

**PROMOTING ECONOMIC DEVELOPMENT IN AFRICA
THROUGH ACCOUNTABILITY AND
GOOD GOVERNANCE**

HEARING
BEFORE THE
**COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES**
ONE HUNDRED SEVENTH CONGRESS
SECOND SESSION

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THURSDAY, JUNE 27, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Committee met, pursuant to call, at 10:45 a.m. in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order.

We are enmeshed in an interesting procedural day where the minority party expects to call several procedural motions during the day. We will try to observe those, but at the same time we have with us some distinguished witnesses and I do not like to impose upon their time. So we will proceed, and speaking for myself, I will ignore the procedural motions until we have heard the testimony from our witnesses.

So, thank you for joining me today at this meeting of the Committee on International Relations. The purpose is to hear and discuss new approaches to economic development in Africa, informed by Treasury Secretary Paul O'Neill's recent trip there. We all share an interest in promoting accountability and demonstrating results of our foreign assistance dollars.

As we will hear today, Secretary O'Neill's observations are timely and important. They correlate directly with the President's New Compact for Development, the initiative announced in the President's March 14th speech at the Interamerican Development Bank. I hope that by hearing Secretary O'Neill's observations today, we can initiate a discussion between the Administration and the Congress on the President's proposal for a Millennium Challenge Account—the idea of increasing U.S. economic assistance to those countries that demonstrate a commitment to human rights, democratic ideals and practices, and investment in people.

The discussion today is not about whether or not the U.S. should provide increased resources for the developing world. Over the coming months, as the Millennium Challenge Account takes shape, the debates will be how, under what circumstances, and with what expectations should the U.S. provide assistance. I am very encouraged by the practical thinking that Secretary O'Neill brings to the discussion, especially on the topic of expectations, results, and accountability.

As Secretary O'Neill has said recently, many U.S. aid programs have not achieved results over the years. Some assistance has allowed corrupt leaders to amass personal fortunes and remain in power beyond the will of the citizenry. Other aid has allowed leaders and governments to abdicate responsibility for effective governance and pursue detrimental, self-destructive, or personally self-enriching policies. Other assistance has gone to consultants or middlemen, with little results to show in the end. These failures of the past should not lead us to turn our backs on the developing world—just the opposite. As President Bush has said, now is the time for American leadership and for America to increase its aid to those countries that respect the rights of citizens, promote democracy, and encourage economic freedom and prosperity. However, we need to demonstrate what works and what does not. And we need to hold accountable those governments and leaders who do not choose the right path of reform.

Several weeks ago, I introduced H.R. 4877, the "Foreign Aid Impact Assessment Act." This legislation will create an environment of accountability whereby the most effective forms of foreign assistance are described and made public for the American people to understand. The Foreign Aid Impact Assessment Act will require the President to report the results of U.S. foreign aid and whether or not it has been effective. U.S. foreign economic assistance—including all development assistance—should be provided in support of key U.S. national strategic objectives. And certain types of economic assistance should be continued only to those governments that demonstrate results.

Our foreign aid investments must result in improved governance and a tangible improvement in the lives of those citizens to whom the aid is directed. Effectiveness will mean a better climate for U.S. entrepreneurs or businesses for foreign investment, a demonstrated means of promoting economic growth.

In recent days, I have mentioned the need for a new Marshall Plan for the Middle East. The United States can show leadership now by alleviating suffering, promoting freedom and providing hope. But experience has shown that we cannot do it alone. We need the commitment, participation and leadership of those working toward development, whether in Europe, the Middle East, or the nations of Africa. We need a new leadership that agrees to certain principles and accountability.

As Secretary O'Neill has said,

"With leadership, everything is possible; without leadership, nothing is possible."

By traveling to Africa in support of the President's development agenda, Secretary O'Neill is providing important leadership on the new debate on foreign assistance.

I look forward to hearing from Secretary O'Neill today on those important issues.

I turn with great pleasure to the distinguished Ranking Member of the Committee, Mr. Lantos.

[The prepared statement of Mr. Hyde follows:]

PREPARED STATEMENT OF THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTERNATIONAL RELATIONS

Thank you for joining me at today's meeting of the Committee on International Relations. The purpose of today's hearing is to discuss new approaches to economic development in Africa, informed by Treasury Secretary Paul O'Neill's recent trip to Africa. We all share an interest in promoting accountability and demonstrating results of our foreign assistance dollars.

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As Secretary O'Neill has said, "With leadership, everything is possible; without leadership, nothing is possible." By traveling to Africa in support of the President's development agenda, Secretary O'Neill is providing important leadership on the new debate on foreign assistance.

I look forward to hearing from Secretary O'Neill today on these important issues. I now turn to the distinguished Ranking Member of the Committee, Mr. Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman. I want to join you in welcoming our Secretary of the Treasury. I am delighted to hear from him.

First I want to thank you for convening this hearing, Mr. Chairman, to discuss a topic vital to the future of Africa. Since the end

of colonialism, development strategies have been undertaken to put African countries on the road to democracy, good government, and economic prosperity. This has not been a very successful journey so far. Today we must take a hard look at the development experience and judge where it has succeeded, where it has failed, and move on to endeavors that will truly fulfill the elusive promises of independence.

Let me just say that ideological rigidity has no room in dealing with the problems of Africa. For instance, with respect to the Sudan, the opposition of the Administration to interfering in capital markets is certainly not at the same level of values as is slavery and mass murder, which has plagued that country. I strongly urge the Administration to rethink its opposition to proposals some of us have made with respect to the Sudan. It is simply unacceptable that in the 21st century, practices of slavery continue, assassinations and murders continue, and the Administration is preoccupied in not interfering with access to capital markets by countries and companies that operate in the Sudan.

In March this year, President Bush announced the new initiative called the Millennium Challenge Account to increase substantially assistance over current levels. This new account will reward, promote, and invest in sound policies in Africa that lead to sustained economic growth, reduce poverty, and strengthen or in most places just begin democracy and good governance. I stand squarely behind these goals and look forward to creating legislation that will shape a bold enough development strategy for Africa.

By all social and economic indicators, the gap between Africa and the rest of the world is widening. Thirty-nine of the fifty-four poorest and most heavily indebted countries are in Africa. From 1991 to 2000, per-capita income in Africa fell from \$553 to \$474. That is per-capita annual income. Extreme poverty is defined as living on less than \$2 per day. In Africa, 65 percent of the people live on less than \$1 per day.

Mr. Chairman, something is terribly wrong in the world today where the disparities between the rich and the poor are so great and growing. I also must say there is something terribly wrong with policies that oppose debt reduction for countries that under no imaginable set of circumstances at any time would be able to repay what collectively amounts to something like \$200 billion in debt.

Mr. Chairman, Africa's development problems are related to many factors: Conflict, war, poor governance, mismanagement, corruption, failed development strategies, and the decline in global foreign assistance. The conflicts in West Africa are unbearable to the human spirit. Nigeria's President Obasanjo, who I had the privilege of hosting here last week, estimates that Africa has lost about \$140 billion through corruption in the decade since independence.

The 1990s were particularly devastating for Africa. While conflict, poor governance and corruption plagued the continent, global foreign assistance fell from over \$17 billion to \$12 billion. And we must not forget this alarming and unbearable debt burden that the continent faces. Two decades ago, Mr. Chairman, the total debt of the continent was \$60 billion. Today, it is over \$200 billion. The human tragedy standing behind these figures are the suffering

men, women and children whom we see occasionally on the 6 o'clock news.

Mr. Chairman, I hope we will leave this hearing today committed to addressing seriously Africa's future development. Our witness, our distinguished Secretary of the Treasury, has been one of our Nation's harshest critics of foreign aid. The Secretary has argued that after 50 years, there is little to show for the billions invested in poor countries. I certainly agree that many resources have been wasted in Africa. But I also feel we must remind ourselves of the positive work achieved by our Agency for International Development and other bilateral foreign aid agencies over the past decades.

As I am sure Secretary O'Neill saw in his recent fact-finding mission to Africa, USAID is educating Africa's next generation, promoting good governance and democracy, providing help for overburdened health care systems, and helping to prevent mass starvation.

I am confident, Mr. Chairman, that we all agree this was not wasted money.

I look forward to hearing from the Secretary today and I am particularly interested in what specific policies he recommends as a result of his trip.

Chairman HYDE. Thank you very much, Mr. Lantos. I want to suggest I agree with you on the Sudan.

The Chair will entertain brief, underline here "brief," opening statements, and recognize for that purpose Mr. Smith of New Jersey.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman. I would ask that my full statement be made part of the record to welcome our very distinguished Secretary to the Committee, applaud him for his outstanding trip to Africa, and for the good work he is doing. Hopefully we can do more. I think we are trying in a bipartisan way to improve debt relief. As you might know, Mr. Secretary, I, along with Congressman LaFalce and Senator Biden and Senator Santorum, recently introduced a new bill dealing with debt relief. As we all know, the United States has stepped up to the plate and has forgiven its bilateral debt. Our plan would move another \$1 billion per year of debt relief to the African nations if we initiated a new revenue-based criteria, in addition to the current export-based criteria. I would hope that you would look at this legislation and hopefully we can act upon it before this year runs out. They need it, and the sooner we deliver, the better.

But again, I want to thank you for your good work and thank the Chairman for his many bills this year and in the bipartisan way he has led this Committee, and his accountability bill that he referenced earlier is needed. We must have accountability. It also will enable us to do more and get more out of what we are already doing. So thank you.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF THE HONORABLE CHRISTOPHER H. SMITH, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. Chairman, I thank you for calling this hearing today and for bringing Africa to the forefront through the hearings you have called the past three weeks. In this session, you have already shepherded important foreign aid legislation through this committee and the House, including a billion dollar AIDs bill that will provide much

needed relief to millions of suffering people. I stand firmly behind you, President Bush, and Secretary O'Neill in calling for accountable foreign aid programs that produce results and foster economic growth and development.

Mr. Secretary, I thank you for coming before this committee and commend you for your bold leadership in charting a new course for foreign aid. Your extensive trip to Africa brought to the light for national leaders and the American public the tremendous challenges this continent faces as well as its great potential. Both this committee and this Congress know that you care deeply about the millions of Africans suffering in abject poverty and dying of AIDs.

I applaud the President for the framework he has laid out for more effective foreign aid through the Millennium Challenge Account. Assisting responsible governments who are attempting to build free economies, invest wisely in important health care and education programs, and display good governance will pay great dividends in the years to come.

In the aftermath of September 11th, I believe investing in progressive foreign aid programs is not only a moral obligation, but that it is also in our own national security interests. When nations move their people out of the hopelessness of poverty and despair, there is much less of a chance for terrorists, extremists, and tyrannical regimes to flourish.

I strongly support the emphasis you have placed on long-term economic growth. Funding foreign aid programs that help create jobs and promote self-sufficiency are perhaps the most valuable investments we can make. During your trip, I know that you had the opportunity to see first-hand the success stimulated by Microenterprise. In strong, bi-partisan fashion this committee recently marked-up, HR 4073, legislation I authored designed to further enhance US funded Microenterprise programs, and has since passed the House floor.

Assistance that helps care for the dying, prevents the spread of disease, and ensures the education and well-being of children is also crucial. Last week, the President's announcement of a \$500 million dollar International Mother and Child HIV Prevention Initiative and the \$200 million he has pledged for the African Education Initiative for the next five years showed his commitment in this area.

I also strongly support the emphasis you have placed on grants rather than loans as a means for distributing foreign aid. Staggering debt and debt service payments resulting from loans have caused an array of problems for developing nations and diverted spending away from important social programs, including funds for badly needed health care programs that can be the difference between life and death.

I believe the over \$600 million our government has contributed in the last two years to the HIPC debt relief program, which requires nations receiving relief to enter into well structured poverty reduction strategies, has borne much fruit. The World Bank has reported that the 26 nations who have received debt relief through the HIPC program have increased their social spending by a combined average of \$830 million a year from 1999 to 2002.

G-8 leaders discussed problems with the current system at their summit in Alberta and pledged an additional billion dollars to fill gaps in the existing program, but problems with the current export-based criteria, which many question the fairness of, still remain. Our focus on developing effective grant programs will be inhibited if the nations we assist continue to be plagued by the burdens of debt.

As you may know, there is strong bi-partisan support in both chambers of Congress for additional debt relief. I am the prime author of HR 4524, a bill that would add an additional revenue-based criteria to the current HIPC framework and move funds from throughout the world for much needed additional relief. The estimated first year cost of this plan to the US Treasury of \$43 million would be relatively modest compared to our past debt relief contributions. If other G-8 nations and International Financial institutions, who unlike our government still have high levels of debt they have yet to forgive, were to accept these same terms, over \$1 billion would be saved in debt service payments. Unlike previous plans, our proposal also takes into account a nation's HIV/AIDs rate as a factor for awarding relief. Language similar to that contained in HR 4524 passed as part of the AIDs bill in the Senate Foreign Relations Committee. As this legislation continues to move through Congress, I hope that you will give it careful and thorough consideration.

Mr. Secretary, I again thank you for coming before this committee. I look forward to hearing your testimony and working with my colleagues as we assist you in developing the Millennium Challenge Account.

Chairman HYDE. Thank you, Mr. Smith.

The gentleman from New Jersey, Mr. Payne.

Mr. PAYNE. Thank you very much, and thank you for calling this important hearing. The Millennium Challenge Account. Let me commend the Secretary for his recent visit to the continent. We were all very encouraged by the time you took and the interest you have shown. The \$5 billion increase in assistance, we believe, is a good beginning. However, there are some concerns in regard to the goals. We do believe good governance is certainly important—economic freedom—so we can foster entrepreneurship and investment in people. Education and health are key to any nation moving forward.

However, I hope we do not forget other problems if we have too much emphasis on trade as the cure-all. The idea of the private sector as the engine of economic growth being the only and major entity is not the total picture. There needs to be a focus on debt reduction, as the gentleman from New Jersey just mentioned, because debt is the most obvious impediment to employment. Many countries have to pay a large portion of their budget to debt. Such as in the Congo, 25 and 30 years and 20 years ago, tremendous amounts of money were lent to that country, and now the debt must be borne by the new leadership. There is not enough attention to poverty reduction. What we need to really focus on is how can we reduce poverty in Africa, and good governance, of course, is very important. However, when we have poverty and poor health and other problems, good governance becomes much more difficult. Foreign assistance is important. However, we need to look at the levels.

In concluding, I certainly urge the Administration to make sure that poverty reduction is included, and it includes equitable human development, which would promote the local capacity for building. In other words, poverty reduction is a main criteria, along with debt reduction. I have a number of other issues that I would like to include for the record. Thank you, Mr. Chairman.

Chairman HYDE. Thank you, Mr. Payne.

The Chairman of the Subcommittee on Africa, Mr. Royce.

Mr. ROYCE. Thank you, Chairman Hyde, and I want to thank you, Secretary, for your commitment to Africa.

Mr. Secretary, today at the G-8 meeting in Canada several African leaders will present their NEPAD plan. Under this plan, African states are going to commit themselves to promote democracy and promote the rule of law and promote human rights, in exchange for additional resources from the developed world.

But central to this whole plan is this concept of peer review by African states. That is Africa's half of the bargain. Unfortunately, the reaction of African leaders to Zimbabwe is undermining the promise of this plan, because Zimbabwe today is standing on the precipice of a devastating famine of Robert Mugabe's own making. The reservoirs are full of water. Food is being used as a political weapon. At the same time, we have a long running reign of terror there, Mr. Secretary, in the Human Rights Caucus this week, we heard the testimony of 400 cases of torture over the last few weeks since the election, which was stolen in that country; 400 cases of political opponents who have been tortured by Robert Mugabe's state apparatus and their associates.

Frankly, the fact that African leaders remain silent on this bodes poorly for a meaningful NEPAD review process, and ultimately, I think, poorly for the type of resource commitment that the founders of this plan envision.

So, my remarks to you, again, I want to say how much I appreciate your commitment to Africa, but during this G-8 process, I hope the international community will discuss with African leaders that if they are committed truly to election reform, to the rule of law, to human rights, that they speak out about what is happening right now in Zimbabwe. That should be part of the peer review process.

Again, I thank you very much for appearing here today, Secretary O'Neill.

Chairman HYDE. Thank you.

The gentleman from California, Mr. Sherman.

Mr. SHERMAN. Thank you. I commend the Secretary for his trip to Africa. That trip and the work of many on this Committee and others, I think, will convince the American people that we should be spending more on foreign aid. But the greatest threat to reaching that consensus in our country is that a portion of that foreign aid in the President's budget, \$874 million, is supposed to go to the World Bank. The World Bank just a year and a half ago lent \$232 million to Iran. Since September 11, the World Bank has tried to expand its loans to Iran. Recently, they leaked to the press that they planned to loan \$755 million to Iran over the next 2 to 3 years. Just very recently, they posted on their Web page the intention to go forward or at least to begin processing a \$112 million loan to Iran, identified as being for low income housing.

Money is fungible. The Iranian government uses its resources to hold on to power. It spends the minimum amount it needs to spend in order to secure power, a minimum amount on domestic expenditures. Whatever they don't feel they have to spend on domestic expenditures, they are able to use for their nuclear weapons development program and to maintain their coveted status identified by the United States State Department as the number one sponsor of terrorism.

Now, I look forward to a change, a genuine change, in the Iranian regime. I look forward to sitting in this seat and urging that more money be lent to Iran. But this regime, regardless of its facade of a powerless and allegedly moderate President, is actually run by its supreme leader and others and dedicated to the construction of nuclear weapons and their eventual smuggling into United States cities.

I hope that we will hear from the Secretary today that those of us who go back to our districts and say let's spend more on foreign aid can be confident that the United States will do more than just vote against this \$112 million proposed loan to Iran or the \$755 million more or less planned for Iran over the next 2 to 3 years; that we will do more than just vote no, get outvoted, as we were in the year 2000 when \$232 in World Bank loans was approved. We need to do more than just vote no and then go have tea with the European diplomats that outvote us. We will tip over the tea cart and make this \$874 million conditional on not a single additional penny being approved in loans to Iran by any of the many

branches of the World Bank; that we will, if necessary, cease other participation in the World Bank; that we will say that those who are trying, to kill not just 3,000 Americans, but perhaps bring a nuclear weapon into one of our cities and kill 3 million Americans, will not get funds from agencies that we participate in; and that eventually, hopefully, we will see a new regime in Tehran that will make everything I just said irrelevant.

Thank you.

Chairman HYDE. Mr. Houghton.

Mr. HOUGHTON. Thank you very much, Mr. Chairman.

Mr. Secretary, great to see you here. As we all know, those of us who have dealt with the African nations in the past, particularly those on the east coast and to the south, sub-Saharan, know that the problems in Africa are huge. If you look at them in totality, they are almost insolvable. But the fact that you are involved, you personally are interested in them, makes a great deal of sense to us and gives us a light for the future. Thank you very much.

Chairman HYDE. Mrs. Davis, the gentlewoman from Virginia.

Mrs. DAVIS. No, thank you, Mr. Chairman.

Chairman HYDE. Thank you. Mr. Mark Green.

Mr. GREEN. Thank you, Mr. Chairman. I will be very brief.

Mr. Secretary, welcome. I look forward to your testimony when I am not running back and forth to respond to adjournment motions on the Floor. I have lived and worked in Africa. Like you, I visited schools and villages in Africa, and I agree with your assessment that this is an important and timely issue. I agree with most of what my colleagues have said. Particularly I would like to magnify something that the distinguished Ranking Member has said. He referred to the issue, the subject of this hearing today as being vital to Africa's future. It is.

I would also argue, however, it is vital to our future. It is vital to America's future. When we take a look at the ticking time bomb of the HIV/AIDS pandemic, take a look at the tremendous economic struggles which are leading to hopelessness in so many corners of Africa—those are matters that a Nation like ours, which prides itself on being a moral, compassionate Nation, obviously cannot stand by.

But beyond that, I think that there is a new constituency in this country for responsible foreign assistance in Africa. I think we realize that in a worldwide war against terrorism, one that will be with us, unfortunately, for some time to come, that we can take steps through our assistance to Africa, particularly our assistance in the form of basic education reform and assistance to prevent opportunities for radicalism to take hold.

In too many parts of Africa, people feel a sense of hopelessness. When they don't have good educational resources and opportunities for their young children, they see no alternative but to turn to the type of education which radical elements all too often in too many places offer.

I would encourage you and the Administration as much as possible to devote a large part of the assistance to basic education and to creating those opportunities. I have seen programs, USAID-funded programs, in certain parts of Africa that I believe are making a difference and are working. I say as one who is skeptical of good

intentions of the past that I would encourage you to help support those types of programs. I think that they are vital to Africa, but as I said, just as importantly they are vital to our future and national security.

Thank you, Mr. Chairman.

Chairman HYDE. Thank you. Well, I would like to announce that J.C. Watts, the gentleman from Oklahoma, and Jim McDermott, the gentleman from Washington, who were scheduled to testify, have been here and have provided us with written statements which will be made a part of the record, without objection.

[The prepared statements of J.C. Watts and Jim McDermott follow:]

PREPARED STATEMENT OF THE HONORABLE J.C. WATTS, JR., A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW JERSEY

Mr. Chairman—thank you and this committee for your leadership in addressing good governance in Africa, and thank you for allowing me to make a statement on this issue. Accountability in Africa is vital to the national and economic security of the United States. Mr. Chairman—we in the world's richest country have a special role to play in helping those who are not only less fortunate, but who are, in fact, dying from hunger, poverty, and disease in parts of the international community.

Secretary O'Neill—thank you for being here this morning. I applaud your commitment to helping make the world a better place, in which children and families may live, work and play. Hunger and poverty, like that in Africa, are unimaginable to most Americans. Having to live or raise a family on less than \$2 a day is something few Americans have ever experienced.

Having traveled twice to sub-Saharan Africa last year and having witnessed the devastation and suffering caused by conditions such as poverty and the HIV/AIDS pandemic, I know that there are no easy or quick answers. However, by partnering with government agencies like the Treasury Department, non-governmental organizations, volunteer organizations, private industry and, most importantly, the countries themselves, we can create a global community of self-sustaining countries.

Mr. Chairman—between 1945 and 1999, taxpayers in the United States directly contributed over \$500 billion to foreign aid programs, *but* I am saddened to say, some of those countries are worse off today than they were in 1945. Why? Why is it that some developing countries have benefited from foreign assistance while others have not?

Traditionally, trade and aid have been viewed in mutually exclusive terms. Yet, we know that over the course of history trade and aid, in and of themselves, have not developed a country. Clearly, given the right conditions, trade and aid help facilitate the development process. But aid *alone* does not increase investment any more than investment *alone* promotes economic growth. Most important in a country's development is good governance, as indicated by sound economic policy, rule of law, strong judicial policy, civil liberties, property rights, transparency and free and fair elections. We must move beyond looking at trade and aid individually and recognize their complementary nature. In doing so, we can help countries build capacity, improve healthcare and educational systems, and provide technical expertise and training through a program I call *TradeAid*.

Mr. Chairman—TradeAid seeks to bridge the gap between trade and aid when addressing the needs of developing countries. TradeAid sets forth a course of reform that ensures our American tax dollars and government strategies will help to produce a new global community of self-sustaining countries. It understands that, at the end of the day, *the developing country must make a serious effort to create an environment* built upon a firm rule of law and *solid democratic principles*—one that will encourage foreign investment. TradeAid is not only about holding developing countries accountable for the aid they receive—be it loans or grants—but also about *giving them the tools to build capacity and to improve the lives of its citizens*.

Mr. Secretary—thank you and your department for promoting to G7 finance ministers the providing of grants rather than loans to some of the world's poorest nations. I look forward to a favorable response from the G8 Summit this week. America *must* lead the charge to convince the international community that it is in its best interest to see developing countries *not as obligations*, but *as opportunities*. In fact, I believe that distributing foreign assistance to developing countries with corrupt governments does nothing more than keep the poor in peril and poverty while

the rich get richer. We must wipe out the poverty and the oppression that lead to hopelessness and despair. Fertile ground for terrorism and lawlessness is created where wide economic disparities between classes and repression of human beings exist.

Governments of developing countries should be more responsible for the health, education and welfare of their citizens. Otherwise, they should be risking their *developmental* assistance from the United States. This is the basic premise of President Bush's Millennium Challenge Account: to reward countries that root out corruption and practice good government. Botswana has responsibly mined diamonds for the development of their health and education systems and has a registered growth rate of 7.7 percent. Uganda has opened more schools, increased teachers' salaries and experienced an annual growth rate of about 7 percent. Countries like these should be rewarded and used as a benchmark for other developing nations. These countries, as well as others, have instituted sound fiscal, judicial and monetary policies that create a more secure environment. The security a nation provides for its citizens is important not only to that country, but the U.S. as well.

Mr. Secretary—oil is an important national security issue for America. In excess of 500 million barrels of oil have been found in the Gulf of Guinea region located on the west coast of Africa, which is a significant discovery. Yet, American investment will falter if countries cannot protect the work environment for in-country workers. It is difficult to encourage foreign investment in a country in the midst of a civil war. It is equally challenging for countries, which are at war or experiencing political instability, to establish solid credit ratings that would reduce financial risk and encourage investment. Mr. Secretary, I look forward to your comments regarding this issue as well.

Clearly it is in our national and global interests to encourage economic freedom abroad. Under the right conditions, establishing a peer-trading partner benefits the U.S. worker, farmer, rancher and private investor as well as the entrepreneur in the developing country. Free, open and fair markets grow economies. Growing economies increase the middle class, creating a cadre of workers who seek better labor and environmental standards. It is from the middle class that democracy takes root. At the end of the day, TradeAid is really about improving lives *throughout* our global community.

Again—Mr. Chairman, thank you for the opportunity to make a statement this morning, and Mr. Secretary, I look forward to your comments and working closely with you and your staff as we help to reform our existing foreign assistance policies.

PREPARED STATEMENT OF THE HONORABLE JIM MCDERMOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. Chairman and Members of the Committee, thank you for inviting me to testify today. I am pleased that this distinguished committee is holding a hearing about Africa because the well being of her people is something that has been a concern of mine for a very long time.

I first traveled to Africa as a young man and later returned as a Foreign Service medical officer based in the Congo. Every time I visit Africa, I see the enormous potential that a little help from our prosperous nation could unleash.

During my time there, it became clear to me that the traditional patron-client relationship that the US had with Africa, which consisted largely of cash assistance and onerous loans, was a rather fruitless policy on its own. In 1988 I left the Congo and was elected to Congress.

A few years later I started working to write a bill that would, for the very first time, establish a trade policy with Africa. In 1996 Representatives Crane and Rangel got on board this idea and we introduced the African Growth and Opportunity Act, now the law, known as AGOA. Just two years ago, President Clinton signed the bill in to law, which President Yoweri Museveni of Uganda recently declared, "the most important development between Africa and the North in the last 400 years."

As many of you know, AGOA primarily opened up the American market to African exports by removing protectionist tariffs. I am pleased to say that it appears that AGOA has been an astounding success. Last month, the United States Trade Representative reported that:

"In just two years, AGOA has already generated increased trade, cooperation, and investment flows between the United States and sub-Saharan Africa."

U.S. imports from sub-Saharan Africa have increased 61.5 percent since 1999. And Africa reciprocated. The report indicates that, led by sales of aircraft and wheat, U.S. exports to sub-Saharan Africa were up 17.5 percent in 2001 and totaling

nearly \$7 billion—this is a record number. As the most of the developed nation's economies dove into recession last year, sub-Saharan Africa experienced 2.7 percent growth in its gross domestic product.

AGOA is not just about commerce. In order to receive AGOA benefits, countries must make progress in areas ranging from protecting intellectual property to providing due process and some minimum labor standards. As a result, AGOA has contributed to profound economic and political reforms that are occurring throughout the region.

Anti-corruption activities have increased markedly in many of the nations of sub-Saharan Africa. Just in the past year, 21 AGOA-beneficiary countries have ratified ILO Convention 182 on the elimination of the worst forms of child labor and nine countries have also strengthened laws on child trafficking and worker rights.

But Mr. Chairman and Members of the Committee, freer trade with the United States is not a panacea for what afflicts the developing world. Debt relief and targeted aid must be vital components of the US assistance policy toward Africa.

Companies may invest in new manufacturing plants or mineral extracting facilities, but they usually do not drill wells for clean water in remote villages or build schools to educate young Africans.

I do not know of many venture capitalists that buy malaria or tuberculosis treatments for the world's poor because of trade opportunities. Nor have I heard of entrepreneurs educating villagers about the dangers of HIV/AIDS and unprotected sex.

Many opponents of assistance to developing countries have used Africa as an example of how inefficiently such funds are often spent. Indeed, corrupt governments and corporations have wasted millions of precious dollars. But what the numbers do not always suggest is how many of those dollars were part of strategic US Cold War expenditures used to support dictators and their armies. Recent events in this country show that even American corporations are not immune to corruption.

Mr. Chairman, I sit on the Ways and Means and the Budget Committees so I am acutely aware that our nation's fiscal situation has deteriorated substantially since last year's tax cut, but that cannot be an excuse avoid recommitting ourselves to reducing poverty, disease, and famine in Africa—or the rest of the developing world for that matter.

HIV in Africa currently infects more than 28 million people, and an estimated 2.3 million people died of AIDS last year in Africa. There were 3.4 million Africans that became newly infected in 2001.

Conservative estimates suggest that Africa could easily absorb about \$5 billion per year in the struggle against the HIV/AIDS pandemic.

Funding to help treat HIV/AIDS is a popular subject currently but let's not forget about malaria and tuberculosis. Malaria kills one to two million people annually in Africa, and death by Tuberculosis is just as common. To someone who has seen first-hand treatable diseases ravage entire villages, it is sometimes difficult for me believe that the origins of man began on this deadly continent, where the life expectancy is 47 years old and only 55 percent of the country has access to a decent source of drinking water.

In conclusion, you will undoubtedly continue to hear about the astonishing achievements that freer trade has brought to sub-Saharan Africa. Indeed, it appears that AGOA has encouraged transparency in governments and in the markets. In some regions, there is even a vibrant sense of entrepreneurship that has taken hold. I hate to be dubious, but I remember a time not long ago when we brimmed with similar optimism as independence seized the continent. That naive cheerfulness was followed by military coups, apartheid, and genocide. Africa still has a long way to go and she needs our help.

Direct foreign investment in sub-Saharan Africa may have nearly doubled last year but increased trade and investment alone cannot bring the nation out of poverty and away from strife. The most imperative investments do not seek to acquire silver, gold, or petrol at some later date. Rather, the most crucial investments are investments in our shared humanity.

Thank you.

Chairman HYDE. We are going to try to accommodate the Secretary of the Treasury, who must leave us at noon. So we appreciate Congressman Watts' and Congressman McDermott's courtesy in deferring to the Secretary.

I would like to welcome the Secretary of the Treasury, Paul H. O'Neill. He was appointed as the 72nd Secretary of the Treasury in January 2001. He has had extensive experience in the Federal

Government, first with the Veterans Administration, later with the Office of Management and Budget where he served as the Deputy Director from 1974 through 1977. His most recent experience as the President of International Paper Company from 1985 through 1987 and as Chairman and CEO of Alcoa from 1987 through 1999 has been chronicled by the Harvard Business Review in a case study on how to transform old economy firms into new age success stories.

Mr. Secretary, we are truly honored to have you appear before the Committee today. Please proceed with a summary of your statement. Hopefully you can confine it to 5 minutes or so. We certainly are not going to be rigorous in that application. Then we will ask you some questions.

Mr. Secretary.

**STATEMENT OF THE HONORABLE PAUL H. O'NEILL,
SECRETARY, U.S. DEPARTMENT OF THE TREASURY**

Secretary O'NEILL. Chairman Hyde, Ranking Member Lantos, Members. I thank you for inviting me to talk to you today about my recent trip to Africa and the President's initiatives to improve conditions in the developing world.

Mr. Chairman, as you noted, I do have a rather long statement that I have personally looked at carefully and I think it is worth people looking at it, because it provides examples and details that I cannot possibly reach in my summary. So I would encourage those of you who are interested in this subject to look at the stories about this trip and the experiences that we have, because I think they are worth telling.

But I can certainly stay within the 5-minute guideline, and I look forward very much to engaging you and the Members in whatever subjects you would like to explore in more detail.

Let me say I went to Africa last month to listen and learn, but most of all I went with an open mind and one pivotal question: How can the people of the United States and the developed world best help Africans and their elected leaders to achieve prosperity at last?

I learned a great deal, and I want to share some of my experience with the Members.

This trip confirmed three things for me: First, a truth we have always known, all people, everywhere, can do great things when they are given the tools and incentives for success.

Second, with leadership, honest, accountable and committed to progress, everything is possible. Without leadership, nothing is possible.

Finally, that in the right environment, focused on growth, enterprise and human development, aid does work. Knowing that can work, we have a moral duty to demand as much. Assistance should make a real difference in people's lives.

In Africa, I saw three kinds of investments in people that are vital to realizing Africa's potential: Clean water, primary education, and fighting HIV/AIDS.

Clean water is surely one of the most essential elements of a dignified, civilized life. No aspect of infrastructure is more basic, and yet 45 percent of sub-Saharan Africans lack access to clean, safe

water. That is 300 million human beings, more people than the total population of the United States.

If we can figure out a way to support African leaders in bringing clean water to their nations, and I think we can do it much faster and cheaper than the endless studies say we can, we can liberate hundreds of millions of people, especially women and children, from preventable, debilitating illness and meaningless wearisome work. They would be free to pursue their dreams for a better life.

The second important investment I saw was in raising primary education enrollment. I visited schools where they have gone from a ratio of 16 students per book down to 6 per book. That is progress, but it is not good enough, and it is certainly not success. We must set our expectations higher. That is why President Bush committed last week to doubling funds for the African Education Initiative, first announced last July. This will raise our total spending on the initiative to \$200 million over the next 5 years. The program will train more teachers, provide scholarships for girls who are disproportionately excluded from schooling today, and work with historically black colleges in the U.S. to supply millions of more books to African children. It will also promote accountability and transparency in the school systems.

Third, perhaps most crucial area, is health care. Nowhere is this more urgent and more heartbreaking than in the struggle against AIDS. In South Africa, I saw mothers with AIDS caring for babies with AIDS, even when proven inexpensive drugs are available to stop transmission between mother and child. Prevention of further HIV contagion is the utmost priority, especially to keep the next generation of newborns free from the disease.

The President has therefore stated his intention to provide \$500 million in new funding for the International Mother and Child HIV Prevention Initiative. This initiative will increase our commitment to preventing infant HIV infection abroad by almost \$200 million next year alone, up from less than \$20 million last year. It will increase another 50 percent in 2004. We will start with the hardest-hit countries in Africa and the Caribbean and expand the program as we show progress and results.

This is our challenge, to focus the attention of the world on getting results. Caring greatly is not enough. We must also succeed greatly.

In addition to supporting President Bush's new initiatives for stopping the spread of HIV and broadening access in education in Africa, we need to push ahead with the rest of his reform agenda for improving the effectiveness of wealthy nation support for African development. In March, President Bush announced that the United States will increase its core assistance to developing countries by 50 percent over the next 3 years, resulting in a \$5 billion annual increase over current levels by fiscal year 2006.

This increased assistance will go to a new Millennium Challenge Account that funds initiatives to improve the economies and standards of living in qualified developing countries. The goal of the Millennium Challenge Account is to reward sound policy decisions that support economic growth and reduce poverty.

Also international donors have at times knowingly made loans to poor countries for programs that could never generate a return suf-

ficient to pay back the principal and the interest due. Of course, in many other cases loans simply finance corrupt leaders who stole the money and left their impoverished citizens saddled with their debt.

As a result, many caring people now extol debt forgiveness. But debt forgiveness solves nothing if we allow new debt to create the next generation of heavily indebted poor countries a decade from now. To prevent this situation, President Bush proposed that up to 50 percent of the multilateral development funds to the poorest countries be provided as grants instead of loans. Following intensive discussions with our development partners, donors to the 13th Replenishment of the International Development Association have agreed to the principles of substantial grant financing for the poorest countries.

I believe this: With the right combination of aid and accountability, from both rich nations and poor ones, we can accelerate the spread of clean water, primary education and health care throughout Africa. We can help the African people create vibrant, self-sustaining economies that will generate rising standards of living.

Working together with the Congress and with other donor nations, we can help Africa to achieve real prosperity, not in the next generation, but right now.

Thank you, Mr. Chairman.

[The prepared statement of Secretary Paul H. O'Neill follows:]

PREPARED STATEMENT OF THE HONORABLE PAUL H. O'NEILL, SECRETARY, U.S.
DEPARTMENT OF THE TREASURY

Chairman Hyde, Ranking Member Lantos, and Members of the Committee, thank you for inviting me to talk to you today about my recent trip to Africa, and the President's initiatives to improve conditions in the developing world.

I went to Africa last month to listen and learn; to meet African leaders in and out of government, to meet doctors, farmers, teachers, students, and entrepreneurs. I went to hear their insights into the obstacles to Africa's prosperity.

I also went to find a real-world basis for recommendations to the President on how to allocate funds from the new Millennium Challenge Account. But most of all, I went with an open mind, and one pivotal question: How can the people of the United States and the developed world best help Africans and their elected leaders achieve prosperity at last?

I learned a great deal, and I want to share some of my experience with the Members of the Committee.

I have to say these were the most intense twelve days I've ever experienced. I met people like Sister Benedicta, who runs a hospital and orphanage in Ethiopia. She maintained an incredible radiance, even as she told us how many people die in her hospital every day—how many children die in her hospital every day. To witness that strength of spirit is a truly profound experience.

This trip confirmed three things for me. First, a truth we've always known: All people everywhere can do great things when they are given the tools and incentives for success. Second, that with leadership—honest, accountable, and committed to progress—everything is possible. Without leadership, nothing is possible. And finally, that in the right environment—focused on growth, enterprise and human development—aid works. Knowing that it can work, we have a moral duty to demand as much. Assistance should make a real difference in people's lives.

We in the developed world must support African leaders who are creating the conditions for success—ruling justly, encouraging economic freedom, and investing in their people. And we must ourselves take a leadership role in demanding results.

In Africa, I saw signs of progress everywhere. Programs are working, aid is helping, and standards of living are improving. But there is a long way to go. The progress I saw deserves praise, but it just isn't enough.

Let me highlight the areas in which we witnessed progress. In particular, I saw three kinds of investments in people that are vital to realizing Africa's potential: clean water, primary education, and fighting HIV/AIDS.

Clean water is, surely, one of the most essential elements of a dignified, civilized life. No aspect of infrastructure is more basic. Yet 45% of sub-Saharan Africans lack access to clean, safe water. That's about 300 million people—more than the total population of the United States. In Ethiopia, that figure is 78%, or 50 million people in that country alone.

One insight from my Africa tour is that local leaders, with some engineering and financial support, could develop clean water sources for their towns and villages fairly quickly. For example, in one Ugandan village I saw a concrete basin installed to protect a natural spring. The women of the village could collect the water directly from the basin instead of collecting it after it spilled across the muddy ground. The concrete basin cost a thousand dollars to install.

But the local chairman for the project told me that the greatest hindrance to installing the system had been local fears that a snake was protecting the spring, and that the snake would become enraged by any tampering and would take away the water. He had to spend considerable time persuading his fellow villagers to go ahead with the project. It took his leadership to get the project finished.

Or consider another village, where women were trekking to a muddy river to obtain water, even after a well was dug in the village. After the well was built, the women wouldn't use it. It turns out that they valued their social time down by the river, and so they chose to continue collecting dirty water from the river, rather than clean water from the well. When the water tap was relocated further from the village, providing an opportunity to socialize, they started to use it.

In these and other cases, only local leadership could tailor development projects to suit local customs and culture. And it was sometimes shocking to see the disconnect between the aid bureaucracies with their grand, expensive, multi-year plans and the availability of more immediate, practical solutions. It made me wonder how much was going to aid, and how much to bureaucracy.

Compounding the problem are the changing demographics in Africa, especially the fast growing urban populations. Africa's urban infrastructure, including water and sanitation systems, is antiquated and overextended.

If we can figure out a way to support African leaders in bringing local solutions for clean water to their nations—and I think we can do that much faster and cheaper than the endless studies say we can—we can liberate hundreds of millions of people, especially women and children, from preventable, debilitating illness and meaningless, wearisome labor. They would be free to pursue their dreams for a better life.

The second important investment I saw was in raising primary education enrollment. I believe that in Africa, in the United States, and in every part of the world, children by the age of about ten years old should and can have the tools to be life-long learners. But that requires that they get into schools at an early age, and stay in school, with well-trained teachers and adequate materials.

In Uganda, they've had tremendous success increasing primary school enrollment. Primary school enrollment has increased from about half (55%) of the children in 1994 to nearly all of them (94%) in 1999, and nearly half the students are girls. Education quality is improving as well. But there is still a long way to go. I visited schools where they have gone from a ratio of 16 students per book down to six per book. That's progress, but it's not good enough. We must set our expectations higher. Surely, we can get every student his or her own book.

That is why President Bush committed last week to doubling funds for the African Education Initiative, which was first announced last July. This will raise our total spending on the initiative to \$200 million over the next 5 years. The program will train more teachers, provide scholarships for girls—who are disproportionately excluded from schooling today—and work with historically Black colleges in the U.S. to supply millions more books to African children. It will also promote accountability and transparency in the school systems, so that communities can ensure that all the funds that are supposed to reach teachers and children are really reaching them.

The third, perhaps most crucial area for investment in people is health care. Nowhere is this more urgent, and more heartbreaking, than in the struggle against AIDS. In South Africa I saw mothers with AIDS caring for babies with AIDS, even when proven, inexpensive drugs are available to stop transmission between mother and child. I saw the dedication of nurses and doctors treating people with AIDS, and their patients' struggle to survive.

Prevention of further HIV contagion is the utmost priority, especially to keep the next generation of newborns free from disease.

The President has therefore stated his intention to provide \$500 million in funding for the International Mother and Child HIV Prevention Initiative. This initiative will increase our commitment to preventing infant HIV infection abroad by almost \$200 million next year alone, up from less than \$20 million last year. It will in-

crease another 50% in 2004. We will start with the hardest-hit countries in Africa and the Caribbean, and expand the program as it shows progress.

In addition to promoting nevirapine dosing at birth, which can reduce mother-to-child HIV transmission by up to 50 percent, the President's initiative will introduce more advanced combination antiretroviral therapy and best-practice postnatal care where local healthcare infrastructure permits. At least as important, it will improve healthcare training and delivery systems throughout the affected regions, bringing public and private resources to bear.

This is our challenge: to focus the attention of the world on getting results. Caring greatly is not enough. We must also succeed greatly.

Providing the framework for basic health and education is fundamental for enabling people to realize their potential. When governments are investing in their people, providing clean water, education, and health care, and when the other aspects of good governance are present—just rule and economic freedom—prosperity can blossom.

In fact, the private sector is already growing in parts of Africa. I visited entrepreneurs who are grabbing the opportunities that good governance has made possible. They are creating jobs in industries from coffee and cut flowers to athletic wear and data processing.

Government provides the conditions for growth, but it is not the source of prosperity. Private citizens create prosperity through enterprise.

And in Africa, where the conditions are right, citizens are doing just that.

For example, in Ghana I visited a successful U.S. investment, called Affiliated Computer Services, Inc. ACS sells data processing services to insurance companies in the U.S. It opened its office there in 2000, and already it employs over 800 Ghanaians, paying an average of three times the average wage in Ghana. 80% of the employees are women. The company now plans to expand its operations to four new sites in Ghana and to increase its workforce to over 1,000 people.

As foreign investments like ACS show success, others are bound to follow, and I am optimistic that increasingly advanced services, such as software development, will thrive in Ghana and elsewhere in Africa.

In Uganda, I met a woman, Lukia Ssemonobe, who opened a restaurant with micro-loan funding and a lot of hard work. This woman lost her husband a dozen years ago, and had to feed four children without income. Indomitable, she borrowed \$50 from the local branch of a micro-finance NGO, and used that and subsequent loans to build two businesses—a restaurant and then a tailoring shop. Now she employs about a dozen of her neighbors, supports her family, owns a home, and has become a leader in the community, caring for AIDS orphans.

In Ethiopia, an entrepreneur from Chicago invested in building a garment factory that makes sports clothes and ships them to the U.S. under the Africa Growth and Opportunity Act. The company now employs about 200 workers, each earning between three and 21 times the average Ethiopian income.

Jobs that deliver prosperity are created one at a time, by people like Lukia, or the investors in ACS. They see opportunities and choose to take the risks, confident they will reap the rewards of success.

Unfortunately, in too many cases, potential entrepreneurs and investors in Africa are deterred by arbitrary laws, corrupt bureaucracies and government favoritism. Africa is a continent of entrepreneurial enthusiasm—that's what I saw. But these individuals have no chance for success without governments that fairly enforce laws and contracts, respect human rights and property, and fight corruption. Governments also must remove barriers to trade—both internal and external—and open their economies to investment. They must allow companies and entrepreneurs to compete without excessive interference, including interference from government-owned enterprises.

That's no small order. But as private sector production takes hold in Africa, and incomes rise, African growth will become self-sustaining. Africa will be its own best market.

Coming back to my original question, what can we in the U.S. do to support African success? In addition to supporting President Bush's new initiatives for stopping the spread of HIV and broadening access to education in Africa, we need to push ahead with the rest of his reform agenda, which includes restructuring, increasing, and improving the effectiveness of wealthy nations' support for African development.

On March 14, 2002 President Bush announced that the United States will increase its core assistance to developing countries by 50% over the next 3 years, resulting in a \$5 billion annual increase over current levels by FY 2006. This increased assistance will go to a new Millennium Challenge Account that funds initiatives to improve the economies and standards of living in qualified developing coun-

tries. The goal of the Millennium Challenge Account is to reward sound policy decisions that support economic growth and reduce poverty.

The Millennium Challenge Account recognizes that economic development assistance can be successful only if it is linked to sound policies in developing countries. The President therefore instructed Secretary of State Colin Powell and myself to develop a set of clear, concrete, and objective criteria for measuring progress in three key areas: ruling justly, investing in people and encouraging economic freedom. Treasury has been working with State and an interagency group to investigate options for criteria and country selection.

The same policies that make a country eligible for Millennium Challenge grants will also make other official aid more effective. We are not setting out to pile one more program on the layers already present. We aim to improve them all, and streamline the aid process wherever we can. Too many of the responsible developing countries already labor under the demands of countless bilateral, multilateral and NGO aid bureaucracies. These organizations mean well, but poor countries end up consuming a large part of their aid allocations—and then some—just trying to qualify for the next helping. Sometimes it seems that more money goes to administration than assistance.

Also, international donors have sometimes knowingly made loans to poor countries for programs that could never generate a return sufficient to pay back the principal and interest due. The reality is that essential investments in sectors such as education and health care—investments in people—cannot directly generate the incremental revenue to service new debt. Of course, in many other cases, loans simply financed corrupt leaders, who stole the money and left their impoverished citizens saddled with the debt.

As a result, many caring people now extol debt forgiveness as the path to African development. I would agree that debt forgiveness may help, but it alone is not the solution.

First, debt forgiveness solves nothing if we allow new debt to create the next generation of heavily indebted poor countries a decade from now. To prevent this situation in the future, President Bush proposed a year ago that up to 50 percent of the multilateral development funds to the poorest countries be provided as grants instead of loans. President Bush's proposal led to intensive discussions with our development partners, and the principle of substantial grant financing for the poorest countries will be embodied in an agreement among the donors to the thirteenth replenishment of the International Development Association (IDA-13). African nations will be the largest beneficiaries of this initiative, under which all financing to the poorest countries for HIV/AIDS, and nearly all for other key social sectors, will be provided with grants.

The United States is also increasing its financial contribution to IDA-13 and to the replenishment of the African Development Fund by 18 percent. IDA programs need only show they are making a difference in people's lives to receive a portion of these additional funds—a challenge development organizations, their supporters, and their beneficiaries should welcome.

Replacing loans with targeted grants will eliminate the need for governments to repay long-term investments in people. It will thereby help eliminate the next generation of debt service problems. It is time to end the sad cycle of indebtedness for countries committed to success.

But it is also a simple fact that even without debt, it is impossible to prosper without income. Even if we forgave all debts, many of these countries still could not fund their own budgets, and they would immediately have to borrow more. In Uganda, over half of the government budget comes from foreign aid. Half the budget! That is not a sustainable situation. The only way out of that kind of shortfall is internal economic growth. Local leaders must create the conditions for self-sustaining prosperity, not further dependency.

In the long-term, domestic entrepreneurship as well as trade and foreign investment are far more important for economic growth than official aid. The purpose of aid is to speed the transition to economic independence. But we are using other mechanisms to help as well. For example, the United States created the Africa Growth and Opportunity Act to open U.S. markets to exports from sub-Saharan Africa. As Uganda's President Museveni said "If somebody buys what Uganda produces, then he is rendering my country the best assistance possible."

The Africa I saw on my journey is already changing. And we in America stand ready to help, eager and impatient to support real improvement in the lives of the African people.

I believe this: with the right combination of aid and accountability—from both rich nations and poor ones—we can accelerate the spread of clean water, education, and healthcare throughout Africa. We can help the African people create vibrant,

self-sustaining economies founded on private enterprise, which will generate a rising standard of living.

With the support of the Members of this Committee, and the United States Congress, we can help Africa achieve prosperity at last. Not in the next generation, but right now. In this era of global opportunity, no continent, no country, and no person should be left behind. President Bush said it best—there are no second class citizens in the human race. We must make his vision into a worldwide reality.

Thank you.

Chairman HYDE. Thank you, Mr. Secretary.

Mr. Lantos.

Mr. LANTOS. Thank you, Mr. Chairman.

I certainly think every rational human being would agree with your emphasis, Mr. Secretary, on the importance of clean water, primary education, and at least minimal health care. You certainly will not find any argument, I think, on our part with those goals.

But there are other issues where I think the Administration's posture and your posture is somewhat troubling. The first of these clearly relates to debt reduction.

It is simply utterly irrational to anticipate some of the poorest countries on the face of this planet, which are at present unable to provide clean water, minimal health care, minimal primary education to their tens of millions of children, to seriously contemplate repaying tens of billions of dollars in debt.

Now we can continue this illusion of carrying this debt on the books ad infinitum, but it would be more honest and more straightforward and more helpful if we would remove this burden and use our influence with respect to international organizations and multi-lateral lending agencies to do so as well.

It simply is nonsensical to carry the culture of corporate America to destitute countries in Africa. My judgment is that the Administration's rigidly ideological adherence to this notion that debts need to be repaid, which is a fine principle in a developed society such as ours, cannot be applied to the poorest countries on the face of this planet. I would be grateful if you would comment on this matter, Mr. Secretary.

Chairman HYDE. Would the Secretary defer. Would the gentleman yield to me?

Mr. LANTOS. I would be delighted to yield to my friend.

Chairman HYDE. I think that is a very important question Mr. Lantos has asked. I would like to inject another element into the equation, and that is it seems to me forgiving debt to a country that has a corrupt government accomplishes nothing but encourages a continuation of the corruption. But with the debt hanging over them, if there could be indigenous forces to proceed with a reform so that an honest, effective government might succeed, a reward for that could be debt forgiveness. But simply to forgive the debt, and I agree with Mr. Lantos, it is foolish to expect them to ever repay it, but at the same time, I would be very leary of rewarding corruption and inefficiency.

Mr. LANTOS. Reclaiming my time, Mr. Chairman, I don't advocate rewarding corruption and inefficiency. That is not my point. I am as much in favor of clean and honest government in Africa as anybody on this Committee or in the Administration. I think we deal with corrupt governments where they exist by making our aid flow, not through the government, but through a nongovernmental

organization of impeccable integrity, of which there are many, many American and others international.

I think the Chairman's comment about corrupt governments is extremely appropriate. As I indicated in my opening remarks, the distinguished President of Nigeria estimates that \$140 billion was stolen by corrupt governments in Africa, and no one is doing anything but denouncing them.

But I would like to ask you to focus on the underlying issue. You and all of us know some of these governments, some of these countries, will never be able to repay this debt, and to carry it on the books and adding interest to it every year simply seems to me as an economist nonsensical.

Secretary O'NEILL. Well, thank you for the question and thank you for the exchange. I think there are many important points here.

Let me start first of all with a clear statement of what the Administration's position is on debt relief. I think it has been the subject of the G-8 meeting in the last couple of days and what the President has said is the U.S. should meet our obligations under the debt relief program that we agreed to some time ago, including recognizing that circumstances have changed that suggest there may be a requirement for some additional amount of money to meet our initial obligations.

So I think we should be clear that we in the Administration think debt relief is a principal policy idea, and we followed up on it.

Then I would say this to you: Last week I was the U.S. Representative at the G-7 finance minister's meeting in Halifax, and we talked about debt relief. I made this proposition to them, that we put our deputies to work on looking at this issue of debt relief in a way that I honestly don't think it has been up to now, which is this: Debt relief, I think is just as you suggest, in many cases an absolute necessity, just to square ourselves with reality, because if you cannot pay, then the idea that you have debt is an absurdity on its face. If you can't pay and don't pay, if you were in the corporate world, you would write it off, and in many cases we have actually done that on a bilateral basis, the U.S. has already done a great deal.

But I think, frankly, that some of the rhetoric that has been said about debt relief has actually been not constructive at all in this sense. It has assumed egocentrically from our point of view that when debt relief is finished, that is to say the principal and interest requirements are written off the books, the countries now have the ability to spend money on things of our choice. When in fact I think if one looks at the financial condition of most of the countries we are talking about, it is ridiculous to believe that simply because they don't have the particular debt that has been forgiven by us and other developed countries, that suddenly they are fiscally responsible and sustainable is an absurdity. Anyone who can read a balance sheet and income statement would say this is ridiculous.

So I believe that we need to, working with our developed country partners, examine the question of fiscal sustainability country by country and have a deliberate set of policy ideas about what we do. For example, in the case such as the nation of Uganda, which

where if they had no debt on their books, it was completely written off. You would still find that 50 percent of their annual operating income comes from bilateral and multilateral assistance, which is to say they are not within shouting distance of fiscal sustainability.

I think if we are going to do the right thing, we must move in the direction that President Bush has suggested. For example, by stopping the fiction of being party to making loans to countries that can never possibly pay them back, no matter how good a job they do of deploying the funds to create clean water and primary education and relief of the HIV/AIDS problem. I think we need to deal with these things on an on-the-ground, realistic basis, that is true to the facts and not true to some fantasy, as though these countries are suddenly fiscally sustainable because we have forgiven their debt.

Mr. LANTOS. If I have an additional minute, Mr. Chairman, may I ask the Secretary to comment on the question of Sudan that both Mr. Royce and I raised.

Secretary O'NEILL. I am happy to. I think you would not find anyone in the Administration who finds the conditions in Sudan any more reprehensible than we do. I think an indication of that is the Special Envoy, the distinguished former Senator Danforth, who is representing the President there on a personal basis, is an indication of the strength of conviction that conditions in Sudan have to change.

Now, to the question that you raised about a provision in the legislation that basically puts a limitation on capital participation from U.S. companies, I would argue that this provision is an extraneous provision that ought not to be the subject of any legislation that we pass. Some may find it useful to throw the kitchen sink into legislation, and I think left by itself, if you and other Members insist that it be included in this kind of legislation, I suppose that is certainly your privilege.

The reason I don't think it is a good idea is because it is a precedent, and if you are going to make this kind of a judgment about how America and Americans can participate in the world on a rifleshot basis, I don't know where you stop taking the rifleshots. I think maybe a better way to deal with Sudan, if you are concerned about every way that we deal with them, is to say no American should have any business in any way with the people in Sudan, full period stop, rather than select some particular aspect of American business activity or American life and single it out for special treatment.

Mr. LANTOS. Mr. Secretary, access to capital markets is not a holy concept, and if a company is unwilling to listen to reason and judgment, it is unimpressed by slavery and mass killings, to deny it access to the American capital markets might work.

Secretary O'NEILL. I don't—well, I think in this—excuse me for interrupting.

Mr. LANTOS. No, not at all. I just don't see why this is so objectionable.

Secretary O'NEILL. I don't think it helps at all for this reason, because as much as some may not like it, the world capital markets are today basically seamless. And so by saying to people who happen to have a U.S. residency for their capital, you can't do any-

thing with it, doesn't mean the capital flows are going to change in any way. You may be happy to say that direct American money doesn't exist, but it doesn't stop the fact that Americans, maybe even you, if you are invested in a mutual fund that has an investment in offshore banking facilities is an inadvertent indirect supporter of Sudan, whether you like it or not. And for me it is kind of equivalent to the notion that used to exist when I lived here before in Virginia, that the State legislatures passed a ceiling on interest rates. It is equivalent basically to passing a resolution that the sun should only come up every other day. You know, there may be some rhetorical utility in it, but from a real-world sense, it has no particular meaning at all.

Mr. LANTOS. Why do they fight it then?

Secretary O'NEILL. The only reason we are fighting is because we don't think it has anything to do with the way the real world works, and we are concerned that if we do it here, it becomes a precedent for around the world. Wherever some Member has got some problem with what is going on in the world, let us put this provision in. And I don't know where it stops. If we don't work on the issues of what are the critical principles related to how the world really works, I don't know how to do this work.

And so it is okay with me if you want to put this kind of provision in on a broader basis, maybe even saying these people are so reprehensible, we shouldn't give them food aid. We ought to let them starve to death. I would not personally go that far, but it seems to me that is the general principle that is being asserted by this kind of a notion that we are going to selectively decide this and that about countries, when it has nothing to do with the way the world really works.

Chairman HYDE. Mr. Green.

Mr. GREEN. Mr. Secretary, I want to go back to a subject I mentioned in my opening statement, and that being basic education. When I read a summary of the G-8 statements from yesterday, there was much to like and praise in it, but they lacked some hard commitments on assistance to basic education. Can you tell us when we can expect hard commitments from the Administration in terms of its funding of basic education, education reform in Africa, both amounts and timing? I would appreciate that.

Secretary O'NEILL. Let me start with concepts. You know, I come back from this experience, and I have to tell you a little bit more background to give you a perspective or an understanding of where I am coming from. When President Bush, the elder, when Number 41 was here, I was the Chairman of his Education Policy Advisory Committee for 4 years, and while I was then living in Pennsylvania, I chaired the State Education Commission and worked at the local level on the issue of education. So I don't come to this without some knowledge.

What I believe is this: After having now looked at primary education in Africa, that we should be very specific about what it is we want to accomplish. And my own formulation of that is that we should provide money that will produce educational knowledge. Functional competency in 10-year-olds at such a level that 10-year-old African children will be able to read and write and compute at a level that will effectively make them independent, lifetime learn-

ers. And we should, in effect, write purchase orders to systematically increase the number of children who have those competencies.

We should not be deluded by other measures of numbers of children in school, which is a worthwhile objective, but we should not make the mistake that more buildings and more teachers and more teacher education is what the objective is. We should systematically insist that the number of competent 10-year-olds is going to go up, and we should know what the unit cost of doing that is, including whatever resources are necessary to achieve that objective.

Now, tomorrow I have a meeting with Colin Powell, and we are going to talk about the staff work that has been done in getting us ready to advise the President about the basis to suggest the distribution of the Millennium Challenge account monies, and this area is a critical part of it. But my thinking is that we should be very precise in each of these three areas. We should buy—for example, in clean water, the number of individual human beings who are going to have clean water next year that didn't have it this year, and we need to inform ourselves about what the unit cost is. And it is very much in keeping with what the Chairman has put into his responsible assistance bill to deliberately go after buying tangible things that make a difference in people's lives. Especially, in the HIV/AIDS area, measuring the number of women tested that were not tested the year before, the number of women and children that are given drugs to prevent mother-to-fetus transmission, so on a unit cost basis. So we don't talk in global fantasy terms about 50 billion here and 40 billion for that and all the rest of that, but we talk about specific deliverables in the three areas of focus.

Mr. GREEN. And much of what you are saying I agree with. As someone who taught in east Africa and had a problem of 12 students per textbook, I understand. But let me suggest that if we are not careful, we will also miss some of the great potential in basic education reform.

Two quick examples, or two quick thoughts. First off, if we talk about the idea of creating or using basic education reform as a way of preventing the potential for radicalism to take hold, I would suggest it is not sufficient to merely measure the competence of 10-year-olds. I think we also have to take a look at what schools they are learning from. We want to shut down some of the radical schools that are producing generation after generation of Western-hating students. They may have core competencies in math and reading, but they are hardly what we are hoping our dollars will support.

I think we should take a look at a precise measurement also of the curriculum and be creating and supporting alternatives, secularized alternatives, to some of those.

Secondly, I would encourage you to look at some of the programs that USAID has put together, particularly in west Africa—I can speak from personal experience—that weave health life lessons into every part of the curriculum where they use health lessons in grammatical examples. The sentences teach young girls why they should not draw their drinking water from the same river in which they bathe. It is a lesson in grammar, but, of course, it is a lesson in life that creates a relevancy that families in the community can

look to and support and say, yes, this is why I should send my daughter to school.

Chairman HYDE. The gentleman's time has expired.

Mr. GREEN. Thank you, Mr. Chairman.

Chairman HYDE. The gentleman from New Jersey Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Secretary.

Let me just ask once again about the debt relief. African countries now have debt of about \$206 billion. In 1980, it was \$60 billion, now it is \$206 billion. Of course, much of the debt is simply by interest and penalties, which, if it is \$206 billion now, in another 10, 15 years it will be 450 billion, I suppose.

Once again, you say that your position is that you and the Administration feel that debt forgiveness is not the way to go. In your opinion then, how will these African countries—as you know, 39 of the 54 poorest countries are in Africa. The direct funds that go to Africa out of the Development Fund for Africa are about \$850 billion. There are about 900 million people in that area. So it is less than \$1 a person in Africa for that specific fund that deals with development in Africa. Since it is less than \$1 a person, and since the interest and penalties on this debt continue to escalate, how will they get out of this strait jacket that the governments find themselves in?

Secretary O'NEILL. Mr. Payne, let me be clear, because apparently I was not before. The Administration is very much committed to delivering on the debt relief for the heavily indebted countries. It has been the policy of the Nation, and during the meetings in Canada, the President indicated that we intend not only to meet our original commitment, but to pay our fair share of the so-called "topping up" to meet the commitment that was initially made that changed because of circumstances that are changed.

And then what I said further is that I think we should look at this whole issue of debt reduction in a broader context, and again, let me say we should stop the fantasies that debt relief solves the problems of these countries. We need to be honest with ourselves and with the African nations about the fiscal conditions of these individual countries. One of the things that we—I think, frankly, we need to be very insistent on, especially with those who would receive money from the Millennium Challenge account, is that it is not discretionary for the leaders of these countries who are going to get this money to be true to the idea of the rule of law and enforceable contracts and an all-out attack on corruption. Without those things, they are never going to be physically solvent because there is not going to be any job creation that comes from foreign direct investment if foreign direct investment is confronted with the uncertainty of governments who don't do what they say or don't even try to do what they say.

Mr. PAYNE. Let me ask this question: As you may know, there has to be people to corrupt others. In Europe, especially in Germany, bribes are tax-deductible from business practices. And in most countries in Europe, it is not against the law to offer bribes for contracts. Of course, in the U.S. we have the farms assistance, the bill that makes it a crime. Have you discussed with your European colleagues about if you are going to weed out corruption, you need to start with the corruptees, too? Have there ever been any

discussions on your level about countries that allow bribes to be deducted from their taxes when they are corrupting vulnerable Third World leaders? Has that ever come up in any discussion with your buddies?

Secretary O'NEILL. We have not had this item as an agenda issue, but prompted by your question, I am happy to put it on the agenda. I think your statement of what is possible under European law is too sweeping and, in effect, not correct with regard to how these things are characterized and what people are permitted to do. But I am happy to put it on the agenda, because at least for me, I think these fundamental things need to be universally applied without exception.

Chairman HYDE. The gentleman's time has expired.

The gentleman from New Jersey Mr. Smith.

Mr. SMITH OF NEW JERSEY. Thank you, Mr. Chairman.

Mr. Secretary, I again want to applaud the Administration's initiative of the \$500 million for the International Mother and Child HIV Prevention Initiative. I remember asking the previous Administrator Brian Atwood over and over again why we were not putting more money into the mother-to-child transmission of AIDS, a preventable deadly disease that would be stopped. I am so grateful that the Administration is doing this and doing it in such a significant way, and I applaud you for that.

On the issue of debt relief, if I could expand upon what I mentioned earlier about the legislation that I had introduced along with Congressman LaFalce, and Senators Biden and Santorum on the Senate side. I do believe that this is not the panacea. There is no silver bullet here. The Administration itself acknowledges that by going to more grants rather than loans, we hopefully stop this cycle that seems endless, where these Third World highly indebted countries are unable to pay their debt.

I would like to thank the President for his efforts at the G-8 meeting. He has again stated, as have the others, that they will try to fix this shortfall in the current program. But we believe, in looking at where the remaining issues lie, that it would be very, very helpful if we would look at a different way, a different standard of calculating how we mete out this money. The exports is an inadequate way of doing it, and we think a revenue-based looking at the revenues would at least free up an additional billion dollars for these highly indebted countries. Nineteen of the current twenty-six highly indebted poor countries at decision point would benefit from our legislation, if our calculations are correct.

We have asked the Administration for its opinion. The legislation is moving on the Senate side. A facsimile of it, very close to what we have introduced, is already on the AIDS bill in the International Relations Committee, Foreign Relations Committee over there. I don't think debt relief corrupts nations. I think if it is carefully written so that the money is required to go to basic health, health care initiatives and the like, and there is then an accountability to make sure that money does not get diverted, we actually help the poorest of the poor people.

Does the Administration have a position on our legislation? It is H.R. 4524 here; 2210 over on the Senate side. And do you think this could be part of the solution?

Secretary O'NEILL. I do know about your legislation, and I compliment you for putting it forward, and I would be happy to work with you and the other cosponsors of this legislation. But let me be very honest with you and say that I don't think there is a good formula way to deal with this subject because I don't think the countries are a formula. And I also don't think that the—again, let me say really directly I don't think, even if we forgive all of the debt, we and all the rest of the debtholders forgive all the debt, that in many cases these countries have the real fiscal wherewithal to do the things we might like for them to do. And to, in effect, say to them, now that we have forgiven your debt, we want you to go and borrow more money from somebody else to do primary education and health and the things that we think are important is really disingenuous and misleading, and I hope not dishonest.

I hope people are of good faith in putting these things forward, but I think we would be much better off to deal with the issue of debt relief in the context of the end of the fiscal situation of individual countries in real life and perhaps write some broad-gauge legislation that would let us systematically help countries move toward fiscal sustainability. I think we can begin to leverage, for example, with the Millennium Challenge accounts and the rest of the economic assistance, to move in the direction you are trying to go, but not so much with the formula, but with a more focused individual country approach.

Mr. SMITH OF NEW JERSEY. But wouldn't the revenue-based formula achieve that?

Secretary O'NEILL. I don't think so, because, you know, it is not directly related to the question of fiscal sustainability. It is related to a secondary measure. And in order to make a judgment about where the money should go and what good it is going to do and how much fiscal sustainability it creates, one needs to look at the fact base for individual countries.

So I don't find the formula approach related to revenue or exports or anything else, frankly, much more than kind of a shadow on the wall. It is not the real thing. It is just a shadow.

Chairman HYDE. The gentleman's time has expired.

The gentlelady from California Ms. Lee.

Ms. LEE. Thank you Mr. Chairman.

Good to see you, Mr. Secretary.

Secretary O'NEILL. Nice to see you as well.

Ms. LEE. Let me just commend you on your visit to Africa. It has again raised public awareness, I think, to the many challenges faced by a continent rich in natural resources and a continent of very resilient and wonderful people, but which is also the motherland of many African Americans.

Your visit also was very important in highlighting, I believe, the many challenges faced by a continent that has really been ignored by many Administrations, and I commend you and your delegation for really beating the drum.

Let me ask you a couple of things with regard to HIV and AIDS and your sense of the famine. We heard from Mr. Natsios from USAID with regard to USAID's perspective on the famine. We believe, many of us believe at least, that this is such a critical emergency that we are attempting to put forth a proposal, Congress-

woman Maxine Waters is, for an additional 200 million in supplemental appropriations. The response from USAID was not a supportive response for many reasons.

But I am wondering, given your visit, what did you sense with regard to the famine? Do you sense—do you have a sense of urgency about our hunger relief efforts in terms of a positive response to prevent millions of people from dying of starvation? Or do you think we have some time to play around with how much is going where and when?

And then secondly, let me just ask you with regard to HIV and AIDS, you mentioned the specific deliverables, which I agree. I mean, we need to know what is going on and how much—how many people are being saved actually by what we are doing. But I also know that for each dollar we save additional lives, and so we have been trying, many of us, to put at least \$1 billion into the trust fund because we know this will leverage up to 8- to 9 billion. The Secretary General has indicated this would begin to make a dent, not the total that is necessary, but just minimal of what is necessary. And we have seen some movement by the Administration, but not a lot. And you may remember our discussion with regard to the World Bank AIDS Trust Fund.

So the third part of my question is what is the status and the involvement of the Treasury with the World Bank and the fund? There is a lot of uncertainty here with regard to what has happened to the legislation that was signed into law in 2000.

Secretary O'NEILL. Okay. Let me start with your last question. You know, I am deadly serious about these issues, and I had the soon to be installed Executive Director of the Global Fund come to see me, and I spent a couple of hours with him.

Ms. LEE. Incidentally, he is from my district, which I am very proud of.

Secretary O'NEILL. Well, I tell you what, I found him very engaging, and I was very encouraged by our conversation.

But I want to tell you the facts about where we are. The President has indicated he is prepared to recommend more money for the Global Fund when we can demonstrate results. Now, let me tell you, because I am really serious about this, I have spent some time getting on top of what the facts are. Let me tell you what the facts are.

The first grants that were made have no metrics in them that require an accounting for specific number of people helped. If you look at the distribution of the first amount of money, at least for me, it is frankly very difficult to figure out how one could come to a conclusion that Malawi should get \$227 million in the first 2-year allocation and Ethiopia should get \$27 million.

No one, I think, can explain as to why it is that you have these huge differences in the first distributions. The reason is, I think, this: Do you know how many people there are at the Global Fund doing this work, including secretaries and administrative assistants? You might think they have a big bureaucracy. They have got 10 people. And it is amazing they were able to make any sense out of what they did. But I don't think, at least for me, they have measured up to the idea that we are going to make grants that have specific results related to real human beings. And we don't

end up finding out, you know, that we participated or our money participated in building bricks and mortar or training scholarships or something which may be beside the point. And so believe me, I am pressing hard on these issues to try to get an alignment between compassion and producing real results and to end this kind of a problem.

You know, if you go and look at the analysis that has been done, for example, in Uganda a few years ago of the amount of money appropriated for education that actually got to the interface between the student and the teacher, only 30 percent actually got to the point of contact between student and teachers. I am dedicated to the proposition that the money that we are going to provide is going to produce real results for real human beings, and the consultants and the parasites and the ministers with six automobiles are going to get off the wagon.

Chairman HYDE. The gentlelady's time has expired.

Secretary O'NEILL. I am sorry, Mr. Chairman.

Ms. LEE. Mr. Chairman, may I have an additional 30 seconds?

Chairman HYDE. I regret the Secretary told us he had to leave at noon. It is noon.

Ms. LEE. Could we receive the response to the second part of my question in writing please, Mr. Chairman?

Chairman HYDE. Surely. The Secretary will be generous enough to answer in writing any unanswered questions.

Will the Secretary take one or two more questions from Mr. Royce, Chairman of the Africa Subcommittee?

Secretary O'NEILL. Absolutely I will, Mr. Chairman. I am sorry for the long response to the gentlewoman's questions.

Chairman HYDE. Not at all. The response was short, and the question was short.

Mr. ROYCE. Mr. Secretary, you have recognized that some aid is helpful, like cleaner water and education, especially AIDS education. Some is not; Mobutu's aid in the former Zaire, which was looted out of the country basically. But the best aid effort long term, it seems to me, that works for the Africans and our economy is greater trade access, and we have seen that with the African Growth and Opportunity Act, which has up lifted several African economies, which is building a tax base for these countries. And I am concerned that we are stepping backwards.

Yesterday the Wall Street Journal ran a story detailing how U.S. subsidies on cotton, \$3.4 billion a year and set to increase, are devastating cotton production in west Africa. The economics are as simple as they are devastating. Washington gives farmers greater subsidies for cotton, production goes up, the world price goes down, and Africans can't sell a crop that is critical to the survival of many who live on \$1 a day. Now we hear a great cry for more aid, but it is contradictory, it seems to me, to aid Africans with one hand and use the other to slap them with trade barriers.

And, Mr. Secretary, I know you share my frustrations. Greater trade is your theme. I appreciate that you have heard me before on the issue of canned pears from South Africa, another product that some are now looking to shut out.

I would like to raise an issue in your jurisdiction, and that is the Customs Service's "knit-to-shape" ruling on the Africa trade bill,

which denies African-made sweaters, socks and other apparel duty-free treatment. This is needlessly shorting AGOA's potential in Ghana and elsewhere, and I heard quite a bit about it when I was in Namibia earlier this year. And several of the Members who worked on AGOA wrote the Customs Service on "knit-to-shape" last year, and we have legislation to correct the Administration's misinterpretation of the AGOA statute.

We will get that through, but it would be ideal if you would use the discretion you have to bring the administrative ruling in line with congressional intent on this issue, and also on AGOA's short supply provision. And you know, we have the steel decision, the farm bill, canned pears where we are moving in the wrong direction. If you would look into these two rulings, you know, on "knit-to-shape," it would make a great difference to Africa and to our country's interest in seeing African economies grow.

Thank you very much, Secretary.

Secretary O'NEILL. Thank you.

Chairman HYDE. Thank you.

The gentleman from New York Mr. Gilman asks leave to insert into the record an opening statement, and without objection, so ordered.

[The prepared statement of Mr. Gilman follows:]

PREPARED STATEMENT OF THE HONORABLE BENJAMIN A. GILMAN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF NEW YORK

Thank you, Mr. Chairman for conducting this important hearing today. We value the opportunity to meet this morning with our esteemed Secretary of the Treasury, Paul O'Neill, who returned not too long ago from a four-country tour of Africa with rock star Bono. Secretary O'Neill was able to observe first-hand the poverty and depressed living conditions facing the peoples of Sub-Saharan Africa.

We look forward to discussing with Secretary O'Neill the importance of accountability and good governance in African countries in ensuring the success of developmental assistance programs. We welcome his emphasis on the need for clean water, primary education, and treating the HIV/AIDS epidemic.

In Sub-Saharan Africa today, we recognize that hunger is pervasive and steadily increasing due to civil wars, continued foreign debt, degraded land, and inadequate education.

We also recognize that our aid to African nations is essential if they are to fully develop their human and natural resources, thereby strengthening their capacity to deal with hunger, poverty, and the spread of disease. Our assistance should be directed at improving health care, farming technologies, and providing microenterprise opportunities, and increasing school enrollment.

However, assistance to the nations of Africa alone will not solve their problems entirely. An environment conducive to the development of open economy should be encouraged by means of the implementation of free market policies and good governance by the part of African nations.

Mr. Chairman, I join in thanking Secretary O'Neill for taking the time to be with us today to share his thoughts. Congress should work with the Administration to advance policies that promote African economic development through a variety of means. I regret that the Secretary's time constraints will prevent my questioning.

Mr. GILMAN. Thank you. Mr. Chairman, I just want to welcome our Secretary and commend him for his recent trip to Africa and for providing today the insight that he has given to our Committee. Thank you, Mr. Chairman.

Chairman HYDE. And I regret Ms. Watson did not get her turn. She usually has an illuminating question or commentary. But we will try to get to you next time, Ms. Watson.

Ms. WATSON. That is fine. I will write to the Secretary.

Chairman HYDE. Very good. Write to him, and he will answer your questions.

Ms. WATSON. And I will put my statement into the record.

Chairman HYDE. Without objection. Thank you.
[The prepared statement of Ms. Watson follows:]

PREPARED STATEMENT OF THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF CALIFORNIA

Mr. Chairman, we are speaking today on an issue of paramount significance to the survival of Africa . . . the issue of Economic Development. How is Economic Development fostered in a continent rife with social discontent, health pandemics, and political struggles? In these unstable times, one of the main solutions is *Good Governance*. The notion of "good governance" which was introduced to international development corporations in the late 1980's following discussions in mainly World Bank circles on the results of structural adjustment policies, developed into a somewhat confusing and controversial term. Unlike reform programs, good governance concerns more than (liberal) economic policy. It came to be used in a much broader sense referring to the nature and style of political systems including accountability and transparency of decision-making. It came to also be associated with a range of political conditions such as democratization, promotion of multi-party systems and commitment to free elections. Africa was often the object of governance debates and policies.

The issue of good governance is still evolving; its definition, its usefulness, its ethical connotation, and its political dimension are all under discussion. Different people use it differently, relating it to different contexts. For instance, donor policies are being further questioned and donors have been advised to critically review their policies towards recipient countries, and especially to take account of their own governance practices.

Acknowledging past errors, African leaders and their partners, have resolved to make governance apparatus operate better and efficiently and to create and reorganize institutional structures to support and facilitate the core public activities that are crucial to sustained economic and social development. Recognizing the vast potential for private sector activities, countries have adopted policies designed to expand and diversify private sector activities and stimulate and sustain private investment, both domestic and foreign. Among the important policy changes are: sound macro-economic policies, efficient economic infrastructure, laws that facilitate creation of private enterprise, effective and efficient capital markets, an agile investment promotion agencies, strong partnership between public and private sector, and a supportive legal and regulatory framework for investment.

While the previous years have been marked by a period of disillusion for peace and security, there have been also been some hopeful signs of countries striving to establish firm political foundations and the necessary environment for the promotion of good governance. Although the degree of commitment and the speed of change have varied from one country to another, the movement towards good governance, both in its technical and political dimensions, has been the general trend.

However, in yesterday's Washington Post Editorial the challenges of implementation were highlighted in a discussion of the pros and cons of the three main initiatives for assistance, the African Renaissance" plan put forward by South Africa's President Thabo Mbeki and other African leaders, the second channel, is an initiative to expand primary-school enrollment in poor countries which was inspired by a promise two years ago by rich governments to back developing nations that come forward with sound education policies and the third potential channel for helping Africa is trade. The Bush Administration last November launched a new round of trade talks and gave it a pro-Africa twist: Dubbed the "Development Round" it focuses on cutting barriers to farmers.

In the first case, the Washington Post suggests that Mr. Mbeki had a chance to put into practice his pro-democracy sentiments by pressuring his neighbor Robert Mugabe of Zimbabwe into respecting, political, human and economic rights and intervening into the election process, therefore negating any real significance to this plan. In the second case, the lack of resources with the U. S. remaining on the sidelines may undermine an effort to help Africa which has taken two years to develop and thus lose momentum, the last initiative is in trouble because of the huge jump in subsidies for domestic farmers, subsidies that boost production in the U. S. so squeezing out exports from poor countries.

There other initiatives that have been offered. The Presidents of South Africa, Nigeria, Algeria, and Senegal have put forth a major development strategy known by

its acronym “NEPAD”—NEW ECONOMIC PARTNERSHIP FOR AFRICA’S DEVELOPMENT (NEPAD) which was discussed at the recent G8 Meeting in Canada. This “new partnership” with the west is envisaged as an “African-owned and African-led” development program of sustainable growth to halt the marginalization of Africa in the globalization process.

On March 14, 2002, at the Monterey Conference on Financing for Development, President Bush announced the new Millennium Challenge Account that the United States will increase its core assistance to developing countries by 50% over the next 3 years, resulting in a \$5 billion annual increase over current levels by FY 2006. The goal of the MCA is to reward sound policy decisions that support economic growth and reduce poverty including policies of good governance and the rule of law, investing in health care and education, and fostering enterprise and entrepreneurship.

These initiatives, I am sure are well-intentioned but it requires real action on both sides. Much still needs to be done. Mr. Chairman, prosperity and peace in Africa depend on continued movement toward “Good Governance” without which economic development is unattainable. Hopefully today, our attention on these issues will foster more support and interest in promoting economic opportunities throughout the continent of Africa.

Thank You.

Chairman HYDE. Mr. Leach, I am sorry we missed you, Mr. Flake, Ms. Davis, but the Secretary must leave.

Thank you, Mr. Secretary.

Secretary O’NEILL. Mr. Chairman, thank you so much for your gracious chairing of this Committee, and I would be delighted if it suits the Committee to come back and talk with you informally or formally about these subjects any time you wish.

Chairman HYDE. We will take you up on that. Thank you, sir.

Secretary O’NEILL. Thank you, Mr. Chairman.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

