Fourteen

A Global Compact to End Poverty

Ending global poverty by 2025 will require concerted actions by the rich countries as well as the poor, beginning with a “global compact” between the rich and poor countries. The poor countries must take ending poverty seriously, and will have to devote a greater share of their national resources to cutting poverty rather than to war, corruption, and political infighting. The rich countries will need to move beyond the platitudes of helping the poor, and follow through on their repeated promises to deliver more help. All of this is possible. Indeed, it is much more likely than it seems. But it needs a framework. My colleagues and I in the UN Millennium Project have proposed just such a framework, focused on the period until 2015, called the Millennium Development Goals-Based Poverty Reduction Strategy.

A SHADOW PLAY

Today’s situation is a bit like the old Soviet workers’ joke: “We pretend to work, and you pretend to pay us!” Many poor countries today pretend to reform while rich countries pretend to help them, raising the cynicism to a pretty high level. Many low-income countries go through the motions of reform, doing little in practice and expecting even less in return. The aid agencies, on their part, focus on projects at a symbolic rather than national scale, just big enough to make good headlines. In 2002, the United States Agency for International Development (USAID) proudly trumpeted its West African Water Initiative, noting that “a reliable supply of safe water, along with adequate sanitation and hygiene, are on the front line in the combat against water-related disease and death.” Fair enough, but what was USAID’s actual contribution? A pitiful $4.4 million over three years. If West Africa has a population of some 250 million people, $4.4 million over three years would be *less than a penny per person per year*, enough perhaps to buy a Dixie cup, but probably not enough to fill it with water!

The chronic lack of donor financing robs poor countries of their poverty-fighting zeal. In 2003, Prime Minister Meles Zenawi and I cohosted an event in Addis Ababa to launch the Human Development Report in Ethiopia, one of the world's poorest countries. The prime minister made a powerful and insightful presentation about Ethiopia's potential to expand food production, and thereby to overcome pervasive hunger. A question came from the floor. "Mr. Prime Minister, we agree with you on the importance of agriculture, but what about health care?" To my surprise, the prime minister responded, "I'm afraid that health care is going to take more time. We will be able to expand health care only later, once we are richer." Back in his office, I said that I did not agree with his answer, "Ethiopia needs expanded health care now." He looked back at me plaintively and agreed. But then he told me that IMF officials had recently told him, "There's no more money available for health."

A reasonable estimate, based on the work of the UN Millennium Project, is that Ethiopia needs about $70 per person per year in development assistance (or $5 billion in total for a seventy-million person economy) compared with the $14 per person per year it receives today (or $1 billion in total). About half of that sum would be devoted to the scaling up of public health. The balance would go to infrastructure and raising rural productivity, especially in the food sector.

As soon as I returned to New York from Addis, I telephoned a senior IMF official. "Jeff, what are you complaining about now?" the official said good-naturedly. I repeated the story and noted that Ethiopia lived, in essence, without modern health care, enduring a life expectancy rate of forty-two years, child mortality of 170 for every 1,000 born, a one-third chance of living to sixty-five years, one doctor for every 30,000 people, and public spending on health of $2 per person per year. "So what do you want me to do?" said the official. "I want the IMF to support a major increase of public health spending in Ethiopia." "But Jeff, there's no donor money for that." "The donor world is awfully rich," I retorted. "Jeff, the donors are not offering to give more to Ethiopia." "But then there's absolutely no way for Ethiopia to meet the Millennium Development Goals." "You're right, those goals are unreachable." Exasperated, I said, "Well, then, at least say that publicly—that Ethiopia will fail to meet the MDGs unless the donors give more. The world needs to hear that. Perhaps that would get the donors to move."

We are stuck in a shadow play. In public, the IMF says how well things are going in Ethiopia; in private, it recognizes that aid for Ethiopia is insufficient for the country to achieve the Millennium Development Goals. The March 2004 IMF–World Bank Joint Staff Assessment of Ethiopia's Poverty Reduction Strategy (on the IMF's Web site) does not breathe a word about the need to scale up donor financing significantly if the MDGs are to be achieved. Even more distressing, but par for the course, the IMF-World Bank document contains no data whatsoever about the country's public health emergency. How could the IMF and World Bank executive directors even know that the country program they have approved cannot even achieve the goals that have been promised?

I believe that the senior IMF official was wrong: there is more money available for Ethiopia, but only after we cut through the thicket of excuses and platitudes about aid, some of which the IMF itself propagates. In public, all of the standard reasons why aid to Ethiopia is at just the right level are marshaled: Ethiopia is doing fine (says the IMF-World Bank Staff Assessment), it has all the donor resources it needs, it could not absorb any more, corruption and mismanagement would undermine greater assistance. This is the standard litany of excuses used to justify the status quo. In private, virtually the entire development community knows that Ethiopia is starved for cash. Apparently, it is too embarrassing to the political bosses in the United States and Europe to make the point. This is a mistake. If we explain patiently and honestly to the taxpayers in the rich world that more money is needed and can be well used, it is much more likely to become available.

TWO SIDES OF THE COMPACT

So that I am not misunderstood, let me underscore that a global compact, like any contract, has at least two parties, and therefore responsibilities on both sides. Poor countries have no guaranteed right to meet the Millennium Development Goals or to receive development assistance from the rich countries. They only have that right if they themselves carry through on their commitments to good governance. The expansion of aid is predicated on a serious plan of action, combined with a demonstrated will to carry it out in a transparent and honest manner. Not all governments will want to, or be able to, make such a commitment, and those nations need not apply. Our compact, our commitment, in the rich countries should be to help all poor countries where the collective will is present to be responsible partners in the endeavor. For the others, where authoritarian or corrupt regimes hold sway, the consequences for the population are likely to be tragic, but the responsibilities of the rich world are also limited. Perhaps the most important action that rich countries can take in those circumstances is to help the well-governed neighbors of such countries to prove that there is help available for those that are organized politically to help themselves. The biggest problem today is not that poorly governed countries get too much help, but that well-governed countries get far too little.

PLANNING FOR SUCCESS

Boring as it may seem, we need to fix the "plumbing" of international development assistance in order to be effective in helping the well-governed countries. Aid flows through certain pipes—bilateral donors, the World Bank, the regional development banks (such as the African Development Bank)—but these pipes are clogged or simply too narrow, not able to carry a sufficient flow of aid. If we are to get agreement by the rich world's taxpayers to put more aid through the system, we first have to show that the plumbing will carry the aid from the rich countries right down to where the poorest countries need it most—in the villages, slums, ports, and other critical targets. Let me describe how that plumbing can be put right. I focus my attention on the period until 2015, when the Millennium Development Goals are to be met. Similar principles will apply for the second decade, from 2015 to 2025.

The UN secretary-general, overseeing the UN agencies and the Bretton Woods Institutions (which are also part of the UN family), should oversee the entire effort. Working through the United Nations Development Program—the economic development arm of the UN system—the secretary-general, on behalf of the member nations, should ensure that the global compact is put into operation. Much of the work will take place at the level of the individual country, where plans will be devised and investments made on the basis of national financial resources and increased donor aid.

To organize country-level work, each low-income country should adopt a poverty reduction strategy (PRS) specifically designed to meet the

Millennium Development Goals. Most poor countries today already have some form of a poverty reduction strategy—usually a poverty reduction strategy paper or plan—that it has developed in cooperation with the IMF and World Bank. The existing World Bank poverty reduction plan lays out the country's goals, targets, policies, and strategies to cut poverty. Introduced a few years ago to give more coherence to each country's efforts to fight poverty, and to provide a framework for official debt relief, the existing plans are not yet designed with enough rigor or ambition to enable the countries to achieve the MDGs.

The poverty reduction strategy papers, incidentally, are all publicly available on the IMF and World Bank Web sites, so one can read for oneself what the countries have deemed to be their poverty reduction strategies. The programs are often ingenious, but are all chronically underfunded compared with what is needed to achieve the Millennium Development Goals. As a result they are often forced to shortchange entire areas of public investment (such as public health). Five recent poverty reduction strategy plans of notable quality in Africa are:

- Ghana's Poverty Reduction Strategy (GPRS)
- Ethiopia's Sustainable Development and Poverty Reduction Program (SDPRP)
- Kenya's Economic Recovery Strategy for Wealth and Employment Creation (ERS)
- Senegal's Poverty Reduction Strategy Paper (PRSP)
- Uganda's Poverty Eradication Action Plan (PEAP)

Why Today's System Is Incoherent

Alas, the international community's approach remains incoherent in practice. On the one side, it announces bold goals, like the Millennium Development Goals, and even ways that the goals can be achieved, such as the pledge of increased donor assistance made in the Monterrey Consensus. Yet when it comes to real practice, where the rubber hits the road, in the poverty reduction plans, the Millennium Development Goals are expressed only as vague aspirations rather than operational targets. Countries are told to go about their business without any hope of meeting the MDGs. The IMF and World Bank reveal split personalities, championing the MDGs in public speeches, approving programs that will not achieve them, and privately acknowledging, with business as usual, that they cannot be met!

Here is how the aid actually makes its way through the plumbing today. When Prime Minister Meles Zenawi or his counterparts in Africa, Asia, and Latin America lead their country's preparation of the poverty reduction plans, they are told to be "realistic," meaning that they should take as a given the limits of today's constricted donor resources.

Operationally, the IMF and World Bank staffs make rounds of calls to canvas the "bilateral" donor community, that is, the aid agencies of the rich countries. They contact the aid agencies to get a forecast of the level of aid that each agency is likely to provide in the coming year. These sums are totaled up and then conveyed to the recipient country. Ethiopia is told, for example, "You can expect around $1 billion next year. Please tell us what you plan to do with that aid."

Knowing that a certain amount of aid is likely, the recipient country is expected to engage in a broad-based public consultation to prepare the poverty reduction plan, including how the aid will be deployed. The international community's insistence on broad public participation in the design of these plans is designed to achieve four main goals: (1) better prioritization of investment plans, (2) increased public awareness about poverty reduction programs, (3) mobilization of NGOs and community groups in the fight against poverty, and (4) fostering more political "antibodies" against corruption.

All of this is fine; indeed, it is reasonably successful in eliciting public participation. What is missing in the process are the practical linkages between the Millennium Development Goals and the poverty reduction plans. In today's arrangements, the country is presented with a fait accompli —"Here's the amount of aid you will receive." Instead, the process should be turned around. The first step should be to learn what the country actually needs in foreign assistance. After that, the IMF and World Bank should go out to raise the required amount from the donors!

To show how straightforward it would be to adopt this approach, let me provide another recent example, Ghana's poverty reduction plan. Ghana is one of the best governed and managed countries in Africa. It is a stable, multiparty democracy with relatively high literacy (92 percent of youths aged fifteen to twenty-four) and modest levels of corruption compared with other countries at a comparable income level. Ghana suffers from considerable extreme poverty. Like other African countries, Ghana has been unable to diversify its export base beyond a narrow range of primary commodities, mainly cocoa beans. It lacks the domestic resources needed to finance critical investments in health, education, roads, power, and other infrastructure. It fell into a sharp debt and financial crisis in the early 1980s, and since then the government has been hard pressed to pay its monthly bills, much less to expand the levels of public investment.

The government of Ghana reached these same conclusions when it presented the Ghana Poverty Reduction Strategy (GPRS) in 2002, its version of the poverty reduction plan. Ghana took seriously the Millennium Development Goals and presented a strategy based on the investments that it would need to achieve the MDGs. The plan called for a major scaling up of public investments in the social sectors and infrastructure, estimated to require donor aid of around $8 billion over five years, or roughly $75 per Ghanaian per year during the five-year period. The Ghana strategy was exceptionally well designed and argued, but the donors balked. The first draft was rejected by the donors. The government cut back on its ambitions, and slashed the aid request to just $6 billion over five years. The donors balked again. The plan was slashed again. By the end of this excruciating process, the poverty reduction plan was funded at around $2 billion for the five-year period.

When I was recently in Accra, Ghana, a very pleasant representative of the European Commission said to me, “But Professor Sachs, the original plan was simply not realistic.” “What do you mean by realistic?” I responded. “Do you mean that it was not realistic because the program was poorly designed, or do you mean that it was not realistic because the donors wouldn’t foot the bill?” “Oh, I mean only the latter, Professor Sachs. The strategy was fine, but we couldn’t come close to the $8 billion request.” Realism, it seems, is in the eye of the beholder. I would have thought that the original plan was realistic because it aimed to accomplish the very goals that the world had endorsed. The final plan seemed *unrealistic* to me, because it can no longer achieve the MDGs. The donors, evidently, meant something else about realism. For the donors, realism meant convenience, and specifically shoehorning Ghana’s financial needs into the tight fit of an insufficient aid package.

Still, I am not despairing. Ghana could soon have a strategy based on the Millennium Development Goals. One reason is that creative work by the World Bank, the UN agencies, and the bilateral donors has actually prepared the plumbing system to handle a much greater flow of resources. Ghana's donors have already reached important agreements to coordinate (or "harmonize") their efforts around the Ghana strategy. They have agreed to simplify their own aid procedures, and in fact to pool their financial resources to support the plan.

In the alphabet soup of donor aid, the new donor program for Ghana is called the Multi-Donor Budget Support (MDBS) policy. Under this new arrangement, the donors have agreed to give their money directly to Ghana's budget so that the government of Ghana can carry out the public investments it has identified as the highest priorities for poverty reduction. In Ghana's case, a viable development plan (GPRS) and the financial plumbing to support the plan are now in place. What Ghana now needs is an adequate flow of cash.

A true MDG-based poverty reduction strategy would have five parts:

- A *Differential Diagnosis*, which identifies the policies and investments that the country needs to achieve the Millennium Development Goals
- An *Investment Plan*, which shows the size, timing, and costs of the required investments
- A *Financial Plan* to fund the Investment Plan, including the calculation of the Millennium Development Goals Financing Gap, the portion of financial needs that the donors will have to fill
- A *Donor Plan*, which gives the multiyear donor commitments for filling the Millennium Development Goals Financing Gap
- A *Public Management Plan* that outlines the mechanisms of governance and public administration that will help implement the expanded public investment strategy

In combination, these five sections would put to rest the current favorite explanation of donors for not doing more to help the poorest countries: the alleged lack of "absorptive capacity" to use more aid. How can we scale up the health sector, the donors ask, if the countries lack the doctors, nurses, and clinics to provide health services? Such a question misjudges the whole purpose of aid. Sure there are not enough doctors and nurses now. What about in four, or six, or ten years? With more aid, there can be more doctors, nurses, and clinics. Getting from here to there is a matter of routine planning, not heroics.

With a lead time of a couple of years, for example, doctors from the country who have relocated abroad could be attracted home with improved salaries, covered partly by donor aid. Within two or three years, tens of thousands of community health workers could be trained, with the training financed by donor aid. With a lead time of five years, the graduating class of the existing medical schools could be enlarged, with the expenses covered in part with donor aid. And with a lead time of ten years, several new medical schools could be built within the country, with the new schools financed by donor aid. Limited absorptive capacity is not an argument against aid. It is the very reason that aid is needed! The key is to invest that aid over the course of a decade, so that absorptive capacity can be increased step by step in a predictable manner.

In the previous chapter we discussed the essence of the differential diagnosis and the investment plan, specifically the areas of priority investments in infrastructure and social services that can lift a country out of a poverty trap. Let me therefore turn directly to the last three elements of the MDG-based poverty reduction strategy: the financial plan, the donor plan, and the public management plan.

The Financial Plan and Millennium Development Goals Financing Gap

A proper financial plan begins with an estimate of the unit costs of providing the key investments: teachers, classrooms, kilowatt hours of electricity, health clinics, kilometers of road, and so forth, and then examines the increased populations to be covered by these interventions. These costs of scaling up can be estimated with considerable detail, and they should cover not only the capital costs of the projects, but also the costs of operations and maintenance. In the past, donors often have helped countries to build clinics, but then rejected the plea to help cover the salaries of doctors and nurses to staff the clinics. The predictable result has been the construction of empty shells rather than operating health facilities. Donors need to be prepared to finance not only the physical infrastructure, but also the salaries of public-sector workers.

During the structural adjustment era of the 1980s and 1990s, the IMF, World Bank, and donor community often accepted the need for larger funding for health or education, but said that the poor should pay their own way. Similar arguments are heard today concerning the privatization of water and sanitation services. “Yes, let’s mobilize new investments in water and sanitation, but let's do it through the private sector. The poor can pay for improved services." In some cases, donors have supported a compromise formula called social marketing, in which the poor are asked to pay part, not all, of the cost of the service, with the donors picking up the balance. Social marketing has been applied, for example, to the sale of contraceptives and antimalarial bed nets. These recommendations have failed repeatedly. They have been unrealistic about what the poor can actually afford to pay, which is usually little or nothing. The extreme poor don't even have enough to eat, much less to pay for electricity or water or bed nets or contraceptives. The history of user fees imposed on the poor is a history of the poor being excluded from basic services.

The financial plan, therefore, must include a realistic picture of what the poor can actually pay and what they can't pay. The UN Millennium Project, following the similar recommendations of the WHO Commission on Macroeconomics and Health (CMH) recommends that user fees should be dropped entirely for essential health services and primary education in poor countries. As for water, sanitation, and power, the project strongly endorses the use of lifeline tariffs, explained earlier. In that system, every household gets a guaranteed fixed supply of electricity and safe water; above that amount, they pay by the meter.

The financial plan should also estimate the share of GDP in tax revenues that can be devoted to the Millennium Development Goals. Here again realism is vital. Poor countries can only raise limited amounts in taxation. The poor cannot be squeezed by taxes any more than they can be squeezed through user fees. Attempting to raise taxes too high results in widespread evasion and serious economic distortions. When the Commission on Macroeconomics and Health considered this issue, the IMF representative on the commission suggested that it assume that a low-income country could mobilize an additional 1 percent of GDP in tax revenues for the health sector by 2007 and an additional 2 percent of GDP by 2015. The UN Millennium Project adopted the same approach, assuming that low-income countries can raise an additional 4 percent of GDP by 2015 for *all* MDG-related investments.

With these assumptions, it is possible to calculate a Millennium Development Goals financing gap, which measures how much the donor community would have to contribute to enable the low-income country to finance the investment plan. The following chapter details these calculations. One point to stress here is that help will be needed not just for a few years, but for most (or all) of the period until 2025. Funding plans cannot realistically expect that poor countries will suddenly pick up the full tab for expanded projects after just a few years. Sustainability of the investment plans will require sustained large-scale donor financing for at least a decade to come, and in many cases for two decades.

The Donor Plan

The donors have put great stress on the need for countries to improve their governance, but much too little stress on how donors themselves need to improve their own performance. As part of every MDG-based poverty reduction strategy, we need a donor plan that spells out in a transparent manner the way that donor commitments will be fulfilled. A donor plan should focus on four aspects of aid flows:

- *Magnitude*. Aid must be large enough to enable the recipient country to finance its investment plan.
- *Timing*. Aid must be long term enough to enable the recipient country to follow through on a ten-year program of scaling up.
- *Predictability*. Aid must be predictable enough so that stops and starts in the aid flows do not jeopardize the investment program or the macroeconomic stability of the recipient country.
- *Harmonization*. Aid must support the MDG-based poverty reduction strategy, and specifically the investment plan, rather than the pet projects of the aid agencies.

Let me underscore why predictability of aid will be almost as important as the overall amount of aid. If poverty is to be ended, aid of around $60 per person per year will have to flow to the poorest countries. But that level of aid will constitute around 20 to 30 percent of GDP when per capita incomes are in the range of $200 to $300 per person per year. When aid flows are such a large part of GDP, unexpected fluctuations in aid can be a huge shock to the economy. If, one year, the donors give 30 percent of GDP, but the next year only 15 percent of GNP, the result would be massive layoffs, closures of government facilities, huge budget deficits, and inflation. To guard against this threat, donor aid must be highly predictable over a period of at least a few years.

The issue of aid harmonization is also crucial. A discussion in 2000 about aid to Tanzania noted that there are “thirty agencies involved in providing development funds, 1,000 projects, 2,500 aid missions a year [and] all with separate accounting, financial and reporting systems ….” World Bank President Jim Wolfensohn has commented, “I think that we are now in a situation where everybody recognizes that to have countries burdened with innumerable visits from good-hearted people like us and all the bilateral donors, and innumerable reports that they have to complete quarterly and little coordination in terms of some of the mechanics of the implementation, that there is a large pick-up to be had in just coordinating and better implementing what the development community are doing already.”

In order to harmonize aid, the various aid agencies should operate on the basis of their true comparative advantage. When it comes to large-scale aid to help countries expand their public investment programs, the money should flow through multilateral donors such as the World Bank and the regional development banks. Why should Ghana negotiate with twenty-three bilateral donors when what Ghana really needs is budget support to scale up public investments? The twenty-three bilateral donors should agree, beforehand, to pool their money at the World Bank or the African Development Bank, and then let those institutions make a single grant. The bilateral agencies are much better when it comes to matters that require individual small-scale projects, such as specific kinds of technical assistance (for example, to treat AIDS patients or to mobilize solar power), or small-scale experiments, or people-to-people exchanges.

A Public Management Strategy

Financing is necessary, but hardly sufficient, for success. Money will be wasted or sit idly in a bank account if the government is unable to implement its investment plan. Implementation requires time, of course, for planning, construction, training, and improved oversight. But beyond the necessary time, a sound public management plan should have six components:

- *Decentralization*. Investments are needed in hundreds of thousands of villages and thousands of cities. The details will have to be decided at the ground level, in the villages and cities themselves, rather than in the capitals or in Washington. Decentralized management of public investment is therefore a sine qua non of scaling up.
- *Training*. The public sector at all levels—national, district, village—lacks the talent to oversee the scaling-up process. This is not a case for evading the public sector, which will not work, but for building the capacity of the public sector. Training programs (or capacity building) should be part of the overall strategy.
- *Information Technologies*. If the aid plumbing is going to carry much larger flows of aid each year, we will need better meters, which will mean the use of information technologies—

computers, e-mail, mobile phones—to increase dramatically the amount of information transmitted in the public sector and accessible to all parties.

- *Measurable Benchmarks*. Much clearer targets of what is to be achieved must accompany a major increase of spending. Every MDG-based poverty reduction strategy should be supported by quantitative benchmarks tailored to national conditions, needs, and data availability.
- *Audits*. Let's face it: the money has to reach the intended recipients. No country should receive greater funding unless the money can be audited.
- *Monitoring and Evaluation*. Right from the start, the MDG-based poverty reduction strategy should prepare to have the investments monitored and evaluated. Budgets and mechanisms for monitoring and evaluation should be essential parts of the strategies.

Regional Infrastructure

Many important investments are regional in nature and involve several countries at once. Consider, as I did earlier, the road that links the Kenyan port of Mombasa with the four countries that depend on that port: Kenya, Uganda, Rwanda, and Burundi. The road is a two-lane, semipaved road that services more than a hundred million people. It is poorly maintained and imposes extremely high costs for freight shipments to and from the coast. One part or another of the road frequently gives way. The road should be repaired in a shared four-country project, rather than as piecemeal haphazard projects within each of the four countries. The problem is that the World Bank and other donors are not good at managing multicountry projects, since they are used to thinking about one country at a time. Various regional economic groups have sprung up around the world, including several in Africa, that could help to achieve coordination of investments across neighboring countries. Multicountry investments will become more common, not only in roads and rail, but also in port services, telecommunications, financial market regulations, biodiversity conservation (of forests and river sheds), control of air and water pollution, energy development (including hydropower, geothermal power, electricity transmission), and other areas.

Regional groupings can also play another significant role: shared responsibility for governance. Countries respond to peer pressure. The African Union is utilizing that basic insight to launch a policy known as the African Peer Review Mechanism (APRM), in which countries voluntarily subscribe to a systematic governance review by their peers. As the African Union describes it, the primary purpose of the APRM is

> To foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated sub-regional and continental

economic integration through sharing of experiences and reinforcement of successful and best practice, including identifying deficiencies and assessing the needs of capacity building.

The experience of many other regional efforts, from the Marshall Plan to the European Union, shows that these hopes have great merit. Group pressure from outside can help to keep a reform-minded government on track, just as Poland's hopes to join the European Union helped to insulate Poland's economic reform policies from enormous and inappropriate short-term pressures and populist enticements.

GLOBAL POLICIES FOR POVERTY REDUCTION

Poor countries also have critical needs that cannot be solved by national or regional investments or by domestic policy reforms. There are concerns that must be addressed at the global level. Four are most important:

- The Debt Crisis
- Global Trade Policy
- Science for Development
- Environmental Stewardship

The Debt Crisis

This issue should have been resolved years ago. For at least twenty years we have known that heavily indebted poor countries (HIPCs) are unable to repay their debts, or at least do so and achieve the MDGs at the same time. The debts should simply have been canceled, but the debtors have insisted for far too long that the poorest countries of the world continue to pay debt service, often in amounts that were greater than national spending on health and education. In fact, rich countries should have given the poorest countries grants rather than loans, so that the poor countries would never have been indebted in the first place.

The behavior of the creditor countries in recent decades compares very poorly with the U.S. commitment and practice during the formulation of the Marshall Plan, when it decided to help rebuild Europe with grants rather than loans. The post-World War II planners knew well the disastrous experience after World War I, when, as Keynes had foretold, allied war debts and post-World War I reparations claims entangled creditor and debtor nations in a prolonged political and financial crisis that contributed to the Great Depression and indirectly to the rise of fascism. After World War II, U.S.

strategists chose a different course, ensuring that postwar debts would not encumber Europe's fragile democracies. We would do well to emulate that wisdom today. It is time for the debts of the highly indebted poor countries to be cancelled outright as part of the financing package for the Millennium Goals-based poverty reduction strategies.

Global Trade Policy

Sustained economic growth requires that poor countries increase their exports to the rich countries, and thereby earn the foreign exchange to import capital goods from the rich countries. Yet trade barriers in rich countries hamper export growth. The ongoing Doha Trade Round, launched in November 2001, is committed—on paper at least—to improving market access for poor countries. This commitment is vitally important, especially in low-skill, labor-intensive sectors such as garment manufacture. Still, two caveats are in order.

The first is that although trade is important, the popular slogan "trade not aid" is wrong. Poor countries will need "trade plus aid," since trade reforms alone are not nearly powerful enough to enable the poorest countries to escape from extreme poverty. The "trade not aid" lobby seeks to use the undoubted importance of open trade to undermine the case for aid. Even if trade reforms would raise the incomes of the poorest countries by billions of dollars per year, only a small fraction of that would be available for funding the vitally important public investments needed to escape from the poverty trap. When huge gains are attributed to trade reforms (hundreds of billions of dollars), we need to look at the fine print: almost all of those gains accrue to the richest countries and the middle-income countries, not the poorest countries, and especially not the poorest countries in Africa. How, after all, could trade alone enable isolated rural villages in Africa to meet their basic needs?

The second caveat is to warn against hyperbole vis-á-vis agricultural trade liberalization. There is no doubt that liberalization of world agricultural trade would be a good thing. Europe, for example, wastes incredible amounts of money subsidizing its high-cost farmers, and could accomplish other goals (environmental preservation) much more cheaply. But it is wrong to conclude that the end of agricultural subsidies would be a great boon for least developed countries in Africa and other parts of the world. If Europe cuts back on its subsidies for staple crops (wheat, maize), the results for Africa could well be negative, not positive, since Africa is a net food-importing region: consumers of food would pay higher prices for food, whereas farmers would benefit. The net effects on poverty could be either positive or negative, but are very unlikely to be hugely beneficial. Africa will unambiguously benefit from the liberalization of trade in tropical products (for example, cotton, sugar, bananas), but the subsidies for tropical products are only a very small part of the widely reported $300 billion in artificial support for farmers in the rich countries. In short, liberalize trade in agriculture, but do not believe it to be a panacea. The benefits will accrue overwhelmingly to the large food exporters: the United States, Canada, Argentina, Brazil, and Australia.

Science for Development

Many of the core breakthroughs in long-term economic development have been new technologies: the Green Revolution for food production, vaccines and immunizations, antimalarial bed nets, oral rehydration therapies, agroforestry to replenish soil nutrients, antiretroviral medicines. In almost all of these cases, the technologies were first developed for the rich-country markets, or were sponsored for the poor nations in a special donor-led process. It is very rare, alas, that technologies are developed by the private sector to meet specific challenges in the poor countries (for example, for tropical foods or diseases). The poorest of the poor simply do not provide enough of a market incentive for private-sector-led research and development.

Recognizing that the poor are therefore likely to be ignored by the international scientific community—unless special efforts are made—it is critical to identify the priority needs for scientific research in relation to the poor, and then to mobilize the requisite donor assistance to spur the research and development. Here are a few areas of special importance, drawing on work by various scientific bodies in recent years that have explored this issue:

- Diseases of the poor: new preventive, diagnostic, and therapeutic measures for diseases specific to low-income countries, especially tropical diseases
- Tropical agriculture: new seed varieties, water management techniques, and soil management techniques
- Energy systems in remote rural areas: special technologies for off-grid power, including renewable energy sources (for example, photovoltaic cells), power generators, improved batteries, and low-watt illumination
- Climate forecasting and adjustment: improved measurement of seasonal, interannual, and long-term climate changes, with a view toward prediction as well as adjustment to climate changes
- Water management: improved technologies for water harvesting, desalination, small-scale

irrigation, and improved management of aquifers being depleted by overuse. Water will rise in importance as population densities and climate change interact to produce more regions in acute water stress.

- Sustainable management of ecosystems: fragile ecosystems around the world (coral reefs, mangrove swamps, fisheries, rainforests, to name a few) are succumbing to anthropogenic forces, often with dire consequences. In many cases, poor communities do not have the technical capacity to monitor changes or to respond in an effective an sustainable manner.

The UN Millennium Project recommends global donor support on the order of $7 billion per year to address priority R&D needs for health, agriculture, energy, climate, water, and biodiversity conservation in the poorest countries. Targeted scientific efforts have had huge benefits in the past. The Rockefeller Foundation financed the research leading to the yellow fever vaccine in 1928 and much of the plant breeding research leading to the Green Revolution. In recent years the Bill and Melinda Gates Foundation has financed extensive research into AIDS, TB, malaria, and other diseases that afflict the poor. GlaxoSmithkline, working together with the Gates Foundation, has recently announced promising advances toward a malaria vaccine, though a proven vaccine for use in Africa is still years off. In order to stimulate the needed research and clinical testing of new vaccine candidates, I have recommended together with Harvard economist Michael Kremer that donor agencies and the Global Fund to Fight AIDS, TB, and Malaria commit ahead of time to purchasing a successful vaccine on a large scale for distribution in Africa, thereby creating a financial incentive for vaccine research and development.

Environmental Stewardship

Even though the local effects of global climate change are extremely hard to forecast, we can be sure that many of the world's poorest places are at risk of being overwhelmed by climate shocks coming from outside their borders. Rising ocean levels associated with long-term warming will likely inundate impoverished regions such as Bangladesh and small island economies. Shifting patterns of rainfall, such as the declines in precipitation evident in Africa's Sahel and those associated with long-term warming in the Indian Ocean, are likely to be experienced elsewhere. An increasing frequency and intensity of El Niño climate cycles could become an important disturbance for hundreds of millions of people in Asia, Latin America, and Africa. Changes in ocean chemistry associated with rising atmospheric concentrations of carbon dioxide could poison the coral reefs, with attendant disastrous effects on coastal ecosystems and coastal economies.

The poorest of the poor are mostly innocent victims in this drama. The major cause of long-term climate change, fossil fuel combustion, is disproportionately the result of rich-country actions. Any responsible global approach to poverty reduction should include much greater attention to three things. First, the rich countries themselves, and particularly the United States, will have to live up to their longstanding commitment under the United Nations Framework Convention on Climate Change to the “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.” Second, the rich countries will have to give added financial assistance to the poor countries to enable them to respond effectively to, or at least to cope with, the changes ahead. Third, as I noted earlier, the rich countries will have to invest more in climate science to gain a clearer understanding of how the changes already under way are likely to affect the world’s poorest people, as well as the rest of us.

WHO CONDUCTS THE INTERNATIONAL SYSTEM?

The poor countries refer euphemistically to the UN agencies, bilateral donors, and Bretton Woods institutions as their “development partners.” In the best of circumstances, these agencies and counterpart governments really act as partners. Often, however, they can be as much nuisance as help. Aid flows are often small and unpredictable, while hundreds of small-scale aid projects eat up the time and attention of overstretched and impoverished governments. Harmonization of aid in support of a single MDG-based poverty reduction strategy is vital.

In order to harmonize aid, however, the partners themselves need to do a better job in dealing with each other. The key, I believe, is to use the United Nations system to its best advantage. The UN secretary-general is the best placed official in the world to help coordinate the various stakeholders who must contribute to the achievement of the Millennium Development Goals. The UN agencies offer vitally important expertise in every aspect of development. A partial listing of these agencies and their core areas of competence is shown in table 1. With the lead of the secretary-general, and operating through the UN Development Program (UNDP), each low-income country should have the benefit of a united and effective United Nations country team, which coordinates in one place the work of the UN specialized agencies, the IMF and the World Bank. In each country, the UN country team should be led by a single United Nations resident coordinator, who reports to the administrator of the United Nations Development Program, who in turn reports to the UN secretary-general. This UN country team is vital to providing every poor country with the best of international evidence and science addressed to the challenges of escaping the poverty trap and achieving sustainable development.

Why do I belabor such an obvious housekeeping point? Because the current system is surprisingly dysfunctional, to the point where the IMF and the World Bank sometimes hardly speak with the UN agencies, even though they all depend on one another. For the past twenty years, the rich countries have assigned the IMF and the World Bank a privileged position in relation to the other UN agencies, so much so that the other agencies would sometimes have to call me simply to find out what the IMF was actually doing in a particular country. They lacked the direct access to find out on their own.

Why the IMF and the World Bank were given this privileged position is easily explained. As the old advice puts it, Follow the money. The rich countries hold sway in the IMF and the World Bank much more than in the UN agencies. Unlike the UN General Assembly, and most of the boards of the specialized agencies, where it's "one country, one vote," in the IMF and the World Bank, it's "one dollar, one vote." Each member of the IMF and the World Bank joins with an assigned quota, which determines the voting rights of the country and the size of the country's subscription. In this way, the rich countries have kept a voting majority. This voting majority has led the United States, in particular, to rely more heavily on the IMF and the World Bank, which it more easily controls, than on the UN agencies, over which it has much less influence.

Table 1: UN Agencies in Development (partial list)

Agency	**Abbreviation**	**Core Areas of Concern in Developing Countries**
Bretton Woods Institutions		
	IMF	

International Monetary Fund		Provides assistance to developing countries on finance and budgetary issues, and temporary financial assistance to help ease macroeconomic adjustments
World Bank		Provides loans and grants, policy advice, and technical assistance to help low- and middle-income countries fight poverty
Food and Agriculture Organization	FAO	Leads fight on hunger, providing policy advice and technical assistance
International Fund for Agricultural Development	IFAD	Finances agricultural development projects to increase food production and improve nutrition
United Nations Development Program	UNDP	Serves as the UN's global development network; also has programs to strengthen democratic governance in developing countries, fight poverty, improve health and education, protect the environment, and deal with crises
United Nations Environment Program	UNEP	Helps countries care for the environment through projects and technical scientific support
United Nations Human Settlements Program	UN – HABITAT	Promotes socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all
United Nations Population Fund	UNFPA	Helps countries establish population and reproductive health programs
United Nations Children's Fund	UNICEF	Improves children's lives, particularly through programs promoting education, health, and child protection
World Food Program	WFP	Frontline agency in the fight against global hunger, feeding over 100 million people in 81 countries in 2003, including most of the world's refugees and internally displaced people.
World Health Organization	WHO	Provides vital technical assistance to countries on investing in health

The problem is that the IMF and the World Bank simply cannot do their jobs without much closer cooperation with the UN agencies. The IMF and the World Bank are generalist institutions, the IMF for macroeconomic (budget, financial, exchange rate) issues and the World Bank for development issues. The UN agencies are specialized institutions. UNICEF, for example, has great knowledge in child health and education; the United Nations Population Fund (UNFPA) has unrivaled expertise in family planning; the Food and Agriculture Organization (FAO) is unmatched in agriculture; the World Health Organization (WHO) has unique capacity in public health and disease control; the United Nations Development Program (UNDP) is unequaled in capacity building and governance; and so on. On the other hand, the specialized agencies rarely have the macroeconomic overview that is an important part of the IMF-World Bank perspective. Without a much closer partnership of the specialized UN agencies with the IMF and the World Bank, none of these institutions can do their work properly.

NEXT STEPS

Extreme poverty is a trap that can be released through targeted investments if the needed investments are tested and proved and the investment program can be implemented as part of a global compact between rich and poor countries, centered on a Millennium Development Goals-based poverty reduction strategy. That is all great news. But can we afford to do all of this? Would helping the poor in fact bankrupt the rich? I answer this underlying question, in some detail, in the next chapter.