

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

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

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

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

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

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

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

First, with respect to the distinction between the Bank and the Fund, the Bank provides "hard" loans on commercial terms (non-concessional terms) to creditworthy borrowers including governments, official agencies and private sector clients. On the other hand, the African Development Fund gives loans on highly concessional terms to

the poorest African countries. For example, the Fund gives “soft” loans at zero interest, although there is an annual service charge of .75 percent on outstanding balances.

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

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

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

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

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

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

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

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

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

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

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