

**Prepared Statement for
The United States Senate Committee on Foreign Relations**

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“The International Monetary Fund and the World Bank:
Administration Policy and Reform Priorities”

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Chairman Helms, Distinguished Members:

For almost half a century now, bilateral donors and international financial institutions have attempted through grants, loans, and technical assistance to help countries develop and escape poverty. Some countries have benefited from these forms of assistance and have developed the foundations of sustainable economic growth, graduating from dependence on aid. But the majority of recipient countries, especially in Africa, remain mired in poverty, the average person surviving on a dollar a day or less.

The assumption behind these aid programs was that if the international community could help to provide or generate the missing financial capital, physical infrastructure, and technical know-how, recipient countries would develop. Gradually, we came to understand the necessity as well for sensible macroeconomic policies that limit fiscal deficits and state intervention and that foster economic openness and competition. But one huge factor continued to be neglected: the quality of governance.

Over the past decade, the World Bank, the regional development banks, and many bilateral donors have devoted more attention to the quality of governance as they set conditions, priorities, and targets for their assistance programs. But the importance of governance to the prospect for development is still not adequately appreciated.

In 1999, the World Bank and the IMF jointly launched an initiative to provide “deeper, broader, and faster” debt relief to the world’s poorest, most indebted countries. That initiative identified 41 “Highly Indebted Poor Countries” (HPIC) that were to become eligible to benefit from over \$30 billion in debt relief. The assumption is that dramatically reducing the external indebtedness of these countries would give them a new chance at development.

But this approach is based on the same flawed assumption that has led to the waste or ineffective use of billions of dollars in development assistance over the last several decades. The assumption is that countries remain chronically poor because they lack economic resources. This is only half true. Most poor countries cannot attract capital and invest it for development because they are badly governed. Corruption is endemic. There is no real rule of law. State officials plunder the country’s resources and send their ill-gotten wealth abroad. Ministers let contracts on the basis of the size of the kickback. The rich and powerful exploit the poor and the weak, who have no recourse to justice. Police do not enforce the law and judges do not decide the law. Rulers rig elections and trample human rights so that they can barricade themselves in power and

plunder indefinitely. Or they war with one another for control of the state and thus the ability to loot at will. No one invests capital to expand production in these circumstances because no potential investor (domestic or foreign) has any confidence in the country or its future. So few jobs are created. Little infrastructure is built. And what is built is not maintained, because of endemic corruption and violence.

No country can escape from poverty unless it alters these conditions. Corruption must be reined in. Public officials must become committed to the public good, and they must be held accountable for their performance. This requires transparency, constitutionalism, a rule of law, freedom of information, and political as well as economic competition.

Very few of the 22 states that have already won approval for HIPC debt relief meet these general conditions. Some, such as Mali, Senegal, Madagascar, Malawi, Benin, Nicaragua, and Honduras, are democracies, and have moved toward better governance in recent years. But even in these countries, such progress is tentative and much more vigorous institutions to control corruption and enforce the law are needed. Many of the approved countries, such as Cameroon, Guinea, Mauritania, Rwanda, and Zambia, are corrupt and repressive authoritarian states where debt relief will give an unaccountable leadership a new lease on life. Most of the 13 countries waiting in line for HIPC approval—such as Burma, the Congo (DRC), Liberia, Sudan, and Togo—are even more blatantly authoritarian and corrupt. At least two million people have died in each of the

civil conflicts in the Congo and Sudan, due in no large measure to the absence of decent governance.

What is to be gained for the people of these countries by relieving their states of their international debts? What is the message we send in terms of our values and principles when we write off the debts of murderous and tyrannical regimes like those in Burma, Sudan, and Liberia? Absent dramatic change in the quality of institutions, predatory rulers will use generous debt relief simply to strengthen their domination and intensify their oppression and exploitation of their own people. How can this possibly be justified in the name of development or global equity?

Unfortunately, we are now far along into this well-intentioned but misguided HIPC process. For many chronically poor countries (the 22 approved in the HIPC process), the opportunity to use the debt as leverage for better governance has been tragically squandered. U.S. participation in the HIPC process has already been authorized by the Congress, and half a billion dollars has already been appropriated for that purpose. President Bush has requested for FY2002 another \$224 million for the final U.S. contribution to the HIPC Trust Fund (which would assist multilateral creditors reduce the debt owed to them by HIPC countries). Many who want to help the world's poor are calling on the donors to go much further, to write off the entire external debt of these very poor countries, and to offer at least partial relief to a wider range of countries.

It is not too late to stand up for what is right and sensible. The people of Africa and other chronically poor countries do not want to remain saddled with oppressive, unaccountable forms of government. They know, as a Ghanaian legislative leader recently told *New York Times* columnist Thomas Friedman, that “Without strong institutions we can’t check abuses of power, and that has been the source of all our problems.” They are ready for a new international bargain: debt relief for democracy, and development for good governance. Any future debt relief, and all official development assistance, should be conditioned on the existence and effective operation of institutions to control corruption and to promote transparency and the rule of law. These institutions include:

- Freedom of the press;
- Freedom of association;
- An independent and non-discriminatory judiciary;
- Laws to prohibit bribery and compel periodic and transparent disclosure of assets by public officials;
- An independent anti-corruption commission to receive and verify those assets disclosures, to investigate the possible misconduct of public officials, and to report its findings to independent prosecutorial authorities;
- An independent audit agency;
- And regular, free and fair elections.

A bill to this effect has been introduced in the House of Representatives by the Honorable Frank Wolf. Entitled the “Responsible Debt Relief and Democracy Reform Act,” it conditions (with certain exceptions) countries’ eligibility for relief of debts owed to the U.S. on precisely the political institutions mentioned above (as well as respect for human rights and the absence of a pattern of support for international terrorism). It also asks the President to instruct the U.S. Executive Director at each international financial institution to which the U.S. is a member “to use the voice, vote, and influence of the United States to urge” that relief of debts owed to that institution be conditioned on the same political principles as above.

This bill can provide a truly new beginning for the poor of the world, and I urge you to support it. In fact, I recommend that we go further toward reforming aid in the following respects:

First, the debt of poor countries should not be swiftly and permanently erased, even for those countries meeting (more or less) the above conditions. For if it is erased all at once, the incentive to continue to adhere to these conditions is weakened. Rather, the HIPC trust fund should be used to free qualifying poor countries from service payments, while writing off the debt at a rate of 10 percent per year for every year the country complies with the basic conditions of good governance. If the country remains committed to good governance, and continues to demonstrate its seriousness in

combating corruption and abuse of power, it can be free of these debts in ten years, and will have avoided having to service them in the interim.

Second, for those poor countries that are truly serious about good governance, the world should do even more. We should suspend service payments on and gradually retire 100 percent of the debt owed to both multilateral and bilateral creditors.

Third, eligibility for at least partial debt relief should be expanded to a wider range of poor countries, in part to provide an inducement for leaders of those countries to take seriously their commitments to implement democracy and good governance.

Fourth, these political conditions for debt relief should also apply to other forms of official development assistance. Economic assistance to states will only foster development if those states are accountable and responsible—that is, if state officials are committed to using state resources to advance the public good rather than their own personal welfare. Those governments that loot the public treasury, prey on private business, lock up journalists, and oppress their own people should be denied development assistance—for it is certainly not development that is going to result from the money we give them. In those countries, U.S. assistance should go only to non-governmental organizations that are seeking to improve public welfare and defend human rights and the rule of law.

Fifth, through the National Endowment for Democracy and other instruments, we should devote a greater proportion of our aid dollars to helping countries develop the institutions of democracy, freedom, and accountability that provide an enabling environment for sustainable development. This requires aid not only to state institutions but also to civil society organizations and independent mass media that advocate, educate, and monitor for improved governance.

Finally, we must work with other major donors, particularly Japan, France, Britain, and other European donors, to urge them to join us in this more principled and coherent approach to debt relief and development assistance. Political conditionality cannot work in the end unless the principal bilateral and multilateral donors unite in a common set of standards and conditions.

No amount of money can help a country develop out of poverty if it does not get its political institutions and its economic policies right. If money alone could do it, oil states like Nigeria, Angola, and Venezuela would be rich countries today. They are rich in potential, but they are poor in governance, and that is an indispensable condition for development. We must move beyond the spirit of charity in our development assistance programs. Only if we help countries build the institutions—and ultimately the culture—of decent, open, free, and accountable government will we help them to graduate from poverty and dependency.