

2004



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THE WORLD BANK
1818 H Street, NW
Washington, DC 20433 USA
Telephone: 202 473 1000
Facsimile: 202 477 6391
Internet: www.worldbank.org
E-mail: feedback@worldbank.org
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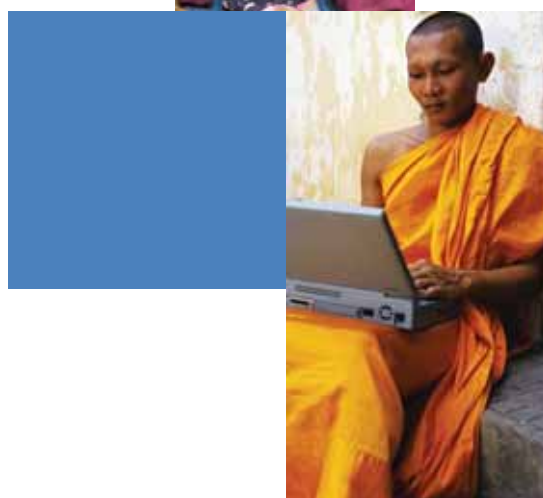
Foster a global partnership for development

2004

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PROGRESS IN THE FIGHT AGAINST POVERTY

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Telephone 202-473-1000
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E-mail feedback@worldbank.org

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FOREWORD

Ours is a world out of balance. Of the six billion people living in the world today, one billion receive 80 percent of global income, while more than one billion barely survive on less than a dollar a day. And while developed countries spend \$600 billion a year on defense, and incur \$300 billion in direct and indirect agricultural subsidies, they offer only \$56 billion a year in aid to developing countries.

Over the next 25 years, 50 million people will be added to the population of rich countries. But over the same period, about one and a half billion people will be added to the population of poor countries.

Today, more than 2.9 billion people—nearly half the world's population—are under the age of 25. Many of these young people will experience poverty and unemployment. Disillusioned with what they will see as an inadequate global system, many will leave their homes, and often their countries, to find work.

The world is moving—but still too slowly—to address these issues. In 2000, world leaders gathered at the Millennium Summit to assess the future. They committed to cutting poverty in half by 2015—the foremost of a broad set of targets called the Millennium Development Goals. The other objectives to be met by 2015 are achieving universal primary education; promoting equality for girls and women; reducing child mortality; improving maternal health; combating the spread of HIV/AIDS; protecting the environment; and developing a global partnership for aid.

The global community can rise to meet the challenges presented by the Millennium Development Goals if the considerable progress of recent decades serves as a guide.

Over the past 40 years, life expectancy in developing countries has increased by 20 years—about as much as was achieved in all of human history prior to the middle of the 20th century. Over the past 30 years, adult illiteracy in the developing world was nearly halved to 25 percent from 47 percent. Over the past 20 years, the absolute number of people living on less than one dollar a day has for the first time begun to fall, even as the world's population has grown by 1.6 billion people. Over the last decade, economic growth in the developing world has outpaced that in the developed countries.

However, at current rates of progress, only the Millennium Goal of halving poverty is likely to be met by 2015. Thanks in particular to poverty reduction efforts in China and India, the proportion of people living on less than \$1 a day by 2015 is projected to decrease to just over 12 percent from more than 28 percent, bringing half a billion people out of poverty. Unfortunately, in parts of South Asia, the poverty reduction picture is less promising. In Sub-Saharan Africa, the number of people living in absolute poverty is slated to increase. On many of the other Millennium Development Goals, progress is lagging in virtually all regions.

Extraordinary efforts are required by both developing and developed countries if these targets are to be met. In the past two years, global leaders at meetings in Monterrey, Doha, and Johannesburg agreed on a course of action to meet these goals.

Developing countries agreed to strengthen governance, create a positive investment climate, build transparent legal and financial systems, and fight corruption. Developed countries agreed to support these efforts by increasing aid and better aligning it to national strategies, opening their markets more to trade,

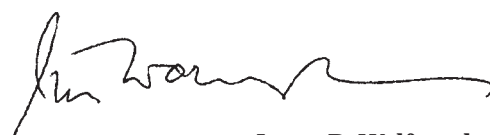
and offering more generous debt relief. Poverty reduction strategies or national development plans now provide the framework for the actions of countries and their partners to come together in accelerating progress toward the Millennium Development Goals. While this is a promising beginning, even more and better aid, greater market access, and deeper debt relief are still needed.

Based on current rates of reform, developing countries could productively absorb twice the \$16 billion a year in additional aid already promised through 2006—and in the medium term, perhaps as much as another \$50 billion a year as they further strengthen their policies and absorptive capacities.

The World Bank recognizes the urgent need to act and to ensure that successes in one project, in one country, or in one region lead to similar advances in

others. Building on what has worked and learning from what has not, the Bank and its partners are seeking to broaden our understanding of the most effective ways to reduce poverty. Most of all, we have come to appreciate the central role poor people themselves must play as entrepreneurs and problem-solvers if long-lasting solutions are to be found and funded.

This report provides a snapshot of the efforts to work with governments, civil society, other aid agencies, and communities worldwide to help developing countries get better results and achieve the Millennium Development Goals. Reaching these goals, and in so doing restoring balance to the world, requires that we act now. For all of us, it is time to implement the global bargain that was agreed in Monterrey, Doha, and Johannesburg. We know what is needed to reduce poverty. What we need now is action.



James D. Wolfensohn
President, The World Bank

ABOUT THIS REPORT

At the United Nations Millennium Summit in September 2000, the international community confirmed its commitment to reducing poverty and signaled its broad acceptance of a wide definition of poverty, as embodied in the Millennium Development Goals.

The Bank's *World Development Report 2000/2001*, drawing on the experience of the 1990s, articulated a strategy for reducing income and nonincome poverty based on three broad imperatives:

- **Promoting opportunity for poor people**, by stimulating overall economic growth and helping poor people participate more fully in the economy by building their assets and addressing inequality.
- **Facilitating poor people's empowerment**, by promoting inclusive development and accountable institutions in which poor people have voice, by attacking corruption, and by supporting decentralization, community development, and gender equity.
- **Enhancing poor people's security**, by helping them manage risk and shocks, by addressing conflict, and by tackling epidemics such as HIV/ AIDS.¹

This strategy builds on the 1990 *World Development Report*, which also acknowledged the multidimensional nature of poverty and framed a strategy for poverty reduction calling for broad-based growth and safety nets.

Using the principles of the Comprehensive Development Framework—country ownership, a long-term vision, partnerships, and a focus on results—the World Bank is supporting countries in putting this three-part strategy into action.

At Monterrey in 2002, world leaders forged a consensus and agreed that reducing poverty requires renewed partnerships among developing and developed countries that reflect a spirit of mutual accountability (the Monterrey Consensus).

The partnerships that the Bank has forged with leaders in a variety of development-related fields have greatly enhanced its capacity to contribute to better results.

Over the past 10 years the World Bank has issued eight Poverty Progress Reports, which focus mainly on trends in income poverty and Bank efforts to help reduce it. Drawing on guidance received from the Executive Board of Directors, this new report shows how the World Bank Group is working with others to help countries move toward the broader vision of poverty reduction embodied in the Millennium Development Goals and the Monterrey Consensus.

Using country examples, the report highlights the range of the Bank Group's activities to promote growth and reduce poverty in its multiple dimensions. While a report of this kind must be selective, the approach—broad in coverage, but anchored in concrete country examples—is intended to present a picture of some of the ways that the Bank is helping countries to address global poverty.

The report spotlights Bank-supported policies and programs to accelerate progress in fighting poverty. In the medium term, as countries, the Bank, and other donors strengthen their reporting on development results, the Bank will be able to provide a more comprehensive assessment of its effectiveness in contributing to these results.

Part 1 outlines the challenge of reducing poverty, framed by the Millennium Development Goals. Part 2 summarizes the response of the international community to this challenge, and the associated priorities for action by developed and developing countries. Part 3 presents the World Bank's efforts to support country-led partnerships to achieve better development results in low-income countries, conflict-affected countries, and middle-income countries.

Part 4 illustrates how the World Bank provides analytical, technical, and financial assistance to support country-led efforts to attack poverty in all its dimensions. Part 5 discusses how the Bank works with partners to harmonize donor assistance for national poverty reduction efforts, and to spur the provision of global public goods to address global issues. The report concludes in part 6 with the key priorities for achieving faster and better results in reducing poverty.



PART 1

GLOBAL POVERTY TODAY

We will spare no effort to free our fellow men, women, and children from the abject and dehumanizing conditions of extreme poverty to which more than a billion of them are currently subjected.

United Nations Millennium Declaration, September 2000

Reducing poverty is at the heart of development. As the world moves into a new millennium, it can look back on some remarkable successes in global development—successes that provide a solid foundation for intensifying the attack on world poverty. The last 50 years have been a period of global economic growth propelled by international partnership and interdependence. Many developing countries have started to participate in this growth and prosperity. In the 1990s, for the first time, growth in the developing world outpaced that in the developed world, leading to a decline in aggregate poverty rates and in the number of people living on less than \$1 a day.

Growth in the 1990s was particularly strong in East Asia and Pacific. Even with the economic crisis toward the end of the decade, growth averaged 6.2 percent a year (table 1.1), which resulted in a 44 percent reduction in the number of poor people in the region between 1990 and 2004. More recently, the transition economies of Eastern Europe and Central Asia have made a marked recovery—reversing the rising poverty of the 1990s.

The importance of growth for reducing poverty cannot be overstated. Poor people typically benefit from rising aggregate incomes and suffer from economic contractions.² Major improvements have also occurred in the nonincome dimensions of poverty in recent decades. Life expectancy in developing countries has increased by 20 years in the last 40 years, while the proportion of illiterate adults has been cut in half in the last 30 years (World Bank 2002a).

But progress has been uneven, and massive challenges remain. In 2000 about 1.1 billion people—almost one person in every five—lived on less than \$1 a day, and almost half the world's people lived on less than \$2 a day. The challenges are greatest in Sub-Saharan Africa, beset by high population growth rates, declining per capita incomes, and limited progress in reducing poverty. While most regions have been affected by conflict, growing climate instability, and the mounting HIV/AIDS epidemic, the economic and social costs of these developments have been harshest in Africa. AIDS reduced the average life expectancy at birth there to 47 years, wiping out the advances of the last 20 years (UNAIDS 2002).

The Millennium Development Goals

The new century brought a renewed commitment to attack poverty across the developing world. Drawing on lessons from the past 50 years, the international community is uniting around a development framework that acknowledges the nonincome as well as the income dimensions of poverty, with clearly defined goals to track progress toward concrete, measurable results. Reflecting these trends, the Millennium Development Goals, adopted at the 2000 United Nations Millennium Summit, commit the international community to an expanded vision of development and provide a clear framework for accountability in tracking progress. The remainder of part 1 reports on progress in achieving the goals.

Table 1.1 GDP per capita growth by region (annual percentage)

Region	1991–2000	2000	2001	2002	Projected 2003	Projected 2004
East Asia and Pacific	6.23	5.98	5.5	6.7	6.1	6.7
Europe and Central Asia	-2.53	6.57	2.2	4.6	4.3	4.5
Latin America and the Caribbean	1.22	2.12	0.3	1.8	1.8	3.7
Middle East and North Africa	1.26	2.24	3.2	3.1	3.3	3.9
South Asia	3.34	2.38	4.9	5.4	5.4	5.4
Sub-Saharan Africa	-0.67	0.58	3.2	2.8	2.8	3.5

Source: World Bank 2003f.

Sub-Saharan Africa will account for 50% of the world's poor in 2015, up from 19% in 1990, per current trends.

Are we reaching the goals?

Important if uneven progress has been made toward reaching the Millennium Development Goals.³ If current trends in growth and poverty reduction continue, the goal for eradicating extreme income poverty is within reach. But for many of the other nonincome goals—such as achieving universal primary education, promoting gender equality, and reducing child mortality—current rates of progress are too slow.

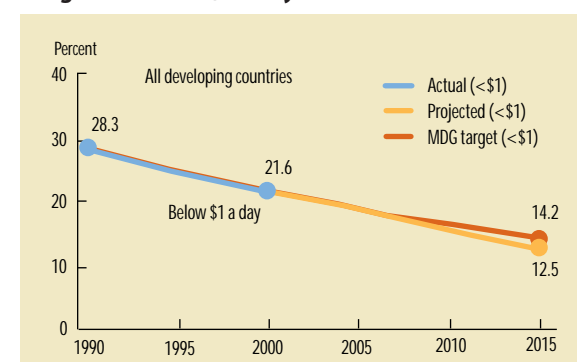
Because poverty is multidimensional, many of the goals are mutually reinforcing. For instance, advances in health and education help reduce income poverty. Better access to infrastructure is central to improving health and education outcomes and for supporting economic growth. And progress in combating HIV/AIDS will support the health and education targets. This interdependence also means that progress toward any one goal relies heavily on progress in the others. Faster economic growth remains the central driver for accelerating progress toward all the goals. Historically, countries that have experienced the largest reduction in poverty are those experiencing prolonged periods of sustained economic growth.

Goal 1: Eradicate extreme poverty. The first Millennium Development Goal calls for cutting in half the proportion of people living in extreme poverty—and those suffering from hunger—between 1990 and 2015. In 1990, 28.3 percent of the people in low- and middle-income countries lived on less than \$1 a day. By 1999 the share had fallen to 21.6 percent, reflecting strong growth in China and India (figure 1.1). If projected growth rates remain on track, global poverty rates will fall to 12.5 percent by 2015—less than half the 1990 level—and 500 million more people will move out of extreme poverty.

Although many people in low-income countries live on less than \$1 a day, a poverty line of \$2 a day is closer to a practical minimum in middle-income countries, and national poverty lines may be set even higher.⁴ By 2004 an estimated 2.7 billion people are expected to live on less than \$2 a day—more than half the population of the developing world (table 1.2). The number of people living on less than \$2 a day will continue to rise in South Asia and Sub-Saharan Africa, while improvements will be greatest in East Asia and Pacific. By 2015, if present trends continue, the poverty rate measured at this higher line will have fallen by no more than 40 percent from its 1990 level.

Nor has progress been uniform across regions—far from it. The fastest economic growth and the greatest poverty reductions were in East Asia and Pacific, where GDP per capita rose by 75 percent, while the share of people in extreme poverty fell from 29.4 percent to 14.5 percent between 1990 and 1999. In Sub-Saharan Africa, where GDP per capita fell by 5 percent, the extreme poverty rate rose from 47.4 percent in 1990 to 49 percent in 1999 (figure 1.2), and the number of people living in extreme poverty in Sub-Saharan Africa is expected to rise by 82 million by 2004. The transition economies of Europe and Central Asia experienced an even sharper decline in income, and their poverty rate more than doubled in the early and mid-1990s. But recently poverty rates there have been dropping, returning in many cases to

Figure 1.1 Share of people in developing countries living on less than \$1 a day



Source: World Bank 2003f.

Table 1.2 Number of people living in poverty (millions)

Region	People living on less than \$1 a day			People living on less than \$2 a day		
	1990	2004	2015	1990	2004	2015
East Asia and Pacific	470	261	44	1,094	873	354
(excluding China)	110	57	3	295	273	98
Europe and Central Asia	6	20	6	31	101	48
Latin America and the Caribbean	48	56	46	121	136	124
Middle East and North Africa	5	8	4	50	72	38
South Asia	466	432	268	971	1,052	968
Sub-Saharan Africa	241	323	366	386	504	612
Total	1,237	1,100	734	2,653	2,737	2,144
(excluding China)	877	896	692	1,854	2,138	1,888

Source: World Bank 2003f.

pre-transition levels. For countries in the Middle East and North Africa region in the 1990s, \$1 a day poverty rates remained low at just 2 percent and \$2 a day at 23.3 percent, but overall poverty rose.

Progress is also uneven within countries. Many middle-income countries may have lower poverty rates, but deep pockets of poverty and inequality are often concentrated among particular social groups or lagging regions. Brazil has one of the highest levels of income inequality in the world, largely reflecting regional differences. Poverty incidence in Brazil range from 3.1 percent in metropolitan São Paulo to more than 50 percent in the rural Northeast.⁵ China’s inland provinces lag far behind coastal regions, with national poverty rates ranging from 43 percent in Guizhou to negligible levels in the coastal province of Guangdong (Chen and Wang 2001). Regional differences are also stark within low-income countries that have strong track records in reducing poverty. In India’s poorest states, such as Orissa and Bihar, almost half the people live below the national poverty line, compared with less than 10 percent in the richest state, Punjab.⁶

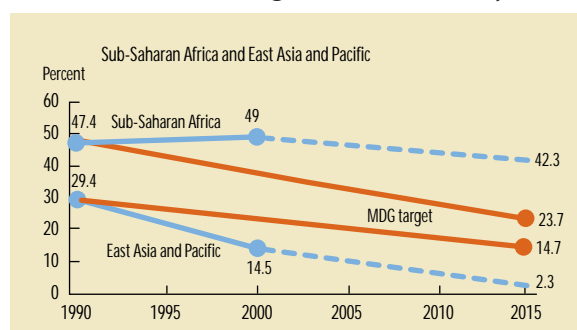
Reduce hunger and malnutrition. The first Millennium Development Goal also calls for halving the proportion of people who suffer from hunger. The Food and Agriculture Organization of the United Nations estimates that in 1998–2000 799 million people,

or 17 percent of the population in developing countries, were undernourished.⁷ This does not include the 30 million undernourished people in the transition economies of Eastern Europe and the former Soviet Union or the 11 million in high-income countries. Since 1990–1992 the number of undernourished people in developing countries has fallen by 20 million, but the prevalence of undernourishment fell by only 3 percentage points, indicating that on current trends this target will not be met. Regional trends show the greatest progress in East Asia and Pacific, but malnutrition rates remain high in South Asia and are rising in Sub-Saharan Africa.

Goal 2: Achieve universal primary education. In 2000 the Millennium Declaration resolved that all children would be able to complete a course of primary education by 2015. This target can be achieved—and it must be, if all developing countries are to compete in the global economy. Three regions—East Asia and Pacific, Europe and Central Asia, and Latin America and the Caribbean—are on track to achieve the goal. But three more, with 150 million children of primary school age, are in danger of falling short. Sub-Saharan Africa lags farthest behind, with little progress since 1990. South Asia is the other region with chronically low enrollment and completion rates. The Middle East and North Africa regions, while having rather higher enrollments, are still likely to fall short.

Goal 3: Promote gender equality and empower women. This goal calls for eliminating gender disparities in primary and secondary education by 2005—and at all levels of education by 2015. By 1999, the most recent year with data, all regions except Latin America and the Caribbean remained nine points

Figure 1.2 Share of people in Sub-Saharan Africa and East Asia and Pacific living on less than \$1 a day



Source: World Bank 2003f.

About a third of the people in developing countries were under the age of 15 in 2002: 44% in Sub-Saharan Africa, 36% in the Middle East and North Africa.

short of the 2005 target (figure 1.3). The differences between boys' and girls' schooling are greatest in regions with the lowest primary school completion rates and the lowest average incomes. In Sub-Saharan Africa the ratio of girls to boys in primary and secondary enrollments has barely changed since 1990, and in 1998 it stood at 80 percent. In South Asia progress has been greater, but girls' enrollments reached only 78 percent of boys' in 1998.

Goal 4: Reduce child mortality. Rapid improvements before 1990 gave hope that mortality rates for infants and children under five could be cut by two-thirds in the following 25 years, as called for in goal 4. But progress slowed almost everywhere in the 1990s, and unless current trends are altered, this goal will not be met (figure 1.4). Infant and child mortality rates have fallen by only 12 percent since 1990 in low-income countries and by 36 percent in middle-income countries.

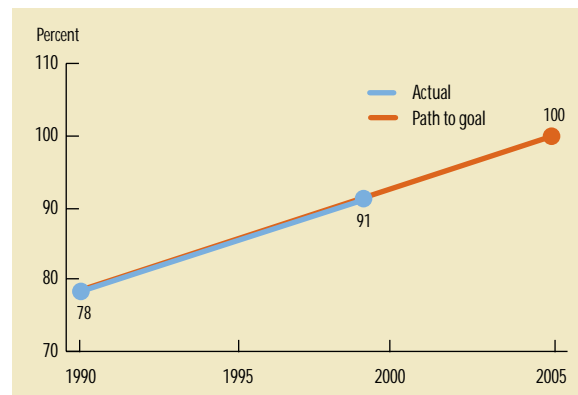
No region, except possibly Latin America and the Caribbean, is on track to achieve this target. Progress has been particularly slow in Sub-Saharan Africa, where civil disturbances and HIV/AIDS have driven up rates of infant and child mortality in many countries. Within countries there is evidence that improve-

ments in child mortality have been greatest among the better off. In Bolivia, nearly on track to achieve the target, under-five mortality rates fell by 34 percent for the wealthiest fifth of the population but by only 8 percent for the poorest fifth.

Goal 5: Improve the health of mothers. The most recent global estimates of maternal mortality suggest that about 500,000 women died during pregnancy and childbirth in 2000, most of them in developing countries. The Millennium Development Goals call for reducing the maternal mortality ratio by three-quarters between 1990 and 2015. For this to be possible, women need much greater access to modern health services.

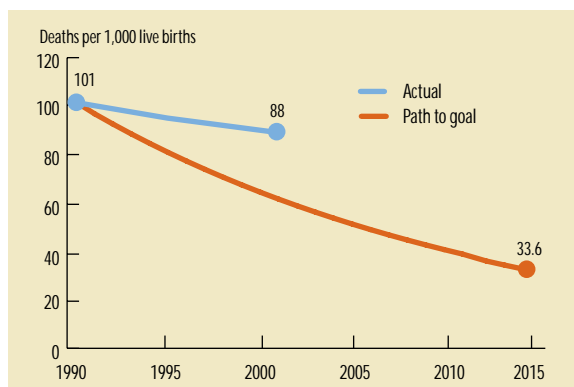
The share of births attended by skilled health staff provides a good index of where the need is greatest. Only 58 percent of women in developing countries give birth with the assistance of a trained midwife or doctor. In Latin America and the Caribbean, where the share of births attended by skilled health personnel is high, maternal mortality is fairly low. But in Africa, where skilled attendants and health facilities are not readily available, it is very high. Maternal mortality outcomes are difficult to measure, and the lack of reliable data across countries and over time limits the ability to track progress toward this goal. But current trends suggest that the goal will almost certainly not be met.

Figure 1.3 Ratio of girls to boys in primary and secondary education in low- and middle-income countries



Source: World Bank 2003f.

Figure 1.4 Under-five mortality in low- and middle-income countries



Source: World Bank 2003f.

Goal 6: Combat HIV/AIDS, malaria, and other diseases. Epidemic diseases exact a huge toll in human suffering and lost opportunities for development. In Africa the spread of HIV/AIDS has reversed decades of improvements in life expectancy, leaving millions of children orphaned. It is draining the supply of teachers and eroding the quality of education. In 2002, 42 million adults and 5 million children were living with HIV/AIDS—more than 95 percent of them in developing countries, 70 percent in Sub-Saharan Africa. There were almost a million new cases in South and East Asia, where more than 7 million people are infected. Current projections suggest that by 2010, 45 million more people in low- and middle-income countries will become infected—unless the world mounts an effective campaign to halt the disease's spread and to meet this goal.

Goal 7: Ensure environmental sustainability. This goal draws attention to some environmental conditions that need to be closely monitored to ensure sustainable development. These conditions include changes in forest coverage, biological diversity, energy use, and greenhouse gas emissions, as well as the plight of slum dwellers in rapidly growing cities, and



the limited availability of adequate water and sanitation services.

A lack of clean water and basic sanitation is the reason that diseases transmitted by feces are so common in developing countries. In 1990 diarrhea led to 3 million deaths, 85 percent of them among children. Between 1990 and 2000 about 900 million people obtained access to improved water sources, just enough to keep pace with population growth.⁸ In 2000, 1.2 billion men and women still lacked access to an improved water source, 40 percent of them in East Asia and Pacific, 25 percent in Sub-Saharan Africa.

The number of people with access to safe drinking water must increase by 270,000 a day to meet the 2015 target for halving the proportion of people without sustainable access to safe drinking water. This rate is lower than the daily increase achieved in the 1980s, but many of those connections did not provide sustainable access to safe water. And it is higher than the performance levels of the 1990s.

Goal 8: Develop a global partnership for development. Embodied in the Millennium Development Goals is the need for collective action at the country and global levels. Only with a creative, determined global partnership of developed and developing countries can we hope to achieve sustained progress

across all dimensions of poverty. Goal 8 commits wealthy countries to work with developing countries to create an environment for rapid, sustainable, and broad-based development. Working in partnership with the international community to identify where each partner has a comparative advantage can magnify the impact of each development dollar. In recent years, the World Bank has deepened partnerships with international institutions, such as the International Monetary Fund, the Organisation for Economic Co-operation and Development, the World Trade Organization, and the United Nations—and bilateral development agencies and leaders from global civil society, foundations, legislatures, and the private sector. There is no question that these relationships are enhancing the Bank's ability to contribute to better development results.

The accountabilities of developing and developed countries in helping accelerate progress toward the Millennium Development Goals, as well as of those of multilateral institutions, are discussed in part 2. Illustrations of effective partnerships at the country and global levels are evident in many of the country spotlights in parts 3 and 4, and are highlighted in part 5.



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PART 2

THE RESPONSE OF THE INTERNATIONAL COMMUNITY

Reaching the Millennium Development Goals requires a concerted effort by developing and developed countries alike. Success will depend on the actions by developing countries and the policy frameworks they have in place. But greater international cooperation, including a pro-poor trading environment and more assistance from developed countries, is also essential.

The consensus that emerged from the March 2002 U.N. Financing for Development Conference in Monterrey outlines agreed actions and accountabilities for all parties—developing countries, developed countries, and multilateral institutions—to meet the shared development goals. The consensus was reaffirmed at the May 2002 launch of the Doha Round on international trade, at the September 2002 World Summit on Sustainable Development, and at the February 2003 High Level Forum on Harmonization. This part of the report outlines the actions agreed to by developing and developed countries.⁹

Action by developing countries is a priority

Developing countries need policies to promote stronger economic growth—and to enhance the capabilities of poor people to participate in that growth. Sound macroeconomic management is essential for sustaining growth and thus for reducing poverty. Low- and middle-income countries have made encouraging progress with their macroeconomic and trade policies (average inflation and tariff rates have been halved in the past decade). But progress has been uneven and fragile in many low-income countries, especially in Sub-Saharan Africa, and the need remains for much stronger macroeconomic performance. In

middle-income countries, which are typically better integrated into international capital markets, the priority is to strengthen policies to reduce the incidence and severity of economic and financial crises.

But even where macroeconomic policies have improved, commensurate advances in growth, poverty reduction, and other goals are not reflected. Adverse political and external circumstances have been part of the problem. Slow progress on critical policy and governance reforms, as well as inadequate delivery of basic services, have also delayed improvements.

Going forward, three broad areas for action by developing countries have been identified by the Bank and the International Monetary Fund as necessary to generate faster economic growth and progress toward the Millennium Development Goals: improving the investment climate for private sector growth, strengthening governance and public sector management, and scaling up human development efforts (IDA and IMF 2003a).

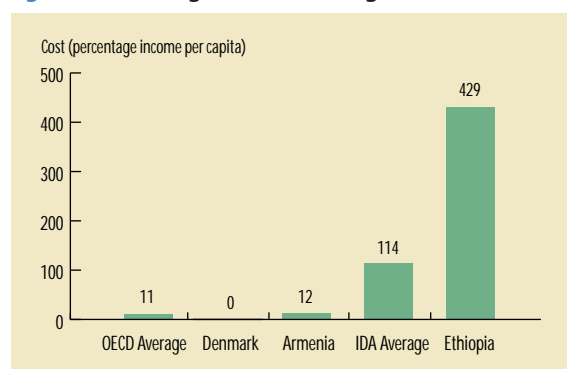
Improving the investment climate. Improving the investment climate is essential for expanding opportunities for poor people, for improving the productivity of their resources, and for raising the welfare of the overall population. Employment and income opportunities for poor people can be constrained by a weak investment climate. To improve the investment climate, countries need to upgrade the legal, regulatory, and institutional frameworks for competitive markets, overcome bureaucratic inefficiencies and corruption, and improve access to key financial and infrastructure services. To ensure that poor people benefit from an improved investment climate, reforms are needed that increase the productivity of their assets, such as land titling, microfinance, and agricultural market reforms.

The regulatory and institutional environment for the private sector was rated unsatisfactory or moderately unsatisfactory in more than 60% of low-income countries (IDA and IMF 2003a).

Findings from the Bank's country investment climate assessments and the Doing Business project highlight serious shortcomings in rules-based governance, high regulatory burdens, and weak market institutions.¹⁰ All these factors make the investment climate unfavorable for the private sector in many countries and impede the development of new businesses. For example, the cost of starting a new business is 10 times greater in a low-income country than in a country that is an Organisation for Economic Co-operation and Development (OECD) member (figure 2.1). Reforms to improve the investment climate are thus becoming a major part of poverty reduction strategies.

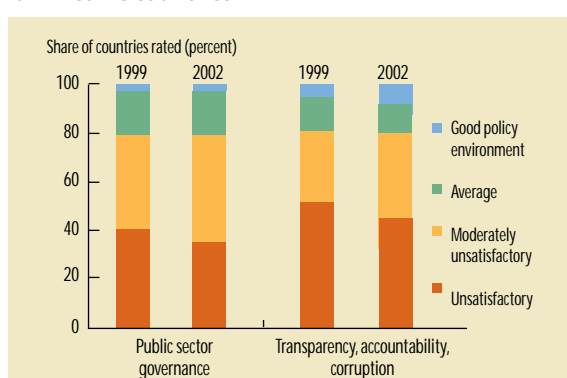
Strengthening governance and public sector management. For many countries, low- and middle-income alike, better public sector governance is essential for overall development and poverty reduction. The capacity of governments needs to be increased to give poor people a voice over the public actions that affect them. Available indicators show public sector governance to be unsatisfactory or moderately unsatisfactory in four-fifths of low-income countries (figure 2.2). Research shows that weak governance is inimical to improving economic performance generally¹¹ and that it is associated with lower incomes and social outcomes for the poor.¹²

Figure 2.1 The high cost of starting a new business



Source: World Bank 2003e.

Figure 2.2 Public sector governance ratings for low-income countries



Source: IDA and IMF 2003a.

Accelerated reform is needed in public expenditure and financial management, especially in transparency, accountability, and combating corruption. In middle-income countries governance is one of the most important areas in need of attention. Governance reforms are now a key part of the policy agenda in many developing countries, and various governance indicators have shown some improvements since 1999. But sustained progress in governance reforms will require careful nurturing of reform ownership and a focus on capacity building in key public sector institutions.

Scaling up human development. To ensure that poor people contribute to and benefit from growth requires higher public spending on education and health, with better service delivery to poor people. Better social services help poor people take advantage of the opportunities provided by growth, enhancing their security and protecting them from economic and natural crises. Yet public spending on education and health has risen only modestly in low-income countries—to 6.5 percent of GDP on average in 2000 from 4.4 percent in 1993 (IDA and IMF 2003b).

But simply increasing expenditure on human development will not be enough—a more explicitly pro-poor allocation of spending is also critical, particularly in middle-income countries. Public spending on human development in the late 1990s continued to benefit higher income groups disproportionately.¹³ Also needed is attention to intersectoral linkages (acknowledging the importance of water, sanitation, and education for reaching the health goals). Public-private partnerships can help as well, with more community involvement and more participation of poor people, especially women, in decisions that affect them.

But developed countries must also act

Actions by developing countries alone will not be enough to reach the goals set by the international community. Developed countries also need to act on their side of the compact—promoting access to trade, expanding the quality and quantity of assistance, and deepening debt relief.

Promoting access to trade. The prospects for achieving the Millennium Development Goals in many developing countries would be significantly enhanced by greater access to markets, both developed and developing. A World Trade Organization (WTO) agreement that lowers tariff peaks and averages in both rich and developing countries could produce up to \$520 billion



in income gains, with rich and poor countries both gaining substantially. Such an agreement would increase growth in developing countries and would lift an additional 140 million people out of \$2-a-day poverty, over and above current projections (World Bank 2003f). Reducing trade barriers in both developed and developing countries will not only have an important impact on poverty reduction, it will also increase the impact of existing and future flows of aid.

Developing countries, to reap the benefits of their reforms, need better access to industrial country markets. Tariff and nontariff barriers, including domestic subsidies, have to be removed for products that developing countries export—particularly agricultural products and textiles and apparel. The average tariff levied by developed countries on developing country exports of manufacturers is four times that on exports originating in other developed countries.

Although some developing countries benefit from preferential access to OECD markets, few are among the “preferred” set. The problem is compounded by escalating tariffs on processed exports from developing countries and extensive use of nontransparent and trade taxes. Moreover, there is often substantial uncertainty about the conditions of market access because of antidumping actions and the inability of products to satisfy product standards.

In addition to these market access barriers, subsidies to agriculture in the OECD countries further distort international prices of commodities produced in developing countries and reduce market access for them. In 2001 total support to agriculture in OECD countries (a mix of subsidies and price supports resulting from trade barriers) amounted to \$311 billion. Prices received by farmers in these countries were on average 31 percent above world prices (OECD 2002).

Successive rounds of multilateral trade liberalization have been central to the unprecedented rise in global prosperity over the past half century. The Doha Trade Round presents an opportunity to deepen this process, to maintain and accelerate growth, and to spread trade benefits more widely. Unfortunately, WTO members have not yet made the commitments necessary to realize the promises of the Doha Trade Round. In September 2003, trade ministers gathered in Cancun, Mexico, for a WTO Ministerial meeting to review progress and negotiate the next stages in the Doha Agenda. WTO member countries were not able to agree on key issues, such as agriculture, and the meeting ended without agreement.

Since Cancun, there have been encouraging signs that countries are willing to return to the negotiating table. WTO members are reaffirming their support

A World Trade Organization (WTO) agreement that lowers tariffs in both developed and developing countries—especially for agriculture—could produce up to \$520 billion in additional income, with both rich and poor countries gaining substantially. Such an agreement would increase growth in developing countries and lift about an additional 140 million people out of poverty by 2015.



Between 1960 and 1990 official development assistance from major donors declined from 0.50% of their gross national income to 0.34%. By 2001 it had fallen to 0.22%. New commitments by high-income countries at the 2002 Monterrey Summit would raise official development assistance to 0.26% of their gross national income by 2006.

for the multilateral trading system and indicating flexibility in some of the issues that led to the impasse at the meeting.

The process of negotiating trade rules that benefit all countries—especially poor people in developing countries—must go forward. It is essential that WTO members find a way to relaunch talks to remove key stumbling blocks to increased participation in global trade by developing countries. Developed countries, which have benefited most from the expansion in world trade, should take the lead in overcoming the resistance by special interests that benefit from trade distorting policies. Developing countries, especially middle-income economies, must help by indicating a willingness to lower their own trade barriers (box 2.1).

Providing more and better assistance. Faster progress toward the Millennium Development Goals will require substantially more aid—and more effective aid—in support of countries' efforts to improve their policies and governance. Following the Monterrey conference the international community committed to increase annual aid volumes by about \$16 billion annually over the next three years. Research shows that developing countries could use productively twice this amount, or about \$30 billion, and substantially more in the longer term, particularly if the pace of policy reform in developing countries picks up.¹⁴

To be more effective in supporting the efforts of developing countries, increases in aid need to be accompanied by three sets of changes in how aid is provided.

First, as developing countries build a track record of policy performance, their efforts should be supported with access to timely and predictable aid. Greater assurance that they will receive adequate and timely external support will make it more likely that countries initiate and sustain reform programs.

Second, aid should be provided in ways that are better aligned with the recipient country's own development priorities and processes, as articulated in its poverty reduction or development strategy. This means accepting national goals and improving donor coordination and harmonization of donor policies and procedures around recipient countries' own systems, building on the impetus of the Rome Forum on Harmonization (see part 5).

Third, aid should be provided in forms that can meet the incremental costs of financing the Millennium Development Goals. A much higher proportion of additional aid will need to be provided directly to countries in the form of cash so that they can help finance the costs of meeting the goals. In some countries aid should be provided in ways that can finance recurrent costs. And in countries that are highly indebted, susceptible to shocks, but with good policies, a greater share of aid may need to be in the form of grants.

Deepening debt relief. The Monterrey Consensus also called for faster debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.¹⁵ Of 38 poor countries with large debt overhangs, 27 have reached their decision points and are benefiting from debt relief. The international community has committed to reducing the overall debt stock of these countries by about two-thirds. Savings from lower debt service payments are being used to increase spending on pro-poor growth and to strengthen public expenditure management.

The ratio of debt service to exports for these 27 HIPC countries fell from 15.7 percent in 1998 to an estimated 9.9 percent in 2002 and is expected to further decline to 8 percent by 2005. Total debt relief committed under the initiative for the 27 post-decision-point HIPC countries amounts to approximately \$52 billion in debt service savings over time. This committed debt relief for the 27 countries equals 67 percent of the total debt relief estimated for all 38 HIPC countries. The Bank Group will provide \$12.4 billion of this relief, more than 25 percent of the total committed by all creditors.

Key challenges remain. One is to help pre-decision point HIPC countries address transition challenges from conflict or the resolution of large arrears. A second is to help HIPCs whose debt relief is not yet irrevocable reach their completion points. A third is to

Box 2.1 Developing countries also need to lift trade barriers

Developing countries also have to assume certain responsibilities in order to realize the promise of the Doha Trade Round. Exporters in low- and middle-income countries pay twice as much in foreign tariffs as their rich country counterparts. Low-income countries could benefit from cheaper imports, productivity gains, and expanded imports by tackling their own trade barriers. Middle-income countries generally have lower and less distorting protection in agriculture, but they have high average tariffs in all sectors and are more restrictive in services. As trade increases, this protection undermines poorer trading partners, undercutting productivity growth. In manufactures 60 percent of total tariff payments by East Asian exporters are paid to other developing countries. Latin American exporters face average tariffs in Latin America that are seven times higher than those faced in industrial countries. Developing countries clearly have much to gain from their own liberalization.

Source: World Bank 2003f.

help countries balance the tensions between sustainable debt and financing the Millennium Development Goals. The decision by the International Development Association donors to provide up to 40 percent of funding as grants to debt-vulnerable countries will help in this, but the grants issue will need continuing attention.¹⁶

Translating the priorities of the Monterrey Consensus into accelerated progress toward the Millennium Development Goals requires action by developing

and developed countries. The Bank is working closely with both sets of countries and other development partners to contribute to global efforts for reducing poverty. The rest of this report examines how the Bank, together with its partners, is supporting country-led development efforts and multidimensional interventions to attack poverty—as well as partnerships that aim to address global issues requiring concerted action by the international community.

In September 2003, 27 countries received debt relief under the Heavily Indebted Poor Country (HIPC) Initiative. Eight of the HIPCs have completed the reforms necessary for the relief granted to be irrevocable.