Mr. Chairman, I am very honored to appear before this Committee to present the portion of the report of the International Financial Institution Advisory Commission regarding the multilateral development banks (MDBs). This report calls for a substantial overhaul of the World Bank and the regional development banks (the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank), but it also calls for a strong commitment of the United States to these institutions and especially to their main mission: the reduction of world poverty. The need for reform can be put simply. Despite large-scale lending programs of the MDBs, the situation in too many of the world's poorest countries has continued to worsen in the past two decades. This is not only because economic development in those countries is hard to achieve, but also because the MDBs are not achieving all that they can and should in supporting the process of economic and social development.

The report identifies several fundamental recommendations regarding the MDBs. These recommendations may be found in the Executive Summary, with substantial explanation and amplification in the main text of the Commission Report. I will not repeat them here, but will be prepared of course to answer all questions about the reasoning of the Commission in making these recommendations. Here I would like to summarize the main ten themes of the Commission's work and recommendations in this area.

First, the U.S. has a major commitment to the alleviation of poverty in the world's poorest countries. The situation in the poorest countries is desperate, and on average getting worse. If we consider the 700 million people living in the 42 highly indebted poor countries (HIPC's), life expectancy is now around 50 years, and is falling sharply due to the AIDS epidemic sweeping
the developing world. Average income is around $350 per year, or less than $1 per day. It too has been declining in the past 15 years.

Second, the U.S. development assistance to the poorest countries now stands at around $6 per American. This is much too low if the aid programs can be designed to ensure an effective utilization of assistance. Therefore, the Commission calls for a significant increase in U.S. aid to the poorest countries in the context of effective programs of economic and social development in the recipient countries.

Third, the burden of debts of the HIPCs, owed to the World Bank, the regional development banks, and the donor governments including the United States, now constitutes a fundamental barrier to economic development in those countries. Therefore, the Commission recommended by a unanimous vote the complete elimination of the HIPC debts in the context of effective programs of economic and social development, as supervised by the MDBs.

Fourth, the World Bank, as the lead global institution charged with supporting poverty alleviation, needs to be substantially reformed if it is to be effective in this crucial global task. The Commission found several fundamental problems in the organization and policies of the World Bank. A large proportion of World Bank activities and loans are directed towards the higher-income developing countries, or those with ready access to private international capital flows, thereby taking away time, focus, and resources from the poorest countries that really need the urgent help of the international community. Moreover, the World Bank does a wholly inadequate job of linking its funding operations to the effectiveness of its programs. Even according to the World Bank's own evaluations, a large proportion of programs are unsustainable or unsatisfactory in performance.

Fifth, because of the limitations of the current operations of the World Bank, the Commission recommends that the World Bank phase out its lending operations to the higher-income developing countries and to the countries with investment-grade ratings in the international capital markets. This will free up resources to direct to the urgent needs of poverty reduction in the poorest countries.

Sixth, in the same spirit, the Commission recommends that the primary responsibility for country programs should reside with the regional development banks, with are closer to the actual conditions within their member countries, rather than with the World Bank. This would leave the World Bank to focus more of its attention on global issues, particularly "global public goods." Global public goods are activities such as research and development in public health, agriculture, climate change, and so forth, that operate on a global scale, so that no individual country or group of enterprises has the individual incentive to provide these services on a market basis alone.

Seventh, the regional development banks would substantially shift their methods of operation to ensure much greater compliance with program objectives and less corruption in the use of official development assistance. In particular, the Commission recommends the introduction of a system of grants for the provision of basic social services (e.g. to pay for childhood immunizations) in which both private and public service providers would bid for the project on a
competitive basis, and would be paid for their services only after an independent audit had verified that the services had actually been distributed as contracted.

Eighth, in line with the shift in operations, there would be a commensurate shift from loan financing to grant financing, in which the delivery of services would be paid for jointly through grants from the MDBs and contributions from the recipient government. The Commission recommends that the share of external grant financing in the overall costs of the projects should be 90 percent for the poorest countries, and then should be reduced as the income per capita of the recipient country increases, declining to 10 percent for the highest-income countries eligible for participation in the program. Financing for institutional reform programs (e.g. renovation of the judicial system or the public health system) would be funded by subsidized loan programs, with the degree of subsidization again depending on the income level of the recipient country.

Ninth, the World Bank and the regional development banks would be renamed as "development agencies" rather than "banks," to highlight the shift in focus from lending operations to a combination of grant programs and the increased provision of regional and international public goods.

Tenth, financing for the new World Development Agency and the regional development agencies, would come from the income stream on paid in capital plus retained earnings, as well as income earned on loans and other financial operations, plus future grant appropriations from the member governments. Please note that the Commission calls for significantly greater U.S. budgetary support for the poorest countries in the context of effective programs of economic and social development. We anticipate that the American people would be willing to support significantly greater funding if they are convinced that it will truly be effective in reducing poverty in the world's poorest countries, and as they are aware that U.S. support for the world's poorest countries is now a mere $6 dollars per year per U.S. citizen (approximately $1.5 billion per year, according to the estimates of the Organization of Economic Cooperation and Development).