidies and other forms of trade-distorting price supports that undermine trading opportunities for developing countries. My colleague William Cline has estimated that liberalization of trade could help up to 500 million people escape poverty in the developing world. The opening of rich country markets to developing countries in and of itself would bring benefits to developing countries valued at $100 billion a year.[12]

Beyond urging the Administration to seek a favorable outcome this December, there are three additional items on which Congress can exercise leadership: the African Growth and Opportunity Act (AGOA), on which this body has been supportive of in the past; the management of "trade preference erosion"; and the need for support for "trade facilitation" so that the poorest countries can better exploit the benefits of trade liberalization.

At the Center, we applaud the support Congress has provided AGOA, particularly with last year's passage of the "AGOA III" legislation which extends the third country fabric provision, originally set to expire in 2004, until 2008, and also extends overall AGOA benefits until 2015. In addition to extending AGOA's lifetime, we hope that Congress will act to eliminate the complicated and burdensome rules of origin treatment that are currently in force.[13] AGOA has contributed to increases in apparel and other exports (and in jobs, for example from 10,000 to almost 40,000 in Kenya in apparel) from some African countries (though with recent worrying signs of a leveling off with the end of the quota protection under the Multi Fibre Agreement). Its effectiveness, however, is limited since it is perceived as easily revocable for any one country on the part of the

[12] Cline estimates that agricultural liberalization in the rich countries would account for nearly half of these gains, or around $50 billion annually. See William R. Cline, Trade Policy and Global Poverty (Washington, D.C.: Center for Global Development, 2004), available at: http://www.cgdev.org/Publications/index.cfm?PubID=39.

[13] William R. Cline, "Trading Up: Strengthening AGOA's Development Potential," CGD Policy Brief (Washington, DC: Center for Global Development, 2003), available at: http://www.cgdev.org/Publications/index.cfm?PubID=88.

U.S., and because of its complexity. (The proposed "Trade Act of 2005" introduced by Senators Baucus, Feinstein, Santorum, and Smith would address these points in part.)

Second, there is the issue of "trade preference erosion." The United States, as a longtime leader in trade liberalization and trade capacity-building and adjustment help, could propose at the G-8 Summit that simple guidelines be developed, under the rubric of the WTO, for assistance to developing countries tied to reduced fiscal income as tariffs decline, and to temporary adjustment problems with job declines in sectors affected by preference erosion.

Finally, the United States could commit to special resources to enable Africa in particular to better exploit the opening of markets which the Doha round promises – urging greater attention to regional infrastructure investments in particular by the African Development Bank. Of particular relevance would be support for cross-border roads, airport hubs, and shared power arrangements that would reduce the costs of getting agricultural and other products to external markets while at the same time helping ensure greater integration of markets *within* Africa. Since the economic size of sub-Saharan Africa is astonishingly small (smaller than the economy of Chicago), integration of its own markets is key to its increasing its own economic efficiency through economies of scale and greater diversification.

U.S. Leadership at the World Bank

Let me end on an issue that is near and dear to my heart. For almost 15 years, I was an employee at the World Bank. So I have firsthand knowledge of the tremendous good the Bank can do when Bank management, recipient governments, and the Bank's shareholders (including the United States) join forces and work in partnership to reduce poverty in poor countries. At the same time, I understand the frustrations that many Americans have with the Bank as an institution (several of which I share). Those on the left accuse the Bank of protecting privileged insider financial and corporate interests—and perpetuating the influence of the United States and other G-7 members rather than the world's poor people and their civil society supporters. Those on the right accuse it of misusing public resources in emerging markets where private markets could operate better—and creating aid dependency in the poorest countries where its loans have contributed to unsustainable debt.

It would seem to me then that now is an opportune moment, since we are experiencing a change of leadership at the World Bank, to contemplate how to reform the Bank to make it a more effective partner in the fight against global poverty. Paul Wolfowitz, who is in his second week in office, faces at least five crucial tasks—and on each will require substantial support from the United States, the Bank's largest single shareholder.

On June 1, the Center for Global Development released the report of an independent expert working group that was charged with developing an agenda for the

next Bank president.[14] If acceptable to the Chair, I would like to have entered into the record the full text of this report. The group's report sets out the five tasks. I recount them here, as they have great relevance for Congress, especially this Committee which authorizes funding for the Bank's IDA window, as well as for the Administration.

Middle-income and emerging market countries. Borrowing from this group of countries has declined dramatically, because of the high "hassle" costs of dealing with the Bank and because of their increasing (though at times uncertain and costly) access to private capital markets. Their reduced borrowing puts at risk the Bank's maintenance of its global expertise, its ability to leverage equitable and sustainable policies, and its net income over the long run. To remain relevant for these countries, whose participation in the global club matters for global progress, the Bank must transform the way it does business.

Congress could request that the U.S. Treasury develop proposals for innovative policies, products and mechanisms that would make the Bank again relevant for these countries. These could include expanding the range of financial products and instruments now available to borrowers, such as products and instruments to hedge against commodity and other risks and better use of the guarantee function. The Bank could also develop a special window for quicker and less complicated access to loans for high-performing borrowers. There is no reason why the Bank could not create a new loan product that would visibly reduce hassle costs for creditworthy countries with reasonably good performance in economic management and an adequate record of enforcing environmental and other safeguards.

Low-income countries. There is nearly universal support for an expanded Bank role in low-income countries. Yet at the same time there are widespread doubts about its past effectiveness in these countries, many of which have weak governments and limited absorptive capacity, and failing to grow much in the past, acquired unsustainable debt burdens. Against this backdrop, how can we be confident that future Bank assistance will be more effective? First, the Bank should implement a much more differentiated approach depending on each country's governance, in terms of the size and types of transfers, with longer-term commitment periods for the best-performing countries and much more flexibility in reducing transfers ("exit") when progress stalls. At the same time, the Bank should maintain high levels of administrative spending to sustain policy dialogue and engagement and technical assistance in all countries independent of the size of transfer programs. This approach would broadly be in line with the MCA vision—rewarding countries with good governance and sound economic management—while at the same time ensuring that there are resources available to help countries improve their governance to the degree where large aid transfers in the form of budget support are appropriate.

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[14] Center for Global Development, The Hardest Job in the World: Five Crucial Tasks for the New President of the World Bank, Report of a CGD Working Group (Washington, D.C.: Center for Global Development, 2005), available at: http://www.cgdev.org/Publications/index.cfm?PubID=222.

Second, to end the disagreement between the United States and Europe on how much of IDA resources to devote to grants (as opposed to loans), Congress should urge the Treasury to propose and push a third, fully grant-based window for countries with very low per capita incomes, for example, below $500; most of these are countries whose poor record of growth implies little capacity to take on debt.

Independent evaluation. Although the Bank has improved its level of transparency through its research and the increasingly frank and systematic work of its internal evaluation department, neither fills the need for credible, truly independent assessment of the impact of development investments. Echoing calls from the Meltzer Commission, the Overseas Development Council Task Force on the Future of the IMF, and the Gurría-Volcker Commission for independent evaluation across donors, we recommend that President Wolfowitz take leadership in working with the board to support the creation of an independent evaluation entity financed and governed by a consortium of public and private donors and recipient country, to complement current internal audit and evaluation activities.

This independent evaluation entity could be financed and governed by a consortium of donors and multinational creditors, including the United States. No one member would have control over the entity's operations, but its members would jointly set priorities about evaluation focus areas. The reason behind creating a consortium is that a collective decision, once agreed, would help lock in good behavior of more and better evaluation—insulating specific programs from political pressures associated with negative evaluations. The consortium could be financed by contributions from its individual members, ideally linked to each member's own annual aid disbursements. This entity would not focus exclusively on the Bank's activities, but would evaluate across donors. The Bank's leadership in creating such an entity would thus make at least this aspect of its governance more representative. In any event decision making for Bank programs would continue to rest with the board.

Global public goods. Global public goods are those goods (or "bads") that no single nation has a sufficient incentive to produce (or limit) in optimal (from a global standpoint) amounts, but which have benefits (or costs) for all nations. The United States depends on the Bank playing an active role in providing these global public goods because it fills a gap that few other institutions have an incentive to fill. Examples include technological advances in agriculture and health, and global public "bads" such as global warming. Past investments in global public goods relevant to developing countries have had impressive rates of return: as high as 40 percent for agricultural research.

Over the years, the Bank has been drawn into the financing and provision of a multitude of global programs ranging from the environment to public health. The result is a situation in which the Bank has a set of ad hoc global programs without a clear mandate and without the grant instrument needed for its more effective engagement in provision and financing of high-priority global public goods. To this end, the United States could help lead a discussion with other shareholders that would develop a clear mandate for the

Bank's role in the financing and provision of global public goods. As part of this discussion, the Bank should initiate and maintain an ongoing dialogue with the regional development banks, the United Nations, and other relevant agencies to develop the proper division of labor for respective work on global and regional public goods.

But it is not enough to enter into more "discussion." This discussion must lead to a defined objective. One objective the discussion could work toward is the creation of a Global Public Goods Trust Fund that would finance the Bank's work on global public goods, based on agreed annual transfers from the Bank's net income and on contributions from non-borrowers. The Trust Fund would consolidate and help set priorities for current spending from the Bank's resources, and contribute to the financing of such new and promising initiatives as the aforementioned advance market commitment for vaccines.

Governance structure. The Bank's own governance fails to adequately represent the contribution and the interests of its borrowing members. The lack of adequate representation is undermining its legitimacy and puts its effectiveness at risk. Yet there is no issue that has been as impervious to change. It may be difficult to convince some in the United States why updating the Bank's governance structure is in America's interest. Let me suggest that the Bank's governance structure—the imbalance in shareholder votes, the inadequate representation of borrowing countries on the Bank's board, the opaque presidential selection process, and the lack of a "strategic" Board—place real limits on the transformation of the Bank from a traditional development agency to a "club" where both donors and borrowers have equal ownership and responsibility. In turn, this restricts the ownership it can engender among borrowing and non-borrowing countries, both of which are essential ingredients for successful projects and policies.

Conclusion

I would like to conclude by reiterating that the United States has a special opportunity this year to improve the development prospects of those worst off in the society. The confluence of several major development milestones—in addition to this July's development-oriented G-8, the commencement of Paul Wolfowitz's tenure at the World Bank, the impending change of leadership at several multilateral institutions (at the Inter-American Development Bank, the African Development Bank, and the World Trade Organization) and December's year-ending WTO ministerial meeting—creates an opening for the United States to resume leadership on development issues.

Since taking office in 2001, the Bush Administration has initiated the Millennium Challenge Account (MCA), the President's Emergency Plan for AIDS Relief (PEPFAR), and a host of smaller presidential initiatives geared toward development. These are singular achievements. Many development "experts" do not like to admit this, but since coming into office, the Bush Administration and Congress have more than doubled ODA spending on Africa. But these bilateral programs are not sufficient—in ideas, leadership, or financing. It is time for the United States to exercise leadership on multilateral initiatives and in multilateral fora. In an increasingly interdependent world, acting

unilaterally—even on welcome new initiatives like the MCA—does not foster the kind of international cooperation that is necessary in the end to forge a collective response to the scourge of poverty and underdevelopment.