Policy, not charity: what rich countries can do to help achieve the Goals

This chapter analyses the role of rich countries in the international compact to achieve the Millennium Development Goals, a compact that leverages the global commitments to reducing poverty by building on mutual responsibilities between poor and rich countries. Poor countries must improve governance to mobilize and manage resources more effectively and equitably. Rich countries must increase aid, debt relief, market access and technology transfers.

The UN Millennium Declaration and the Monterrey Consensus (the result of the March 2002 International Conference on Financing for Development in Monterrey, Mexico) make it clear that poor countries are primarily responsible for achieving Goals 1–7. But these frameworks also reflect a new approach, with rich countries basing their support for poor countries more on performance—and seeing it less as an entitlement. Thus rich countries will increase assistance for poor countries that demonstrate good-faith efforts to mobilize domestic resources, undertake policy reforms, strengthen institutions and tackle corruption and other aspects of weak governance.

The commitments made by rich countries in the Millennium Declaration are spelled out in Goal 8 (box 8.1). These commitments have since been reaffirmed in various forums:

- The Monterrey Consensus recognized the need for a substantial increase in aid, urging donor countries to make concrete efforts to reach the aid target of 0.7% of gross national income set in 1970—and to vigorously pursue debt relief for countries that take steps to strengthen governance.
- The Doha ministerial declaration, issued at the 2001 meeting of the World Trade Organization (WTO) in Doha, Qatar, affirmed poverty reduction goals and committed to making the interests of poor countries central to the future work of the trade ministers. The declaration also committed to the objective of duty-free, quota-free market access for products from the least developed countries.
- The September 2002 World Summit on Sustainable Development in Johannesburg, South Africa, reaffirmed the need to increase aid, urging donors to work towards the 0.7% target and to reduce unsustainable debt for countries that demonstrate efforts to strengthen governance. It also called on WTO members to fulfil their commitments on market access.

If Goal 8 is ignored, it is hard to imagine the poorest countries achieving Goals 1–7. This Report shows what is needed to accelerate progress towards the Goals: Allocating sufficient funds to social spending. Restoring crumbling health infrastructure. Hiring more female teachers to encourage more girls to go to school. Removing inequities in public spending on water supply. Securing women's rights to land. Investing in agricultural research. Seeking new export markets. Taking a multitude of other practical steps to change policies, improve institutions and increase investments.

Governments of poor countries must lead the way in taking these steps, but they cannot take them on their own. Indeed, as the Millennium Development Compact argues, countries that have the steepest slopes to climb—the top priority and high priority countries—will need large injections of donor financing to invest much more heavily in health, education, agriculture, water, sanitation and key infrastructure. They cannot wait until economic growth generates enough domestic savings and raises household incomes. Indeed, these core investments lay the foundation for economic growth.

In addition, poor countries face constraints that can only be eased through policy changes in rich countries. They often face barriers to

BOX 8.1

Millennium Development Goal 8

By 2015 all 189 United Nations member states have pledged to:

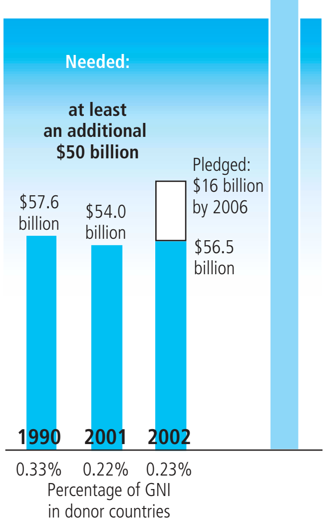
- Develop further an open trading and financial system that is rule-based, predictable and nondiscriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally.
- Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction.
- Address the special needs of landlocked and small island developing states.
- Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.
- In cooperation with the developing countries, develop decent and productive work for youth.
- In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
- In cooperation with the private sector, make available the benefits of new technologies—especially information and communications technologies.

Source: UN 2003b.

FIGURE 8.1

Aid—what's needed, what's given?

2000 US dollars

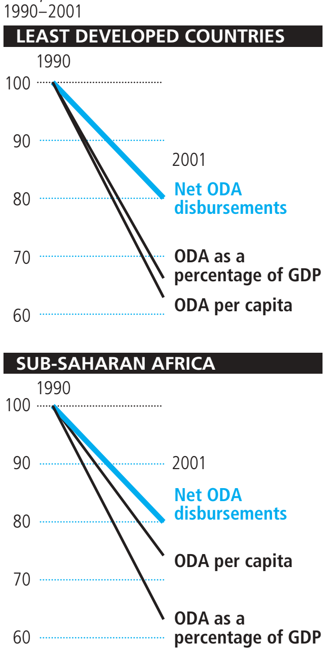


Source: Total needed: World Bank and IMF 2001; total given: OECD, Development Assistance Committee 2003c; *Economist* 2001.

FIGURE 8.2

Official development assistance (ODA) in decline

Index, 1990=100
1990–2001



Source: OECD, Development Assistance Committee 2003a.

international trade. They are also hobbled by insurmountable external debts inherited from past administrations. And their lack of technological prowess demands global resources and know-how to solve problems of health, communication and energy.

Aid—more and more effective

Estimating the additional external funding needed to reach the Goals is difficult because it requires information on costs that vary enormously by country. Moreover, prospects for domestic resource mobilization depend on future growth and reforms. Various studies have estimated that external aid will need to increase by $40–100 billion a year. One frequently cited, conservative estimate by the UN Zedillo Commission calls for an additional $50 billion a year[1]—consistent with the World Bank's estimate.[2] This would require nearly doubling official development assistance from the 23 members of the OECD's Development Assistance Committee, bringing the total to about 0.43% of these countries' gross national income—still less than the 0.7% benchmark used since 1970 (box 8.2; figure 8.1).

These figures may seem huge, but they are not far from the situation before the 1990s. Between 1990 and 2001 official development assistance fell from 0.33% to 0.22% of donor countries' gross national income. But that drop mainly occurred in the early and mid-1990s, and by the end of the decade aid had increased considerably. The latest data show this trend continuing, with official development assistance increasing by 5% between 2001 and 2002. Still, such resources fall far short of what is needed—particularly to achieve the Goals.

Declining aid has hit hardest the regions and countries in greatest need. For example, Sub-Saharan Africa and South Asia saw dramatic drops in per capita aid in the 1990s (table 8.1; figures 8.2 and 8.3). These downward trends have continued to reverse since the UN Millennium Declaration was adopted in 2000, with announced increases in aid of about $16 billion a year—to 0.26% of donors' gross national income by 2006.[3] Though a good start, this is not enough to meet the needs. To increase financing, innovative ways of raising funds from capital markets have been proposed (box 8.3).

Though the Millennium Development Goals target aid to the least developed countries, these countries have not been fully protected from aid cuts. Of the 49 least developed countries, 31 receive less aid today (8.5% of their average GDP) than in 1990 (12.9%).[4]

Since the early 1990s human development advocates have campaigned to increase social spending to at least 20% of national and aid budgets. But aid for basic social services—critical for achieving the health, education, hunger and water and sanitation Goals—remains less

BOX 8.2

Official development assistance: the 0.7% target

The idea that rich countries should give 0.7% of their GNP for global development was first proposed in 1969 in the Report on International Development, led by former Canadian Prime Minister Lester Pearson. This figure has been widely accepted as a reference target for official development assistance. Endorsed by the UN General Assembly in 1970, it was part of the international development strategy for that decade. More recently:

- The Millennium Declaration calls on rich countries to give "more generous development assistance".
- The Monterrey Consensus calls on "developed countries that have not done so to make concrete efforts towards the target of 0.7% of GNP as ODA [official development assistance] to developing countries and 0.15% to0.20%...to the least developed countries".
- The World Summit on Sustainable Development also urged "developed countries that have not done so, to make concrete efforts towards the target of 0.7% of GNP as ODA to developing countries, and to effectively implement their commitments on such assistance to the least developed countries".

If members of the OECD's Development Assistance Committee (the world's 23 largest donors) actually delivered official development assistance equal to 0.7% of their GNP, aid would be $165 billion a year—three times the current level and well above current estimates of what is needed to achieve the Millennium Development Goals.

Source: UN 2002e.

TABLE 8.1

Net receipts of official development assistance by region, 1990 and 2001
(2000 US dollars)

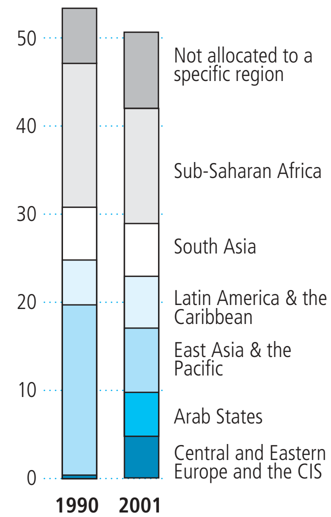
Region	Per capita of recipient 1990	Per capita of recipient 2001	Percentage of GDP 1990	Percentage of GDP 2001
All developing countries	15	10	1.61	0.81
Least developed countries	33	20	12.92	8.45
Arab States	59	18	2.85	1.00
East Asia and the Pacific	5	4	0.77	0.32
Latin America and the Caribbean	13	12	0.48	0.32
South Asia	6	4	1.18	0.84
Sub-Saharan Africa	34	21	6.13	4.55
World	14	10	1.28	0.77

Source: OECD, Development Assistance Committee 2003a.

FIGURE 8.3

Official development assistance, net disbursements

2000 US$ billions



Source: OECD, Development Assistance Committee 2003a.

than 15% of bilateral donor allocations. It is rising, however, and Austria, Ireland, Luxembourg, the Netherlands, the United Kingdom and the United States have hit the 20% target.

Making aid more effective

Increasing aid will not be enough. As a recent World Bank study finds, at different times and in different places aid has been "highly effective, totally ineffective, and everything in between".[5] Aid contributed to many of the spectacular development successes of recent decades—Indonesia and the Republic of Korea in the 1970s, Bolivia and Ghana in the 1980s, Uganda and Viet Nam in the 1990s. International programmes drove the green revolution, efforts to control river blindness and expanded immunizations against childhood diseases. But too much aid has gone to countries with rampant corruption and misguided policies—conditions where aid can only be squandered.

What should be done to ensure that aid is more effective, especially in accelerating progress towards the Goals? Three issues that have dominated recent analyses—stronger governance, increased ownership and better aid practices—are central to the principles of stronger partnership that emerged from the Monterrey and Johannesburg conferences.

BOX 8.3

New financing for the Goals

Pledges since Monterrey

At the 2002 International Conference on Financing for Development in Monterrey, Mexico, the international community agreed to a coherent, principled approach to development—and to the first increase in aid in 20 years, with an additional $16 billion a year by 2006 (including pledges made since the conference).

The United States will nearly double official development assistance—to $15 billion a year—by 2006. The European Union will increase aid to 0.39% of GNP by 2006—about $11 billion more a year. Among individual members:

- Austria pledged to reach 0.33% of gross national income (GNI) by 2006.
- Belgium pledged to reach 0.7% of GNI by 2010.
- Finland pledged to reach 0.4% of GNI by 2007.
- France pledged to reach 0.5% of GNI by 2007.
- Germany pledged to reach 0.33% of GNI by 2006.
- Greece pledged to reach 0.33% of GNI by 2006.
- Ireland pledged to reach 0.7% of GNI by 2007.
- Italy pledged to reach 0.33% of GNI by 2006.
- Luxembourg pledged to reach 1.0% of GNI by 2005.
- The Netherlands pledged to reach 1.0% of GNI by 2005.
- Portugal pledged to reach 0.33% of GNI by 2006.
- Spain pledged to reach 0.33% of GNI by 2006.
- Sweden promised to aim for 1.0% of GNI by 2006.
- The United Kingdom agreed to reach 0.4% of GNI by 2005–06.

Other donors have also made important pledges. Canada agreed to increase aid by 8% a year, or by about $1.7 billion—by 2010 that would reach 0.28% of its GNI. Norway agreed to raise aid from 0.92% of GNI to 1.0% by 2005, equivalent to an annual increase of $250 million. Switzerland agreed to increase aid to 0.37% of GNI by 2010. And Australia agreed to a 3% real increase in 2002–03.

A proposal for a new financing mechanism

The United Kingdom has proposed creating a new mechanism—an international finance facility—to provide predictable, stable aid for the investments required to achieve the Goals by 2015. This temporary facility would raise funds until 2015. Donors would make long-term pledges for annual payments to the facility, which would then raise funds by issuing bonds in international capital markets—making resources available now, when they are needed.

Source: UN 2002a; United Kingdom, Her Majesty's Treasury 2003; OECD, Development Assistance Committee 2003d.

Lack of donor coordination can undermine recipient priorities. It has put a costly burden on recipient countries where public services are already overstretched

Governance—the policies and institutions that regulate interactions among individuals and groups in society—is seen as part of the foundation for sustained growth and human development. Thus many donors have predicated their support on efforts to strengthen governance—and provided support to strengthen it, primarily through technical cooperation. Fighting corruption, adopting sound macroeconomic policies and implementing efficient, accountable systems for the use of public resources are key to ensuring that external resources are not wasted. The rule of law, sound contract enforcement and strong public regulatory institutions are important for making a market economy function. These are important elements of good economic governance.

But other dimensions of governance are also important. As *Human Development Report 2002* argues, human development demands democratic governance that responds to the needs of poor people. Democratic governance requires more than policies and institutions that ensure efficient public services. It requires fair institutions and rules, as well as decision-making processes that give people a say and allow them to hold authorities accountable. So, political institutions that enhance the voice of people and the accountability of government are important for accelerating progress towards the Goals—though a pro-poor agenda might run counter to the vested interests of elites (see chapter 7).

Many countries have implemented programmes to strengthen democratic governance. Africa has launched a major regional initiative, the New Partnership for Africa's Development, that places a major emphasis on governance. And many donors have made support for governance a priority.

The second issue, ownership, is about countries being in charge. A lesson of the 1990s is that policy reforms are not implemented if they are not deeply embedded in a national commitment involving all of a country's stakeholders. This reinforces the findings of governance studies that participation matters. How decisions are made—the process—matters. But ownership is difficult to achieve when capacity and power are uneven. Most poor countries lack not only financial resources but also the institutional and human capacity to manage and drive development. Aid agencies often complain of institutional weaknesses in recipient countries that "force" them to take charge of designing aid interventions. But this asymmetry has undesirable consequences for ownership. Finding aid delivery mechanisms that minimize the burden on recipient countries is an important challenge in making aid more effective.

The final issue has long been part of the debate about making aid more effective: tied aid and donor coordination. Tied aid is costly for recipient countries because it limits choices in making the most economical use of resources. A recent World Bank study estimates that tied aid is 25% less effective than untied aid.[6] Members of the OECD's Development Assistance Committee have agreed to reduce (and report on) tied aid, and it has declined to about one-fifth of their overall assistance. But it remains high for a few countries—accounting for more than half of non–technical cooperation aid for Canada, Greece and Italy, while four countries (Austria, New Zealand, Luxembourg, the United States) do not report on it.

Lack of donor coordination can undermine recipient priorities. It has put a costly burden on recipient countries where public services are already overstretched. Ministers receive dozens of donor missions, and their staff spend enormous amounts of time preparing documents at various stages of the aid project process—from preparation to negotiation to implementation. Civil servants who should be designing policies and implementing programmes are instead spending their time receiving donor missions and preparing donor reports. In February 2003 the heads of bilateral donor agencies and multilateral institutions met at a high-level forum to review these issues. The Rome Declaration on Harmonization adopted at the meeting reflects strong commitment to action.[7]

What should be done?

Achieving the Goals will require much more ambitious aid programmes that tackle resource, policy and institutional constraints. As emphasized in the Millennium Development Compact, aid must focus on the poorest countries. But massive injections of resources—financial and technical—can create distortions, overwhelm weak national programmes and create resource dependency.

To avoid such outcomes, external resources must be embedded in nationally owned programmes and processes. That requires integrating the Goals and their targets with national budgeting, programming and planning processes—at the local, sectoral and national levels—that identify external financing resources. To be assessed is the gap between current external resources and domestic policies and the external resources and policy reforms required to achieve the Goals.

Most top priority and high priority countries are already using Poverty Reduction Strategy Papers as frameworks for agreements with external partners. As proposed in the Compact, these papers should assess what is needed to reach the Goals. As things stand, the papers set targets based on what can realistically be achieved given available resources and prevailing institutions and policies. Instead, gaps between the funds required to reach the Goals and the funds now available must be identified, as well as the capacity and governance weaknesses that need to be overcome through policy and institutional reforms. Determining how to fill these gaps, and integrating the results with the framework of the Poverty Reduction Strategy Papers, will need to be negotiated country by country.

Local coordination and dialogue can also strengthen consensus on priorities between donors and developing country governments. Tanzania shows how local aid can be coordinated based on a Poverty Reduction Strategy Paper (box 8.4).

Resources for the Goals could also be channelled through underfunded multilateral programmes such as the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria, the Consultative Group on International Agricultural Research and the Integrated Framework for Capacity Development in Trade.

Address aid selectivity: country performance relative to need. To make aid more effective, donors are moving towards greater policy selectivity. The donors that made pledges at the 2002 conference in Monterrey sent a clear

Gaps between the funds required to reach the Goals and the funds now available must be identified, as well as the capacity and governance weaknesses that need to be overcome through policy and institutional reforms

BOX 8.4

Making government-led partnerships work in Tanzania

The Tanzanian government and its development partners are pursuing two complementary approaches to improve aid coordination. The country's Poverty Reduction Strategy sets out a coherent, strategic national development programme. It is supported by the Tanzania Assistance Strategy, which maps out the role of partners.

The result is a widely endorsed, government-led process for coordinating external assistance. Achieving this was not easy, however. When Tanzania, a major aid recipient, stalled on its economic and structural reforms in 1995, partners had serious concerns about governance and accountability. As a result partners assessed their relationship with Tanzania and, perhaps for the first time, considered their own practices and began to engage more constructively with government—eschewing conditionality in favour of promoting national ownership and undertaking concerted attempts to develop capacity. A 2002 independent assessment of the development partnership found relations much improved, providing for a more solid foundation for sustainable poverty reduction.

The Tanzania Assistance Strategy sets out government priorities for building capacity using national, rather than parallel, aid management systems. It also encourages development partners to provide more predictable funding. Doing so would strengthen planning, increase the impact of aid (through better coordination), promote sustainability, and increase oversight and accountability.

Government leadership in the process—complemented by reforms in financial management, local governments and the civil service—means that the Poverty Reduction Strategy has emerged as the country's overarching policy framework. Sector and thematic programmes are nested in the strategy, and government-partner dialogue is structured around its implementation. Strong government commitment to poverty reduction has ensured that the strategy informs the national budget and all sector programmes. In addition, an innovative, comprehensive Poverty Monitoring System ensures constant feedback between resource allocations (domestic and external) and poverty-related outcomes while Tanzania's Development Assistance Committee is an important element for building consensus among all partners. When combined with a strong policy framework, demonstrated national ownership and concerted efforts to develop domestic capacity, the country's positive experiences highlight much that could be replicated elsewhere.

Source: Hendra and Courtnadge 2003.

Aid allocations based on policy selectivity will help countries with good policies and strong institutions. But they will leave behind countries with poor policies and weak institutions

message: they will channel more resources to countries that demonstrate a commitment to reducing poverty by adopting pro-poor policies, taking steps to improve governance and achieving some results in the right direction—rather than just stating intentions and expectations. Without sound economic governance, large financial injections are likely to be wasted. And without democratic governance that gives voice to people, development efforts will not empower poor people.

Aid given in the absence of such preconditions, motivated by interests other than eradicating poverty and promoting sustainable development, has little impact. But if selectivity means no help, the Millennium Development Goals cannot be achieved. Aid allocations based on policy selectivity will help countries with good policies and strong institutions. But they will leave behind countries with poor policies and weak institutions. These countries need not only financial resources but also support—technical cooperation—to strengthen policy and institutional capacity. That does not require large amounts of financing, but is an important element of external assistance that also needs to be done right, as discussed below.

Strengthen policy and institutional capacity. For many countries, strengthening policies and institutions—reforming governance—is where they need the most outside help. Building such capacity should be a focus of development aid, though not a dominant portion of the financial resources allocated. It requires not finance, but technical cooperation for capacity development.

But technical cooperation has a mixed record. It has been much more effective at "getting the job done" than at developing national capacity. Many evaluations have found that once external support ends, project activities end as well—and whatever capacity was developed dissipates. For more than a decade, donors and recipients have debated the underlying constraints to capacity development and sought more effective approaches. For example, the conventional approach of sending foreign advisers to train national staff members can undermine the self-confidence of national staff. And sending national staff abroad for degree-oriented training can simply increase the brain drain.

In the early 1990s the OECD's Development Assistance Committee adopted new principles for technical cooperation.[8] Though those principles remain valid, they have not been fully applied. Recent work by UNDP calls for a new paradigm and new principles for capacity development that recognize that capacity matters as much for development as do economic policies, that capacity is not just individual but institutional and societal, and that knowledge cannot be transferred but must be learned. The new approach also calls for new practices to make capacity development work (box 8.5).

Provide aid to countries in or recovering from conflict. Violent political conflict is a major obstacle to the Millennium Development Goals. Some 60 countries are in or recently recovering from such conflict—many of them among the top and high priority countries. It is critical for donors to support these countries through their crises, going beyond humanitarian relief to development aid. Some donors refuse to support such countries because resources could be diverted to fund war efforts. But evidence shows that denying aid to such countries results in greater human suffering and does not hasten the end of conflict.[9] Of course, donors should be aware of the potential misuses of aid, as when relief supplies are stolen or aid is used for political gain or further terror.

Supporting the state's authority is also critical—because when the state collapses, the economy also collapses, undermining human well-being. Many countries have shown remarkable success in sustaining the provision of essential services during conflict—or even improving them, achieving significant human development gains, as in Guatemala, Nicaragua and Sri Lanka (see chapter 3). Often this has been thanks to the work of non-governmental organizations (NGOs), local communities and foreign humanitarian organizations still able to reach people in need.

Improve aid practices. Key principles that should govern the aid practices of donors and recipients—to ensure aid reaches poor people—were recently summarized by former Bolivian President Jorge Quiroga under the acronyms of Mr. DUCCA and Mr. LIPPO.

BOX 8.5

Refocusing technical cooperation on capacity development

The importance of country ownership and national capacity has long been recognized, but technical cooperation often focuses on getting the job done rather than on developing capacity. Ten principles offer starting propositions for national stakeholders and external partners in search of promising approaches to building capacity:

- *Think and act in terms of sustainable capacity outcomes.* Capacity development is at the core of development. Every action should be analysed to see whether it serves this end.
- *Don't rush.* Capacity development is a long-term process, not amenable to delivery pressures, quick fixes and short-term results. Engagement for capacity development needs to have a reliable, long-term time horizon.
- *Scan globally, reinvent locally.* There are no blueprints: capacity development means learning. Learning is a voluntary process that requires genuine commitment and interest. Knowledge cannot be transferred; it must be acquired.
- *Use existing capacities rather than create new ones.* This implies using primarily national expertise, strengthening national institutions and protecting social and cultural capital.
- *Integrate external inputs with national priorities, processes and systems.* External inputs need to correspond to national demand and respond to national needs and possibilities. Where national systems are not strong enough, they need to be reformed and strengthened, not bypassed.
- *Establish incentives for capacity development.* Distortions in public employment are major obstacles to capacity development. Ulterior motives and perverse incentives need to be aligned with the objective of capacity development.
- *Challenge mindsets and power differentials.* Capacity development is not power neutral, and challenging vested interests is difficult. Establishing frank dialogue and moving to a collective culture of transparency is essential to overcoming these challenges.
- *Stay engaged in difficult circumstances.* The weaker is the capacity, the greater is the need. Weak capacity is not an argument for withdrawal or for pushing external agendas. People should not be hostage to irresponsible governance.
- *Be accountable to ultimate beneficiaries.* Even if governments are not responsive to the needs of their people, external partners need to be accountable to their ultimate beneficiaries and help make national authorities responsible. Approaches need to be discussed and negotiated with national stakeholders.
- *Respect values and foster self-esteem.* The imposition of alien values can undermine confidence. Self-esteem is at the root of ownership and empowerment.

Source: Lopes and Thieson 2003.

For donor countries, Mr. DUCCA:

- *Decentralized decision-making.* A lot of donor decision-making is still centralized in donor capitals, where decisions are based on second guessing about local constraints and priorities—about matters such as water, schools and sanitation that are at the centre of achieving the Goals. Decentralizing donor decision-making to national levels enhances the role of recipients and increases their ownership.
- *Untied aid.* With tied aid so financially costly to recipients, untying it would give them more options and be more concessional and less prone to corruption.
- *Concessional aid.* Aid for most of the top and high priority countries—especially those that are heavily indebted or least developed—should be grants, because further loans would only add to already unsustainable debt burdens.
- *Coordination of donor projects and programmes.* Better coordination among donors would relieve administrative burdens on poor country governments and help governments align donor inputs with national priorities. Recent experiences have shown the value of sector-wide programmes for health systems (see chapter 4). Donors must also finance recurrent costs—often a critical bottleneck.
- *Accountability to the public based on programme results.* All aid delivery mechanisms should be underpinned by accountability. But accountability in aid relationships is often one-sided, emphasizing the legal accountability of recipients to donors and donors to taxpayers. Another aspect of accountability is even more important—to the beneficiaries, framed not in money spent but in results.

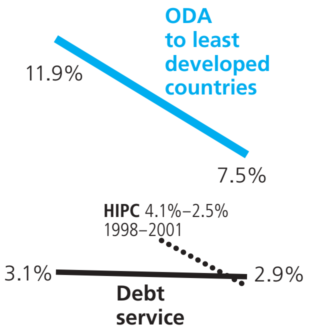
For recipient countries, Mr. LIPPO:

- *Local government and decentralization.* Local governments, closer and more responsive to the people, can be the main drivers for expanding health, education and other key services—if the right conditions are in place (see chapter 7).
- *Institutional reform to combat corruption and promote democratic governance.* Fighting corruption requires strong institutions. Democratic institutions give people a say and hold decision-makers accountable to the public.
- *Popular participation in development activities.* More widespread participation generally produces better development outcomes, particularly for poor people.
- *Progressive, more equitable assignment of resources.* More often than not, resources are allocated inequitably—and so require adjustment.

FIGURE 8.4

For the poorest: caught between falling aid and level debt

Percentage of GDP in least developed countries, 1990–2001



Source: Human Development Report Office calculations based on data from OECD, Development Assistance Committee 2003c and debt service data from World Bank 2003i.

- *Oversight by civil society, individuals and NGOs.* An alert citizenry is essential for ensuring the accountability of public institutions and decision-makers.

Debt relief—faster and deeper

Many of the top and high priority countries are extremely indebted, with two-thirds (31 of 59) eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative. (Only 11 of the 42 HIPCs are not among the top or high priority countries.) Important in reaching the Goals, debt relief will help put these countries on a course of sustainable development and release resources that could finance additional social spending and other priority investments identified in the Millennium Development Compact.

Following through on commitments to relieving debt

Since the mid-1990s donor countries have committed themselves to addressing the debt crisis in poor countries and ensuring that none faces a debt burden it cannot manage (figure 8.4). In 1996 donors introduced the HIPC initiative to reduce debt and release funds to support poverty reduction (box 8.6). Spurring this unprecedented initiative was pressure from Jubilee 2000, a global campaign for action on debt relief. Campaigners convincingly argued that debts owed by developing countries to well-funded institutions such as the International Monetary Fund (IMF) and the World Bank and to rich country governments were an unjust burden on poor people, who were paying for debts often incurred by since-displaced corrupt leaders. They argued that these debts were taking scarce resources from government budgets, leaving little for health care, schools and clean water.

Donor countries had another reason to cancel some of the debt. They were locked into "defensive lending"—endless rounds of debt rescheduling and new grants and loans to help poor countries pay back old loans, hardly a good use of new aid money.[10]

By early 2003 the HIPC initiative had benefited 26 countries.[11] Eight countries have reached their completion points, meaning that some of their debt has been forgiven. Another 18 countries have reached their decision points, meaning that they will begin to benefit from debt service relief. For these countries debt service declined from $3.7 billion in 1998 to $2.2 billion in 2001, or from 17.5% of exports to 9.8%. Annual debt service payments will be one-third (about $1.2 billion) lower in 2001–05 than in 1998–99.

Governments in these 26 countries are using their debt savings to increase spending on education and health, with about 40% directed

BOX 8.6

What is the Heavily Indebted Poor Countries initiative?

The Heavily Indebted Poor Countries (HIPC) initiative, launched in 1996 by the International Monetary Fund (IMF) and the World Bank and endorsed by 180 governments, has two main objectives. The first is to relieve certain low-income countries of their unsustainable debt to donors. The second is to promote reform and sound policies for growth, human development and poverty reduction.

The enhanced HIPC framework, approved in 1999, introduces broader eligibility criteria and increases debt relief. To be eligible, countries must be eligible for highly concessional assistance such as from the World Bank's International Development Association and the IMF's Poverty Reduction and Growth Facility. In addition, countries must face unsustainable debt even after the full application of traditional debt relief mechanisms. They must also have a proven track record in implementing strategies focused on reducing poverty and building the foundations for sustainable economic growth.

Debt relief occurs in two steps:

- At the decision point the country gets debt *service* relief after having demonstrated adherence to an IMF programme and progress in developing a national poverty strategy.
- At the completion point the country gets debt *stock* relief upon approval by the World Bank and the IMF of its Poverty Reduction Strategy Paper. The country is entitled to at least 90% debt relief from bilateral and multilateral creditors to make debt levels sustainable.

Of the 42 countries participating in the initiative, 34 are in Sub-Saharan Africa. None had a per capita income above $1,500 (in purchasing power parity terms) in 2001, and all rank low on the human development index. Between 1990 and 2001 HIPCs grew by an average of just 0.5% a year.

HIPCs have been overindebted for at least 20 years: by poor country standards their ratios of debt to exports were already high in the 1980s. At the same time, HIPCs have received considerable official development assistance. Net transfers of such aid averaged about 10% of their GNP in the 1990s, compared with about 2% for all poor countries. To date 16 HIPCs have reached the decision point and 8 have reached the completion point (Benin, Bolivia, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania, Uganda).

Source: World Bank 2003c; IMF and IDA 2003; Birdsall, Williamson and Deese 2002.

to education and 25% to health. Uganda has achieved almost universal primary enrolment. Mali, Mozambique and Senegal plan to use their freed debt to increase spending on HIV/AIDS prevention.[12] Another review of 10 African countries that have reached their decision points shows clear increases in social spending (figure 8.5).[13]

Yet the pace of relief is neither fast nor deep enough—and not enough countries have benefited. According to the original schedule of the HIPC initiative, 19 countries should have reached their completion points by now, not 8. Achieving the Goals will require additional resources—at least $50 billion a year in addition to domestically mobilized resources. More debt relief can help fill this gap.

There is also concern that the HIPC initiative will not be adequate for countries to escape their debt traps. Of the eight countries that have reached their completion points, two have returned to a ratio of net present value of debt to exports above 150%—the threshold considered sustainable under the initiative. Initial IMF and World Bank projections of debt sustainability were calculated during a global economic boom. This analysis relied on three assumptions that have since proven overly optimistic:

- *Exports would increase.* In the coming decade exports would have to grow at almost twice the rate of the 1990s if HIPC countries are to be able to service their debts. This would require the terms of trade for these countries to improve by 0.5% a year—even though they deteriorated by 0.7% a year in the 1990s.
- *Borrowing would decline.* New annual borrowing is projected to decline from 9.5% to 5.5% of GNP, and grants are projected to double. But already a few HIPC countries are borrowing at higher than expected interest rates.
- *Shocks would not matter much.* But most HIPCs are vulnerable to droughts, floods, civil conflicts and plunging commodity prices.[14]

What should be done?

The HIPC initiative did not provide enough debt sustainability for enough countries and needs further enhancement, especially given the larger financing needs of the Millennium Development Goals. Debt relief is more efficient than aid as a way for donors to help poor countries reach the Goals because debt relief provides more flexible funding. It targets countries in need. And being untied, it provides budget support that can be applied to national priorities defined under poverty reduction strategies.

Strengthen links with the Goals. As recommended in the Millennium Development Compact, the financing requirements of the Goals should be assessed explicitly in Poverty Reduction Strategy Papers. Assessments of debt sustainability by the World Bank and IMF should be extended beyond the mere capacity to service debt to freeing up enough resources to reach the Goals.

More relief. Debt servicing capacity should be assessed relative to the country's needs for achieving the Goals. For many countries this will require full debt cancellation. The HIPC debt-export measure of debt sustainability has little to do with the needs of poor people. If debtor countries and donors want to prevent the diversion of resources from basic social investments to debt payments, one proposed measure of debt sustainability should be the ratio of debt service to GNP. Rich countries could extend debt relief until debt service falls under 2% of GDP. (Most HIPCs collect about 20% of GNP in tax revenue, and 10% of tax revenue would be a reasonable amount to pay for debt service.)[15]

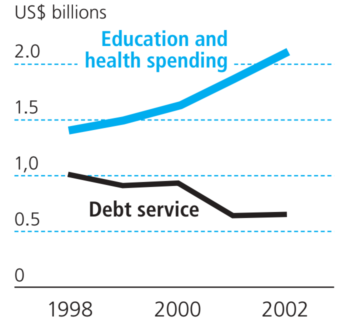
Provide better insurance against shocks. HIPCs are particularly prone to natural disasters and price collapses for their commodity exports. An innovative proposal calls for a contingency facility. Under this proposal, when a shock results in debt service of more than 2% of GNP, external finance would finance debt service beyond this threshold.[16]

Other ideas outside current HIPC arrangements also merit consideration. Jubilee Research, the successor to Jubilee 2000, has proposed a debt restructuring programme for the Millennium Development Goals that would be a case-by-case process, overseen by an independent panel or court that would rule on the sovereign debtor's petition for protection from creditors. This approach has the appeal of placing the onus on the creditor as much on the debtor (box 8.7). But there may be unintended consequences—diverting resources away from the creditor's aid

FIGURE 8.5

Spending shifts from debt service to human development in 10 countries benefitting from HIPC debt relief

US$ billions



Source: OECD, Development Assistance Committee 2003a.

BOX 8.7

A proposal for restructuring debt to reach the Goals

Since 1995 the Jubilee 2000 movement has campaigned to resolve international debt crises. Jubilee Research, the movement's successor, has proposed a radical new approach that would follow three principles.

Apply justice and reason to the resolution of debt crises

No one party to a debt crisis would be able to act as plaintiff, judge and jury in the court of sovereign debt.

Recognize the responsibilities of both debtors and creditors for the crisis

Under current procedures liabilities fall more heavily on debtors. Any assessment of how losses should be distributed would take into account the interests of creditors, but also the need to protect the human rights and dignity of the people of the debtor nation.

Ensure an open, accountable, transparent process

These are public, not private, assets and liabilities. Recognizing that there are three parties to any debt crisis—the debtor, the creditors and the taxpayers—all three should participate in the resolution of the crisis. As with Chapter 9 of the US legal code, affected citizens would have a legal right to have their voices heard in the resolution of a crisis. Such transparency and accountability help prevent future crises.

The debtor government would initiate the process by applying to the United Nations for an independent, transparent, accountable framework for arbitration. The grounds for the framework would be that debt service payments were crowding out spending on basic human rights, preventing the country from meeting the Goals.

During the next stage an independent arbitration panel would be appointed, with members appointed in equal numbers by the debtor and its creditors. These members would select a neutral judge or chairperson. In considering how much debt should be cancelled, the panel would require a full assessment of the resources required by the country to meet the Goals.

The United Nations would be responsible for ensuring that the process is conducted transparently, independently and fairly—for both the debtor and the creditors—and for ensuring that funds released by the process are used to achieve the Goals.

Source: Pettifor and Greenhill 2003.

programmes. Unlike the HIPC initiative, the programme also lacks a mechanism to ensure that resources released are used for poverty reduction.

Trade—opening markets, reducing subsidies

One reason for the debt problem is that like other poor countries, most HIPCs rely heavily on exports of primary commodities—which have suffered from declining prices. Countries dependent on such exports are being left behind by global economic growth (see chapter 3).[17] Although aid and debt relief will be essential to getting many developing countries on the right track, they are not sustainable solutions.

Changing trade patterns

To compete and prosper in the world economy, developing countries need to drive their own development. They need to become competitive in the products they export and diversify into others. Yet countries with low human development have been slow to increase or diversify their exports (table 8.2).

TABLE 8.2

Trade: exploiting the opportunities—or not

	Exports of goods, services and income (1995 US$ billions) 1990	2001
High human development	3,959	7,602
Medium human development	780	1,599
Low human development	41	61

Source: Human Development Report Office calculations based on data on exports and GDP deflator from World Bank 2003i.

Today's highly competitive global markets make export diversification difficult for countries with low human development. With open markets, capital, technological and human resource requirements have increased. International buyers of commodities demand high reliability and quality from suppliers in developing countries. These trends place a greater premium on knowledge, skills and flexibility. They also put more pressure on the poorest countries—which have the least skills, savings and capacity to adapt to changing environments.[18]

Faster progress in reaching the Millennium Development Goals—particularly in education and health—will help countries strengthen their exports. Healthy, well-educated people make a workforce more adaptable and an economy more productive. That changes patterns of trade—from exporting primary commodities to more processed goods, from low-skill manufactured goods to more skill-intensive goods.[19]

What should be done?

There is enormous scope for rich countries to expand market access and promote imports from poor countries by reducing tariffs and subsidies. Despite some significant recent initiatives, trade policies in rich countries remain highly discriminatory against the products produced in the poorest countries—especially in agriculture and textiles. The most important expectation of poor countries in the Uruguay Round of international trade negotiations (1986–94) was that rich coun-

TABLE 8.3

Post–Uruguay Round tariffs and reductions in selected countries and groups
(percent)

Product category	European Union Tariff	European Union Reduction	United States Tariff	United States Reduction	Poor countries Tariff	Poor countries Reduction	Rich countries Tariff	Rich countries Reduction
Agriculture [a]	15.7	–5.9	10.8	–1.5	17.4	–43.0	26.9	–26.9
Textiles	8.7	–2.0	14.8	–2.0	21.2	–8.5	8.4	–2.6
Metals	1.0	–3.3	1.1	–3.8	10.8	–9.5	0.9	–3.4
Chemicals	3.8	–3.3	2.5	–4.9	12.4	–9.7	2.2	–3.7

a. Data exclude fish and include the tariff equivalents of non-tariff barriers.
Source: Finger and Harrison 1996.

tries would open their markets in these two sectors. But the results have been largely disappointing. Protection in most rich countries remains extremely high, through a variety of instruments:[20]

Tariffs. Most rich countries apply higher tariffs to agricultural goods and simple manufactures—the very goods that developing countries produce and can export. In agriculture, the tariffs of OECD countries are heavily biased against low-priced farm products produced by developing countries (table 8.3). Tariffs against developing country manufactures also remain high. In the 1990s the average OECD tariff on manufactured goods from the developing world was 3.4%, more than four times the average of 0.8% on OECD manufactures. Bangladesh exports about $2.4 billion to the United States each year and pays 14% in tariffs—while France exports more than $30 billion and pays 1% in tariffs.[21] Moreover, the Uruguay Round did not change peak tariffs (those above 15%) on many developing country exports—60% of the imports from developing countries by Canada, the European Union, Japan and the United States were subject to peak tariffs.[22]

The poorest countries often also face tariff escalation—higher tariffs if they try to process their exports rather than simply export primary products. In New Zealand this "development tax" imposes a 5% tariff on coffee beans and a 15% tariff on ground coffee[23]—and in Japan a 0.1% tariff on unprocessed textiles and an 8.6% tariff on fully processed textiles.[24]

Quotas. Import quotas are a more extreme version of the same policy. Rather than just making developing country products less competitive, quotas do not allow those products past a certain volume to compete at all. OECD countries subject imports to a wide variety of quotas, particularly for clothing and footwear—labour-intensive products in which developing countries would have a comparative advantage. Quotas on clothing and textiles are to be phased out by 2005. But in 2002 quotas still governed most of the same clothing products covering quotas in the late 1980s. This lack of progress raises doubts about the seriousness of OECD countries to meet their 2005 commitments.

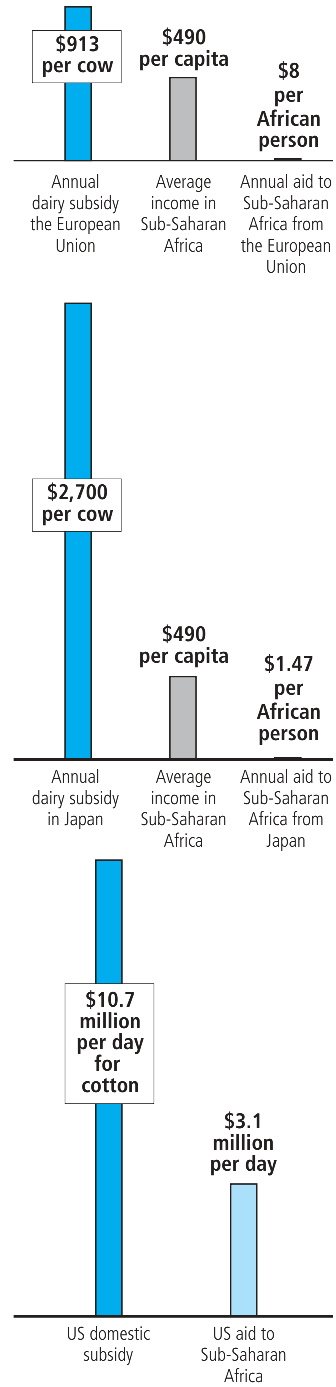
Export subsidies. Another way rich countries tilt the playing field for trade seems, on its face, to have little to do with trade. Rich countries, to varying degrees, pay large subsidies to their domestic food producers. These subsidies are so large—totalling $311 billion a year—that they affect world market prices of agricultural goods, causing direct harm to poor countries (box 8.8). EU-subsidized exports have contributed to the decline of the dairy industries in Brazil and Jamaica and the sugar industry in South Africa.[25] West African cotton producers have increased the efficiency of their cotton sector, achieving competitive production costs. But they cannot compete against subsidized farmers in rich countries (box 8.9). Indeed, OECD per capita subsidies for cows and cotton bolls are considerably higher than OECD per capita aid for Sub-Saharan Africa (figure 8.6). Annual agricultural subsidies in rich countries considerably exceed the national income of all of Sub-Saharan Africa (figure 8.7).

At the 2001 World Trade Organization (WTO) conference in Doha, Qatar, countries agreed to the eventual elimination of agricultural export subsidies—though no timeframe was set. A timeframe is obviously essential if the Doha declaration is to have any meaning.[26]

In the long term the real solution for commodity-dependent countries is to diversify into other export sectors, especially labour-intensive

FIGURE 8.6

Cows and cotton receive more aid than people, 2000



Source: Birdsall and Clemens 2003b.

BOX 8.8

The long international reach of domestic subsidies

Rich countries' subsidies to their farmers make their farms more profitable, encouraging greater production and lowering the prices of their output. The result: cheap, abundant agricultural products.

Who are the winners and losers? Domestic producers clearly gain, with higher profits. But domestic consumers unambiguously lose. They pay less for food, but they pay more in taxes to cover the subsidies—and the negative effect outweighs the positive. In addition, subsidies are heavily biased towards large producers. The European Commission estimates that, excluding Greece, half of all subsidies go to just 5% of farms.

But the effects go beyond national frontiers. Producers in poor countries must compete with subsidized producers in rich countries. They often cannot export their products to rich countries because their unsubsidized prices cannot compete with the below-market prices offered by farmers in rich countries. (Such is the case with sugar in the United States.) And they may not even be able to sell their products at home, because the subsidy-inspired surge in rich countries' agricultural production can create surpluses that are exported to poor countries at prices no domestic producer can match. (Such is the case with European milk.)

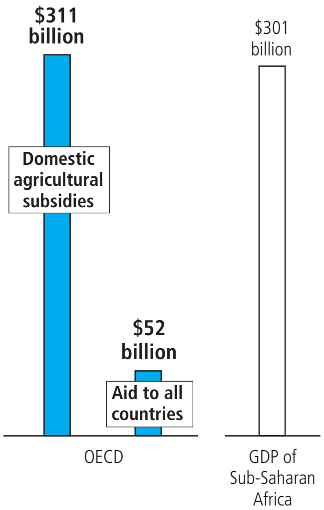
What about consumers in poor countries? Other things being equal, rich country subsidies should drive down the prices they pay for traded food, so they should benefit. But in many poor countries a large share of consumers are also agricultural producers. Such people are affected in two ways by rich country subsidies: the food they buy is cheaper, but their incomes are lower because of lower prices for the food they produce.

So, whether the subsidies increase or decrease poverty in poor countries depends on how many poor people in those countries earn their livings by selling food. A recent study found that removing subsidies hurts poor people in the short term when less than half of them live in rural areas. But in the average developing country about three-quarters of poor people are rural—and in the poorest African and Asian countries, more than 90%. Net food-importing countries benefit from cheaper world prices. But in the long run low prices dampen incentives to invest, which leads to stagnation of an important sector of the economy on which many poor people depend. That leaves rich country farmers as the sole true beneficiaries of subsidies, with a multitude of losers across the globe.

Source: Cline 2002.

FIGURE 8.7

OECD agricultural subsidies dwarf aid, 2001



Source: OECD, Development Assistance Committee 2003a; indicator tables 12 and 15.

manufactures. But in the short term, the international community could address the extreme volatility of commodity prices. Approaches at stabilization through international commodity agreements—tried in the 1970s and 1980s, then abandoned—are unlikely to attract much support given their poor record. A contingency facility could build insurance into the HIPC debt relief agreement, with additional relief provided after exogenous shocks, such as a sudden decline in the world price of a country's exports.[27] In addition, the WTO Agreement on Agriculture should be amended to ensure that no constraints are placed on developing country funding of projects to diversify commodity exports or insure prices for poor farmers.

Though estimates vary of the benefits to poor countries from trade liberalization in rich countries, most show huge gains. Just the static effects—those taking the present economic structure of poor countries—would be about the same as current levels of foreign aid. That does not mean that trade liberalization could or should be substituted for aid. For the top and high priority countries, aid is critical for immediately tackling the structural constraints to achieving the Millennium Development Goals. For them the gains from trade will take more time to realize as they develop the capacity to respond to new opportunities.

The middle human development countries that export corn, wheat, rice, sugar and other agricultural commodities also have the capacity to export clothing, footwear and other manufactured goods. Thus many of the gains from trade liberalization in rich countries would accrue to them. But low human development countries would also benefit, especially exporters of commodities such as coffee and cotton.

Rich countries could make trade work for human development in many other areas. They could implement provisions friendly to public health under the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS; see below). They could exempt basic social services from the progressive liberalization principle under the General Agreement on Services (GATS; see chapter 5). They could address many other developing country concerns about trade, the

BOX 8.9

The Doha gamble for Africa's cotton exporters

Cotton is crucial to the economic development of several West African countries (Benin, Burkina Faso, Chad, Mali, Togo). Since the 1980s cotton production has quadrupled—and now ranges from 5–10% of GDP and accounts for 30% of exports. Much of the cotton is produced by small farmers, many below the poverty line. For most, cotton is the only product that they can export competitively. Cotton revenues also finance a large part of economic and social infrastructure in rural areas. Thus cotton prices and revenues are central to any poverty reduction strategy in these countries—and to achieving the Goals.

In recent years these countries undertook a number of reforms that significantly improved their productivity and cut their production costs to among the world's lowest levels (considerably below those in the European Union and the United States). Largely as a result, the region accounts for 15% of global cotton exports, second only to the United States.

But a number of exporters—including China, the European Union and the United States—heavily subsidize their cotton producers. In 2002 direct financial assistance was estimated to equal 73% of world production, considerably higher than the 50% recorded five years before. In 2001 these programmes cost $4.9 billion, with about half provided by the United States and most of the rest by the European Union and China. Some of these countries also provide assistance for cotton exports.

These distortions have artificially inflated the supply of cotton in global markets, lowering its price. The greatest price drops occurred in 2001–02. Poor exporting countries like those in West and Central Africa have suffered the most. Their non-subsidized producers must sell cotton at close to production costs, causing steadily declining real returns. The International Cotton Consultative Committee and International Monetary Fund believe that cutting domestic and export subsidies for cotton would return international prices to competitive levels—raising the incomes of poor cotton exporters and setting these countries on a course of sustainable growth. The question is, will the World Trade Organization's Doha Round of trade negotiations respond to and honour the competitive advantage of West African cotton producers?

Source: ICCC 2002.

environment, investment and the movement of persons. And they could increase the effective participation of developing countries in decision-making in WTO negotiations.

The November 2001 Doha Declaration committed all countries to make the needs of development, especially for the least developed countries, a central objective of future trade negotiations.[28] Unlike the other Millennium Development Goals, Goal 8 does not have a time-bound target. But this Report proposes that rich countries also respect a time limit for eliminating tariffs and quotas on exports of manufactures and for removing domestic subsidies on agriculture—a time limit before 2015, when poor countries are to achieve Goals 1–7.

Global technology—sharing the fruits of global knowledge

Recent decades have seen unprecedented technological progress, with dramatic advances in medicine, agriculture, energy, genomics and information and communications technology—offering huge opportunities to put the power of technology to work for development. Already known technological innovations can do much to raise productivity and tackle problems of disease, water supply, sanitation, hygiene and hunger (see chapters 3 and 4). But many more frontiers remain to be crossed: low-cost energy for poor communities, cures for sleeping sickness, vaccines for HIV/AIDS and responses to ever-emerging new challenges. Technological innovations could accelerate progress towards Goals 1–7.

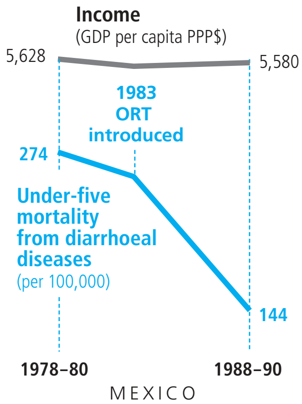
Linking technology and human development—and harnessing global knowledge

Technological innovations advance human development in two ways—by increasing productivity that raises household incomes (Goal 1) and by providing solutions to problems of disease, transport, energy, water supply, sanitation and information and communications technology for education, all important for achieving Goals 2–7.

Investments in technological innovations deserve high priority because they can overcome the constraints of low incomes and weak institutions. Though the 1980s saw limited

FIGURE 8.8

Oral rehydration therapy (ORT) reduces child mortality despite income stagnation



Source: Gutierrez and others 1996.

poverty reduction and stagnant economic growth in most of the developing world, child deaths were cut due to technological interventions: immunizations and oral rehydration therapy (figure 8.8). In agriculture, too, investments in research and development have shown exceptionally high returns. Sharing the fruits of scientific and technological progress is one of the most important ways that rich countries can help poor countries fight poverty.

Underinvestment in technology for poverty reduction

Despite enormous potential and recent advances in biotechnology, relatively little investment goes into technology to solve the problems of poverty. In medicine, for example, the World Health Organization's Commission on Macroeconomics and Health has found "gross underinvestment" in the diseases that most afflict poor people .[29] These include tropical diseases such as kala-azar, Chagas disease and sleeping sickness as well as the main infectious killers (HIV/AIDS, tuberculosis, malaria). Together tropical diseases and tuberculosis accounted for 11% of the global disease burden in 1999. Yet of 1,393 new drugs approved between 1975 and 1999, only 16—just over 1%—were specifically developed for these ailments.[30]

In 1990 the World Health Organization's Commission on Health Research and Development found that only 10% of spending on health research and development is directed at the health problems of 90% of the world's people. This has not changed. The imbalance between scientific effort and social need can be measured by assessing the share of total spending on a disease relative to the global disease burden—about 1:20 for malaria, a disease that kills more than 1 million people a year and debilitates the productivity of millions more. Malaria is almost entirely concentrated in poor countries (99% of cases), and remains the primary cause of death in many.

Such outcomes are not surprising when one considers the incentives. Pharmaceutical companies and rich countries account for 93% of global spending on health research and development.[31] Poor countries and poor people's diseases mean little in market terms because developing countries account for less than 2% of the market for major pharmaceutical products.[32] As a result poor countries benefit from global investments in research only when they suffer from diseases also prevailing in rich countries—as with HIV/AIDS. Even then, poor countries are unable to share in the fruits of such research due to high prices—maintained with the help of patents, as with those for retroviral drugs for HIV/AIDS.

Public funding for technology development—from both national and global sources—continues to be low. That is why public policy needs to step in, to increase investment and to improve access. In health the Tropical Disease Research Programme, jointly managed by the World Health Organization, UNDP and the World Bank, has about $30 million a year for a programme that covers eight tropical diseases. In agriculture research and development continues to be underfunded despite consistently high economic returns. Such investments have increased in Brazil and Mexico but declined in Africa. The premier global research programme for food crops, the Consultative Group on International Agricultural Research, had difficulty raising $377 million. (Meanwhile, the private corporation Monsanto spent $600 million on research and development.)

Technology access and intellectual property rights

Rich countries, despite their commitment in the TRIPS agreement, have taken no real steps to share their technology in the interests of reducing poverty. The TRIPS agreement includes provisions for technology transfers, but with few details and no discussion on implementation The TRIPS agreement does not provide intellectual property protection for indigenous knowledge such as those used in traditional medicine. Intense public pressure has led to special price deals and donations from corporations in one visible area—medicines for HIV/AIDS—but little else.

The TRIPS agreement introduces a global minimum standard for promoting invention. Intellectual property regimes are intended to balance the two social goals of promoting inventions and promoting the use of inventions. Thus the TRIPS agreement incorporates provisions in the interests of users, such as compulsory licensing or parallel imports that give governments flexibility to allow local manufacturing or imports of goods under patents. But the wording of these provisions is so vague that they are difficult to apply—so clarifying them would be a first step.

The 2001 Doha declaration on TRIPS and public health was a milestone that recognized that intellectual property rights were subservient to public health concerns. It clearly stated that the TRIPS agreement does not and should not prevent members from taking measures to protect public health. It specifically recognizes the flexibility that countries have to use compulsory licensing for local production. The declaration also set a timetable of December 2002 to find a solution for countries that did not have adequate manufacturing capacity. But negotiations ran aground—reopening them is urgent.

The high prices restricting access to life-saving drugs has become a huge ethical issue that pharmaceutical companies no longer ignore. Differential pricing—voluntary price cuts by pharmaceutical companies—has become an important mechanism for expanding access, especially to HIV/AIDS retroviral drugs. But experience shows that price cuts are no panacea, as the November 2002 report of UK Working Group on Increasing Access to Essential Medicines in the Developing World concluded. Experience also shows that in the absence of generic competition and lobbying, the cuts have limited response. After three years of operation, the most prominent voluntary tiered-pricing scheme, the UN-sponsored Accelerating Access Initiative, has delivered drugs to only around 30,000 patients—and at prices four or more times those of commercially available generic equivalents.

Standing in stark contrast is Brazil's HIV/AIDS treatment scheme, which used generic drugs to deliver cost-effective treatment to more than 115,000 patients in 2001 alone. Brazil's programme has cut the number of AIDS deaths by half and reduced common opportunistic infections among HIV/AIDS patients by 60–80%. Lower hospitalization and medical care costs generated savings of $422 million in 1997–99—almost entirely offsetting the cost of providing the antiretrovirals, and not including the economic benefits of rehabilitating patients to be economically and socially active. Countries with less capacity than Brazil, not able to follow in its footsteps, could benefit from importing products from Brazil—if agreement is reached on the TRIPS agreement.

Developing countries need to develop their own capacity to manufacture pharmaceuticals and other technology products for public health and development. But not all developing countries should do so—among them the poorest, smallest and lowest in human development.

Rich countries, by opening access to technologies, can make a vital contribution to reaching the Goals

What should be done?

Investments in global technology for reducing poverty and reaching the Goals need to be expanded to match the needs. Research and development to tackle the enduring problems of poverty need to be far more ambitious, such as in:

- High-yielding, drought- and pest-resistant varieties of food crops such as sorghum, cassava and lentils.
- Clean energy for rural people who now use wood and dung.
- Low-cost, battery-operated, wireless computers that open communications for rural areas with no electricity and telecommunications infrastructure.
- Vaccines and treatment for neglected diseases such as sleeping sickness.

These investments are critical to achieving Goals 1–7 but do not constitute market demand; people surviving on less than $1 a day have little to spend on medicines. Because these investments will not attract private investment, the public sector must take the lead. But partnerships with the private sector, while not only desirable, may be essential in some areas—because it has the know-how and technology.

Technology is a motor for human development. Rich countries, by opening access to technologies, can make a vital contribution to reaching the Goals. Yet the opening has, if anything, slowed—especially in the industrial sector. In the long term this harms everyone. Many economists now argue that the free flow of knowledge can facilitate growth for all, rather than generating high returns at the expense of

TABLE 8.4
Rich country responsibilities

	Aid: Net official development assistance (ODA) disbursed: Total (US$ millions) 2001	Aid: Net ODA disbursed: As % of GNP 2001	Aid: Tied aid (% of total aid disbursements)[a] 2001	Debt relief: Bilateral pledges to the HIPC Trust Fund (US$ millions) As of November 2002	Debt relief: Cancellation of bilateral debt (US$ millions) 1990–2002	Trade: Average tariff and non-tariff barriers[b] (tariff-equivalents, %) 2000	Trade: Goods imports from developing countries: Total (US$ millions) 2001	Trade: Goods imports from developing countries: Share of total imports (%) 2001	Trade: Goods imports from least developed countries: Total (US$ millions) 2001	Trade: Goods imports from least developed countries: Share of total imports (%) 2001
Australia	873	0.25	41	14	72	13.4	2,274	37.5	11	0.2
Austria	533	0.29	..	44	202	21.8	616	9.4	16	0.3
Belgium	867	0.37	10	45	544	22.1	2,275	12.7	254	1.4
Canada	1,533	0.22	68	114	1,207	12.7	3,558	16.1	35	0.2
Denmark	1,634	1.03	7	60	359	21.6	447	10.0	12	0.3
Finland	389	0.32	13	38	156	21.3	338	10.2	16	0.5
France	4,198	0.32	33	181	13,043	21.4	5,112	17.4	236	0.8
Germany	4,990	0.27	15	226	4,996	21.4	7,488	15.2	218	0.4
Greece	202	0.17	83	11	..	22.5	670	23.8	18	0.6
Ireland	287	0.33	..	24	..	22.9	700	13.6	17	0.3
Italy	1,627	0.15	92	153	1,156	20.1	4,323	18.3	98	0.4
Japan	9,847	0.23	19	200	3,908	34.8	20,582	58.9	110	0.3
Luxembourg	141	0.82	..	318	..	..	28	2.6	1	0.1
Netherlands	3,172	0.82	9	199	1,575	19.9	3,860	23.5	73	0.4
New Zealand	112	0.25	..	29	..	12.0	383	28.8	2	0.1
Norway	1,346	0.83	1	300	237	61.1	405	12.3	12	0.4
Portugal	268	0.25	42	27	460	20.5	556[c]	13.9[c]	29[c]	0.7[c]
Spain	1,737	0.30	31	44	980	21.3	3,373	21.8	136	0.9
Sweden	1,666	0.81	14	189	121	20.5	580	9.8	10	0.2
Switzerland	908	0.34	4	127	311	37.1	694	8.3	9	0.1
United Kingdom	4,579	0.32	6	77	1,886	20.9	6,535	18.9	132	0.4
United States	11,429	0.11	..	40	8,062	9.7	54,798	46.4	982	0.8

Note: This table presents data for members of the OECD Development Assistance Committee.

a. Refers to tied and partially tied aid as a percentage of total aid, excluding technical cooperation. b. This is an aggregate measure of trade barriers towards developing countries. It measures not only monetary barriers (tariffs) but also non-monetary ones, such as import quotas and the effect of domestic subsidies. c. Data refer to 2000.

Source: Columns 1 and 2: OECD, Development Assistance Committee 2003c. Column 3: Human Development Report Office calculations based on data on tied and partially tied aid from OECD, Development Assistance Committee 2003c. Column 4: Geithner and Nankani 2002. Column 5: Human Development Report Office calculations based on data on debt cancellation from OECD, Development Assistance Committee 2003c. Column 6: Birdsall and Roodman 2003. Columns 7-10: UN 2003a.

access. That is why it is vital to reopen negotiations on the TRIPS agreement, operationalizing its provisions for technology transfer.

Rich countries can do much more to expand access to technology by tackling the key obstacles:

- Lack of financing for investments in research and development.
- Ambiguous intellectual property laws.
- Limits of differential pricing.
- National technology capacity, including local production capacity.

Living up to the commitments of the Millennium Declaration: policy, not charity

More action on aid has been seen in the two years since the Millennium Declaration than in the past decade—with pledges for $16 billion more aid by 2006, debt relief to 26 countries and an agreement that intellectual property rights should not stand in the way of access to technology for protecting public health. Though significant, these achievements fall far short of promises made. Even $16 billion in additional official development assistance would only reach 0.26% of the gross national income of Development Assistance Committee members by 2006—not the target of 0.7%. There has been little concrete action in opening markets, transferring technology and relieving debt, leaving too many countries without benefits. With commitments falling short of the need, poor countries will continue to face stagnant growth, accumulating (and unsustainable) debt and falling export prices.

Rich countries should be encouraged to prepare reports—contributing to a world poverty reduction strategy—that set out their priorities for action.[33] They could pinpoint where they need to do more to live up to their commitments. For example, countries generous

BOX 8.10

The commitment to development index

The commitment to development index (CDI) is a pioneering attempt to monitor how well rich countries live up to their commitments to global partnership. Created by the Center for Global Development and *Foreign Policy* magazine, the index goes beyond looking at the traditional measures of aid—dollar amounts. Instead, it examines a broader set of dimensions and policies, looking at both the quality and quantity of aid, trade barriers, the environment, investment, migration and peacekeeping.

Constructing an index that takes into account the full range of policies affecting poor countries is as difficult as it is important. While the CDI is a significant first step towards holding rich countries accountable to their commitments, a number of questions remain:

- *Valuation of "good" policy.* The CDI is designed to measure a specific set of policies, that, it is assumed, enhance development outcomes. These assumptions inevitably entail value judgements. For example, higher scores are given for aid to countries with good governance than to those where the need may be greater. Another example is foreign direct investment (FDI), a component of the index, where lack of data has led the CDI to assume that it is good in all circumstances.
- *Weighting.* Perhaps the biggest problem in any composite index is what importance to assign each indicator. The CDI uses a variety of methods in each policy area. But the overall index gives equal weight to each of the six components. While this is the simplest approach, it downplays aid and trade—arguably far more important than, say, peacekeeping contributions.
- *Measurement weaknesses.* While all the six components of rich country policies presented here are important for global development, some are difficult to measure. Migration policies that contribute to development are difficult to measure because there is no clear consensus on what constitutes good migration policy, and data are sparse. The environment is also a complex area that suffers from lack of adequate data.
- *Complexity.* The CDI was designed to target policies very specifically, resulting in a multitude of indicators and a wide range of statistical methods. The cost of this complexity is that to all but dedicated researcher with knowledge of the field, the index will be a black box: the results are clear, but understanding what lies behind them requires specialized knowledge. So for the voter, the non-governmental organization, the journalist or the policy-maker—all key audiences —the take-home message of what needs to change may not be clear.
- *Bias against large economies.* Because key aspects of the index (aid, peacekeeping and FDI contributions) are measured as a proportion of gross national income, large economies—which often give the most in absolute terms—end up with lower scores. Indeed, the top five countries all have populations of less than 20 million.

Some of the results of the index are surprising, sometimes due to the problems discussed above. The Netherlands leads the rankings, leaving in second place Denmark—by far the most generous donor of official development assistance as a share of gross national income of the countries in the index. This result is mainly driven by the Netherlands' extremely high scores in FDI, where Denmark scores very low. This highlights the problems of using FDI as a scorecard for policy: FDI is an outcome, arguably more affected by the structure of the private sector than by government policy. Portugal, another surprise at third place, is also helped by a perfect score in FDI. It is followed by New Zealand and Switzerland in fourth and fifth place—countries that, like Portugal, are not big donors of official development assistance. Switzerland's high ranking illustrates well the problems of giving equal weight to all the components of the index: it scores low in the important categories of trade and aid, but high in investment and migration—areas that are difficult to measure, and whose impact is more controversial.

Finland, Canada, Australia, the United States and Japan have the lowest scores. The two largest donors of foreign aid in dollar amounts—the United States and Japan—rank at the very bottom. Both countries' scores suffer because their aid and FDI, while huge in absolute terms, are small relative to the size of their economies. Japan receives particularly low scores in peacekeeping, because constitutional barriers and commitments prevent it from contributing troops to peacekeeping. This again illustrates the problem of weighting: in important sectors such as trade and the environment, Japan performs relatively better. The US score is also helped by strong performance in trade—helped by its more open agricultural market, which is not as heavily subsidized as those in Europe.

The most important result of the index, however, lies not in the relative rankings, but in the fact that even the top country is barely halfway to a perfect score. All countries have a long way to go to achieve policies that help poor countries develop.

Intended to be published annually, the first edition of the CDI should sharpen the debate on rich country development policies and stimulate discussions on measuring those policies and improving data.

Source: Birdsall and Roodman 2003.

with aid are not always as open to developing country imports. Consider Norway, which does much to meet the aid commitments but could do more on market access (table 8.4).[34] The current OECD Development Assistance Committee process of peer reviews on aid could also be expanded to include trade and debt relief so that these policies could be reviewed in a coherent framework. Japan imports more from developing countries than any other rich country (59% of total imports), but has low official development assistance as a percentage of gross national income.

A recent research project developed a composite index, the commitment to development index, that encapsulates rich country performance in implementing policies that contribute to development (box 8.10). Like other composite indices, this one helps policy-makers—in this case, rich country policy-makers—assess their situation and pinpoint areas for improvement. It shows how they perform relative to other countries not only in aid, but also in whether they protect their markets from developing country goods, in investments, in opening doors to migrants, in contributing to peacekeeping and in contributing to global environmental stewardship. A product of innovative research, the index intends not to "name and shame" but to diagnose shortcomings and spur action to do more.

As noted, Goal 8 does not have time-bound and quantitative targets. But rich countries can set their own deadlines for targets requiring their action. Proposed here are some indicators of progress, with specificity and deadlines in critical areas:

- Increase official development assistance to fill financing gaps—by a low estimate of $50 billion.
- Increase official development assistance to the least developed countries.
- Develop concrete measures for implementing the Rome Declaration on Harmonization.
- Remove tariffs and quotas on agricultural products, textiles and clothing exported by developing countries.
- Remove agricultural export subsidies.
- Agree and finance, for the HIPCs, a compensatory financing facility against external shocks—including commodity price collapses.
- Finance deeper debt reduction for HIPCs having reached their completion points, to ensure sustainability.
- Introduce protection and remuneration of traditional knowledge in the TRIPS agreement.
- Agree on what countries without sufficient manufacturing capacity can do to protect public health under the TRIPS agreement.

The commitments already made by rich countries show that the world has changed. Global market integration and technological advances have increased—as have exposure to disease, costs of environmental losses and risks of global financial contagion. Actions within national borders are not enough to tackle these problems. Partnership is needed for mutual self-interest. But rich countries also need to act—because eliminating human suffering is an ethical imperative. For rich countries to deliver on their commitments is a matter not just of charity but of policy—policy that is part of the international community's coherent approach to eradicating global poverty.

At the turn of the century the prospect of eradicating poverty seemed possible. The cold war was over and the prospect of all societies converging towards common goals seemed within reach. Yet as this Report goes to press, global challenges—from Iraq to the spread of new deadly diseases—loom large. The global economic slowdown also threatens to undermine rich country action for development as their own economies come under pressure to reduce budget deficits and press home their own trading advantages. That is why it is all the more urgent for all nations to keep their promises. Monitoring progress towards Goal 8, enumerating rich countries' side of the partnership for development, is as important as monitoring Goals 1–7.