CHAPTER 4

Public policies to improve people's health and education

As the Millennium Development Compact argues, the first cluster of policies required for top and high priority countries to break out of their poverty traps involve investing in health and education. These investments contribute to economic growth, which feeds back into human development (see chapter 3). Education, health, nutrition and water and sanitation complement each other, with investments in any one contributing to better outcomes in the others. A major message of this chapter is that policy-makers need to recognize the synergies among the many aspects of human development as they invest in achieving the Millennium Development Goals.

Education affects all types of human development outcomes. More than just a source of knowledge, education promotes better hygiene and increases the use of health services. Safe water and adequate sanitation also determine health outcomes. By reducing infectious diseases, they improve children's nutritional status and increase their learning abilities. Together such interventions contribute to a health transition—from having communicable diseases account for most of a country's disease burden to having chronic diseases as the main source.

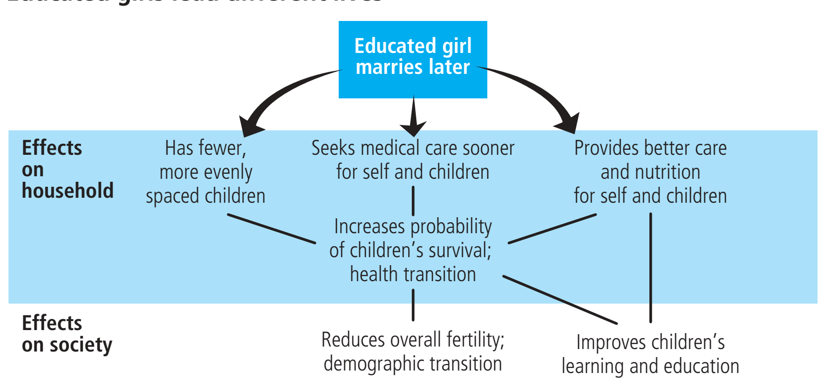
The health transition hastens the demographic transition from high to low birth and death rates. In addition, higher education levels are associated with better family planning. As more children survive, families reduce the number of children they have. Desired family sizes decline, a process helped by the ready availability of contraceptives. So, over time, lower infant and child mortality plays a major role in falling fertility rates.[1] This notion of synergies among social investments is central to reducing hunger, malnutrition, disease and illiteracy—and to advancing human capabilities.

To get the most from the synergies among basic social services, it is crucial to focus on universal primary education early on, particularly for girls. But doing so requires available, fully functional family planning, water and sanitation services. Thus these services are integral to achieving all the Millennium Development Goals.

This chapter also argues that gender equality is not just a Goal in its own right—it is central to achieving all the other Goals. The lifecycles of educated girls illustrate the synergies among social sector interventions (figure 4.1). Educated girls are likely to marry later—especially if their schooling extends to the junior secondary level and they engage in economic activity outside the home. Educated girls and women also have fewer children, seek medical attention sooner for themselves and their children and provide better care and nutrition for their children.[2] Such behaviour reduces the probability of disease and increases the odds of children surviving past age five.

Over time reduced child mortality leads to smaller families and increased contraceptive use—lowering overall fertility. With smaller households child care improves, and with lower fertility the school-age population shrinks. Thus the benefits of girls' education accrue from generation to generation. But while strengthening women's

FIGURE 4.1
Educated girls lead different lives



Source: Mehrotra and Jolly 2000.

health and education capabilities in this way is important, action is also needed to reinforce their role in society as agents of change (box 4.1).

Past progress shows what is possible. Over the past 50 years most developing countries achieved advances in health and education that took nearly 200 years in rich countries. But a dozen or so developing countries made especially fast progress, achieving social indicators comparable to those in rich countries. These high performers offer policy lessons for other countries in reaching the Millennium Development Goals (box 4.2).

If there is any doubt that the Goals can be achieved in less than a generation, consider the following gains. Sri Lanka added 12 years to life expectancy at birth in just seven years (1945–52).[3] In nine years (1953–62) China added 13 years.[4] Between 1960 and 1980 Botswana more than doubled its gross primary enrolment ratio, from 40% to 91%.[5] And in Zimbabwe the gross primary enrolment ratio rose from 75% in 1960 to 124% in 1985, five years after independence.[6]

Some high performers combined rapid economic and social progress—and now have high-performing economies (Republic of Korea, Malaysia, Mauritius). They achieved social progress early in their development processes, when national incomes were still low—suggesting a certain sequence for investments. In other high-achieving countries economic growth was slower and less consistent. Still, all of these high

BOX 4.1

Women's capabilities and agency—key to achieving the Millennium Development Goals

Unless women's capabilities are improved and gender equality increased, the other Millennium Development Goals will not be achieved. Strengthening women's agency and voice is essential to enhancing their capabilities—and strengthening their capabilities is essential to enhancing their agency and voice. Though education is the only official target ("Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015") used to assess progress towards the gender equality Goal, several other indicators have been established to monitor performance:

- The ratio of girls to boys in primary, secondary and tertiary education
- The ratio of literate female to male 15- to 24-year-olds.
- The share of women engaged in wage employment outside agriculture.
- The share of women in national parliaments.

Gender equality in education helps women secure employment outside the home and acquire political power, contributing to their agency in the public sphere. But gender equality must also extend to the private domain.

Today gender inequality undermines women's capabilities in education and health. Still, some progress is being made. For example, between 1990 and 2001 the ratio of literate female to male 15- to 24-year-olds in countries with low human development increased from 70 to 81 women per 100 men, though in countries with medium human development it increased only from 91 to 93. The gender ratio in primary education also made limited progress, rising from 86 to 92 girls per 100 boys in developing countries between 1990 and 1999–2000. At current rates gender equality in education will not be achieved until 2025—20 years after the target set by the Millennium Development Goals.

Among young women (15- to 24-year-olds) in developing countries literacy is 60%, compared with 80% for young men. In addition, more women suffer from HIV/AIDS. Maternal mortality is another dimension of women's additional burdens. And despite biological reasons for women to live longer than men, many developing regions and countries have millions of "missing" women killed by infanticide, gender-based abortions or systematic discrimination over the life cycle (resulting in a lower female population, with 35–37 million fewer million women in South Asia and 38–40 million in China).

Without action to increase women's capabilities in health and education, they will have limited prospects for working outside the home and earning independent incomes. In the 1990s women working outside agriculture accounted for an unchanging 40% of men's employment in developing countries.

Many challenges undermine gender equality in employment and community and political participation. In developing countries most poor female workers outside of agriculture are engaged in informal employment and receive low, irregular pay. And around the world, women account for more than 30% of parliamentarians in just seven countries. More equal political representation often has to be jumpstarted by quotas.

Gender relations are largely determined by social and cultural contexts. Patriarchal values instilled from childhood influence the attitudes and outlooks of both women and men throughout their lives. These values are often enshrined in laws prejudicial to women's rights and claims—especially those related to marriage, divorce, rape, violence and inheritance. Movements for women's rights often focus on reforming such laws.

Although employment and education are considered basic strategies for strengthening women's agency and voice, stronger agency also requires not just:

- Recognizing the importance of education, but also improving its content, provision and returns.
- Creating more jobs for women, but also improving their nature and terms—including sustainable livelihoods.
- Increasing the number of women in parliaments, but also raising women's visibility in positions of authority and decision-making—from the local to the national levels.

Thus empowering women requires policies that address both practical needs (supporting the basic capabilities required to function, such as by improving living conditions and increasing employment, health care and safe water supplies) and strategic needs (strengthening women's voice and agency to renegotiate their roles at home and in society, such as through legal rights to assets and laws ensuring equal wages, reproductive rights and freedom from violence). Moreover, these policies must be backed by laws guaranteeing equal rights—for both women and men in the private and public sectors.

Source: Christiansen, Conway, and Poston 2003; Drèze and Sen 2002; Landuyt 1998.

BOX 4.2

Policy lessons from high-achieving countries in health and education

There is no global prescription for achieving the Millennium Development Goals, and no set track for being "on track". Diverse national situations require that countries develop different strategies for achieving international targets for health and education. But success stories abound.

- In the 1980s Botswana made strides in education and health much greater than expected based on its income level.
- The state of Kerala, India, has health indicators similar to those of the United States—despite a per capita income 99% lower and annual spending on health of just $28 a person.
- Cuba's per capita income is a small fraction of that in the United States, yet it has the same infant mortality rate and has kept HIV/AIDS under control.

High-performing countries in health and education show the remarkable progress that can be made within a generation, and similarities between success stories provide useful insights into what works:

- Public financing was adequate and equitable. In high-achieving countries political commitment is reflected not just in allocations of public spending to health and education, but also in their equity. Spending has focused on basic rather than tertiary health services, and on primary rather than higher education.
- Education achievements preceded higher health status. From the outset of their development processes, all the high-achieving countries pursued high enrolments for all children, particularly girls. Thus gender inequality in education was lower from the start, and gender differences were narrowed much faster than in lower-achieving countries. As investments in public health infrastructure emerged, high education levels ensured high demand for and effective use of health services.
- Educated women were able to act as agents of change. Children's health and education outcomes are not only the result of adequate food consumption and health services, but also proper child care. In this respect the capabilities and positions of women in the household and in society take on major significance. When women are educated, have ownership rights and are free to work outside the home and earn an independent income, the well-being of the entire household is enhanced (Drèze and Sen 1995). In high-achieving countries women not only had near parity in education, they also had high rates of participation in non-agricultural employment.

Source: Chen and Desai 2000; Mehrotra 2000; Drèze and Sen 1995.

performers show that with the right government priorities and policies, high social development is possible even without a thriving economy.

This chapter is about setting the right policy priorities—those of the high-performing countries—to achieve the Millennium Development Goals. The Goals for hunger, education, health and water and sanitation are examined in turn, from the scale of the challenges to the actions required to resolve them. The chapter then proposes an action plan to boost the level, equity and efficiency of public spending—as well as the quantity and quality of official development assistance—for basic services.

ACHIEVING THE HUNGER GOAL

Given past achievements, the Goal of halving the percentage of hungry people by 2015 should be readily achievable. In 1996 the World Food Summit set a similar target: halving to 400 million the number of hungry people in developing countries.[7]

Since the early 1970s food production in developing countries has tripled, more than keeping up with population growth.[8] In addition, the real prices of the main cereal crops have dropped 76%.[9] Between 1980 and 1995 per capita food production increased 27% in Asia and 12% in Latin America. But in Sub-Saharan Africa it fell 8%.[10] Although hunger is most prevalent in South Asia, it is declining—while in Africa about one-third of the population is undernourished, and the number is increasing.[11] If all the food produced worldwide were distributed equally, every person would be able to consume 2,760 calories a day (hunger is defined as consuming fewer than 1,960 calories a day).[12] Addressing hunger means ensuring that people have command over the resources (especially income) needed to acquire food.

Hunger is more than just a lack of available food. It is a problem of deficiencies in food entitlement and deprivations in related essential services (health care, education, safe drinking water, adequate sanitation). Food entitlement differs from food availability in that it indicates what a person can command with income and thus consume, rather than what is available in the market.

Scale of the problem

Every day 799 million people in developing countries—about 18% of the world's population—go

Millennium Development Goals and targets

Goal 1: Eradicate extreme poverty and hunger

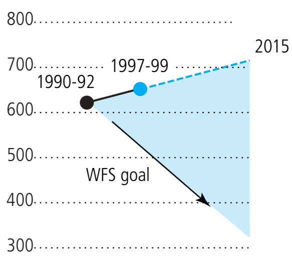
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day

Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

FIGURE 4.2

Food insecurity increases

Number of food-insecure people in all developing countries except China



Note: WFS is World Food Summit.
Source: FAO 2001c.

hungry.[13] In South Asia one person in four goes hungry, and in Sub-Saharan Africa the share is as high as one in three.[14] India is home to the largest number of hungry people, 233 million, while Sub-Saharan Africa has 183 million, China 119 million, the rest of East Asia and the Pacific 74 million, Latin America 55 million and the Arab States 32 million.[15]

Between 1990–92 and 1998–2000 the proportion of hungry people in developing countries fell from 21% to 18%.[16] The largest reductions by far were in China, though substantial declines also occurred in South-East Asia.[17] But with population growth, the number of hungry people is not falling as quickly. Worldwide, the number of hungry people fell by 20 million between 1991 and 1999.[18] Yet that progress came only because 80 million Chinese escaped hunger: in 25 developing countries the number of hungry people increased (figure 4.2).[19]

The hunger Goal also seeks to reduce child malnutrition. In this area, among 33 countries with data, 10 saw reversals or failed to improve in the 1990s.[20] And because data on child malnutrition are more reliable than those on hunger, such trends are worrisome.[21]

More than three-quarters of hungry people are in rural areas of developing countries.[22] About half live in farm households on marginal lands, where environmental degradation threatens agricultural production.[23] Nearly a third live in rural landless and non-farm households, such as those dependent on herding, fishing or forestry.[24] Yet poor fishers are seeing their catches reduced by commercial fishing, and foresters are losing their rights as logging companies move in under government concessions. Moreover, landlessness is rising in most rural regions because of higher farming densities and unequal land distribution. Average land per capita among rural farmers in developing countries declined from 3.6 hectares in 1972 to 0.26 hectares in 1992—and stands to fall further by 2020.[25]

Another worrisome trend is the shift of malnutrition to cities.[26] Urban poor people now account for more than one-fifth of hungry people in developing countries. But this could be rising because urban populations are growing faster than rural.[27]

In any given year 5–10% of hungry people are affected by droughts, plagues, floods, hurricanes, extreme storms or violent conflicts.[28] Among the 21 countries with extreme food emergencies in 2002, in 15 they were sparked by war, civil strife or the lingering effects of past conflicts.[29]

Meeting the Millennium Development Goal for hunger will require improving food distribution and increasing production. Among the top priorities for increasing production:

- *Focusing on technologies that raise agricultural productivity.* Doing so will also raise incomes for people with few assets other than land.
- *Directing more resources to agriculture.* Poor countries have neglected agriculture—a trend that must be reversed.
- *Preventing environmental degradation.* New policies and technologies to raise productivity must also protect critical ecosystems. Poor people suffer the most from environmental degradation, but poverty also leads to environmental degradation. In developing countries low productivity is more often the cause of such degradation—while in Europe and North America high productivity is the cause.
- *Sharing resources more equitably.* Women, who produce most of the food consumed in Sub-Saharan Africa and Asia, must have more secure access to land. The same goes for landless people.
- *Addressing global warming and reducing agricultural tariffs and subsidies in rich countries.* Protection rigs international markets against farmers in developing countries. Meanwhile, global warming can adversely affect weather patterns for farmers dependent on rain.

Food buffer stocks to improve distribution and smooth prices

Governments can maintain reserves of essential foods, especially grains, and release them into markets if food prices rise inordinately—enabling poor people to afford them. Such systems may or may not involve public distribution of essential commodities at below-market prices. China and India have long traditions of maintaining buffer stocks (reserves) of food, usually at public expense.

India has maintained food stocks since the 1970s, enabling it to stave off widespread famine.

These efforts have been aided by the increased wheat and rice productivity that resulted from the green revolution, with grains and essential commodities (sugar, cooking oil) provided through a public distribution system. In addition, during droughts food for work programmes ensure subsistence consumption levels.

It is critical that food be kept affordable for poor households, whether through public distribution systems or releases of grains into markets (something the Indian government has failed to do in recent years). One reason for the food security of poor households in Kerala, a high-performing Indian state, is that ration shops distribute grains even in rural areas.[30] Elsewhere in India most public food distribution occurs in urban areas. In China buffer stocks of food are maintained at the community level.

Sri Lanka—another high achiever in social indicators—has maintained food subsidies since independence in 1947. In 1979 universal subsidies for essential commodities (rice, wheat flour, lentils, dried fish, powdered milk) were replaced with a food stamp scheme covering 40% of the population.

In Africa food stocks have not been used as much as might be expected given the continent's low agricultural productivity, fragile soils and frequent famines. One reason for the 2002 famine in Southern Africa was that limited food stocks were run down, partly because fiscal constraints prevented governments from maintaining them.

It is especially important for landlocked countries to hold buffer stocks, because the costs of building and managing warehouses to store them are worth the lives saved, suffering averted and productivity gained. In countries with ports the costs of maintaining stocks must be weighed against the benefits. But even in coastal countries buffer stocks can mitigate the adverse effects of fluctuating food prices.

Policy advice for Africa has tended to push in the opposite direction, arguing that free markets should determine how the continent feeds itself.

Governments facing budget deficits should not provide fertilizer subsidies, crop price supports or cheap loans. A recent report suggests that rural African countries grow cash crops for export—to generate income for poor farmers and provide foreign exchange for food imports. Though the report acknowledges that bigger food crops would help some farmers, it also suggests that many are so isolated that they should grow only what they need for themselves as cheaply as possible.[31]

Inequity—and what to do about it

Access to food could be greatly increased by government action to secure the assets and raise the incomes of the most vulnerable groups.

More equitable land distribution increases agricultural efficiency and output

Marginal groups

Small farms are more productive than large farms per unit of land. Hence more equitable land distribution increases agricultural efficiency and output. In Piaui, Brazil, farm yields increased 10–40% on non-irrigated and 30–70% on irrigated fields after land was distributed to small farmers.[32] Equitably distributed land also reduces poverty and promotes improves the distribution of income. In El Salvador a 10% increase in land ownership among cultivators raised per capita income by 4%. Similarly, Indian states that implemented land reform saw poverty fall faster between 1958 and 1992.[33]

To make the investments in natural resources needed to raise productivity, poor people need to have secure access to those resources. In Thailand there is a robust relationship between secure title to land and confidence to practice sustainable agriculture.[34]

Poor and hungry people also benefit from common property resources. In recent years Brazil, Cameroon, the Gambia, India, Nepal and Tanzania have set aside public lands for use or comanagement by indigenous communities. Similarly, community forest tenure has been strengthened in Bolivia, Colombia, Indonesia, Mozambique, the Philippines, Uganda and Zambia. And in China and Viet Nam public forest land has been allocated to households. The recognition of indigenous rights and community ownership—and the broader rationalization of public forest tenure—provide opportunities to dramatically improve the livelihoods of millions of forest inhabitants. Poor communities' rights to water must also be recognized—not just for household needs but also for irrigation, agro-processing and livestock watering.[35]

Women

Women produce most of the food consumed in Sub-Saharan Africa and (to a lesser extent) Asia. But they rarely have secure tenure to the land they work. Fewer than 1 in 10 female farmers in India, Nepal and Thailand own land. Without secure ownership, women lack collateral, access to credit and the means to invest in productivity improvements—hurting the health and nutrition of their families.[36] In some regions women have limited claims to food within households, a particular problem for pregnant and nursing women, who need more calories.

Fewer than 1 in 10 female farmers in India, Nepal and Thailand own land

Urban poor people

Most cities have land available for agriculture—the informal safety net for many poor urban dwellers who grow food in parks, rooftops, wetlands, churchyards, containers, vacant lots, rights of way and plots near railways. They also graze livestock on hillsides, open spaces and rights of way. These residents should not be denied the right to use these lands to feed themselves.

People in food emergencies

Refugees from wars and natural disasters need emergency help to survive. Response times in food emergencies need to be far shorter so that supplies can get to starving people much faster. Early warning systems for political crises, like those for environmental disasters, would help because political crises have become the main cause of famine.

In addition, a permanent fund should be established so that international agencies can respond to crises immediately, without having to raise funds as they try to respond. A fully capitalized fund would enable the World Food Programme to undertake far more strategic planning for emergency food supplies and post-famine crop and livestock recovery. The UN Food and Agriculture Organization estimates that it would cost $5.2 billion a year to feed the world's 214 million hungriest people.[37]

To extend the benefits of food security even more, food for such programmes could be purchased from developing countries. International financing for community nutrition and community food bank initiatives could be organized under the World Food Programme as an international bank providing nutrition for all.[38]

Raising productivity

Many technologies have been developed to raise agricultural productivity and reduce hunger. Several pro-poor technologies focus on sustainable productivity and suitability for women. Promising management approaches include agroforestry, permaculture, conservation agriculture, biological nitrogen fixation, water use efficiency, gender selection in livestock, integrated pest management, integrated plant nutrient management, integrated intensive farming systems and integrated soil and water management.[39]

For many African farmers the most pressing need is improving soil quality. On many farms fertilizers can double or even quadruple yields of basic food crops.[40] Even farmers who cannot obtain or afford such inputs have many options for raising soil fertility, especially in Africa (box 4.3).

National policies must emphasize rebuilding natural assets. Since 1996 China has rehabilitated 5 million hectares of low- and medium-yield farm land. In some Indian communities better fallows and cover crops have been widely adopted—145 systems have been identified—by farmers on marginal lands forced to reduce fallow periods.[41] Agricultural systems can also be improved by paying farmers, fishers, herders and foresters for their roles in ecosystem management. Such schemes are already in place in many areas: a recent review found 75 that make payments for carbon emission offsets, 72 for biodiversity and 61 for watershed services.[42]

Initiatives can also promote sustainable agriculture in farming communities. A study in 17 African countries found that 730,000 poor households in 45 projects were practicing

BOX 4.3

Increasing soil fertility in Sub-Saharan Africa

Soil nutrient depletion is traditionally treated through the use of mineral fertilizers. But fertilizers cost two to six times more at the farm gate in Africa than in Europe, North America and Asia. But crops do not care whether the nitrate and phosphorous they absorb come from a bag of fertilizer or a decomposing leaf. Thus the main issue is to replenish plant nutrients in sufficient quantities, and whether this is done with mineral fertilizers or organic inputs is primarily a question of farm economics.

The most advisable approach is to combine the use of both nutrient sources in agronomically sound ways. The Sasakawa Global 2000 network and other organizations have shown on thousands of African farms that mineral fertilizers can double to quadruple yields of basic food crops . But even farmers who cannot obtain or afford purchased inputs can achieve long-term increases in yields through alternative approaches to soil building and replenishment:

- Nitrogen-fixing tree fallows. Leguminous trees are interplanted with young maize crops and allowed to grow as fallows during dry seasons, generating 100–200 kilograms of nitrogen per hectare in 6–24 months in subhumid tropical regions of East and Southern Africa. These fallows are economically and ecologically sound and fit well with farmer customs and work calendars—no surprise, because farmers helped develop the technology.
- Indigenous rock phosphate. Using indigenous rock phosphate deposits provides an alternative to imported superphosphates. The mild acidity of most of these soils (pH 5–6) helps dissolve high-quality rock phosphates at a rate that can supply phosphorus to crops for several years. Over a five-year period their use doubles or triples maize yields 90% as efficiently as superphosphates—at a much lower cost.
- Biomass transfers of leaves of nutrient-accumulating shrubs. Transfers of leaf biomass of the nutrient-accumulating shrub Tithonia diversifolia from roadsides and hedges into cropped fields adds nutrients and routinely doubles maize yields without fertilizer additions.

Tens of thousands of farm families in Kenya, Malawi, Mozambique, Tanzania, Uganda, Zambia and Zimbabwe are using these approaches with good results. Improved fallows are the most widespread practice. Knowledge is being transferred between farmers, villages and community organizations and through national research and extension institutes, universities, non-governmental organizations and development projects.

The challenge now is to accelerate the adoption of such technologies to tens of millions of farm families. The main obstacles are insufficient supplies of high-quality tree germplasm (seeds and seedlings) and rock phosphate and inadequate awareness and knowledge of the technology components. But increased adoption is essential, as these approaches offer major opportunities to drastically and sustainably increase food production—reducing hunger in a way that enhances the natural resource base.

Source: Millennium Project Task Force 2 2003a.

sustainable agriculture—defined to include intensified land use, diversified crops and livestock, increased use of renewable resources and other criteria.[43] In eight Asian countries some 2.9 million poor households using sustainable agriculture have increased food production on 4.9 million hectares.[44] These programmes must be scaled up to involve tens of millions of households.

Farmers in developing countries often lack the roads, warehouses, electricity and communication links required to bring them closer to markets—making them more vulnerable to intermediaries charging high prices for inputs and to monopoly buyers squeezing their incomes. Yet around the world, agriculture is a low priority for governments and donors alike. Most governments have invested much less in marginal lands than in more favoured agricultural areas.[45] In Africa most countries invest less than 5% of their budgets in agricultural development—even though 75% of their citizens depend (directly or indirectly) on farming.[46]

In addition, agricultural research is severely underfunded, with many low-income countries spending only 0.5% of agricultural GDP on it—and nearly all of that focused on higher-quality lands and commercial crops.[47] To benefit poor farmers on marginal lands, agricultural research must support promising initiatives such as multicrop systems, eco-agriculture, early maturing seed varieties and low-cost methods of soil building.

Agricultural services, if available, mainly come from private firms selling inputs and offering advice that is often incorrect and almost always incomplete. Government agricultural extension services have focused on distributing seeds and fertilizers, often promoting varieties and formulations unsuited to local conditions.

When allocating input subsidies or buying grain, most developing countries subsidize or provide privileged access to large producers and processors. Rules for these mechanisms often distort markets, unduly burden small producers, establish official monopoly buyers and set excessive taxes and service charges.[48] Government policies that discriminate against small producers should be immediately reformed, and public financing for subsidies should be redirected to support small farmers (box 4.4).

BOX 4.4

Farm policies and food security

As the Indian government's interventions in grain markets show, public policies can create different winners—and losers—among different population groups.

Designed to stabilize prices and support grain farmers, the minimum support prices set by the government's Food Corporation of India have instead risen much faster than inflation. This outcome is partly explained by strong farm lobbies (especially for rice and wheat) and government policies that cover farmers' economic costs of production. Economic costs of production are based on input costs, imputed values of land and labour as well as a bonus.

Theoretically, prices in the public food distribution system are based on economic costs (and so minimum support prices). But market prices are lower than the system's prices, increasing food stocks in government warehouses, although India has the largest number of world's hungry, and nearly half of its children are malnourished. Countering the farm lobbies, however, is pressure on political leaders to satisfy voters and so control prices in the public food distribution system.

Source: Kannan, Mahendra Dev and Sharma 2000; India 2002a.

International responsibilities

Bilateral official development assistance for agriculture, forestry and fisheries increased between 1971 and 1990, but declined thereafter along with overall official development assistance. Multilateral official development assistance increased from $1.2 billion a year in 1973–74 to $3.6 billion a year 1981–83, but then fell over the next two decades to $1.4 billion a year in 1999–2000 (in 2000 dollars). As a share of total lending of multilateral institutions, assistance to agriculture, forestry and fisheries fell from 15% of total lending in 1997 to 10% in 1999.[49]

But reducing hunger in developing countries requires international action not only on aid, but also on two other issues crucial for increasing food production and farm productivity. First, agricultural subsidies in rich countries—totalling $311 billion in 2002—inhibit agricultural growth in developing countries (see chapter 8).

Second, global warming, caused by emissions of greenhouse gases, is leading to more frequent extreme weather conditions—floods, droughts, mudslides, typhoons, cyclones—increasing the number of people facing food emergencies. Over the next few decades climate change will probably increase precipitation from latitudes 30 degrees North to 30 degrees South—areas that include many of the world's richest countries. But rainfall will likely decrease and become more erratic in many tropical and subtropical regions, causing crop yields to fall in countries already suffering from food insecurity.

Africa's rainfall has been decreasing since 1968. In addition, rainfall fluctuations have widened across the continent, resulting in disastrous floods like the one that devastated Mozambique in March 2000. Sub-Saharan Africa is especially sensitive to climate change because its agriculture is mostly rain-fed—and accounts for 70% of the region's employment and 35% of its GNP. Because of global warming, Africa will become even more dependent on food imports.

Millennium Development Goals and targets

Goal 2: Achieve universal primary education

Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Goal 3: Promote gender equality and empower women

Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and in all levels of education no later than 2015

ACHIEVING THE EDUCATION GOALS

During the 1990s primary education enrolments increased in every region, and in many a large proportion of children are enrolled. In East Asia and the Pacific, Central and Eastern Europe and the Commonwealth of Independent States (CIS) and Latin America and the Caribbean more than 90% of children are enrolled in primary school. In South Asia 79% are enrolled, and in the Arab States 77%. In Sub-Saharan Africa net primary enrolments increased by 3 percentage points in the 1990s,[50] yet less than 60% of children are enrolled.[51]

Scale of the problem

Of the 680 million children of primary school age in developing countries, 115 million do not attend school—three-fifths of them girls.[52] In India 40 million children are not in primary school, more than a third of the world's total.[53]

Moreover, enrolment does not mean completion. Just over half the children who start primary school finish it—and in Sub-Saharan Africa, just one in three.[54] Reflecting these shortcomings, one-quarter of adults in the developing world cannot read or write.[55] And of the world's 879 million illiterate adults, two-thirds are women.[56]

Developing countries face three main challenges in expanding primary education:

- *Limited resources.* Relative to rich countries, developing countries spend much less per student and as a proportion of GNP at all levels of education.
- *Inequity.* When spending is low, rich people often capture a much larger share of it—so poor people do not benefit as much.
- *Inefficiency.* Inefficient spending means that a high share of recurrent spending goes for teacher salaries, leaving little for learning materials. In addition, low-quality teaching means that students do not learn as much as they could.

BOX 4.5

Military spending or education? The inconsistencies of government action

What can developing countries do to increase spending on education, especially basic education? Cutting spending on other priorities (such as the military) is one way. World military spending fell in the 1990s—except in Latin America and South Asia. In 1991–2000 military spending increased 59% in South Asia.

Military spending in Sub-Saharan Africa fell during the decade, from $9.3 billion in the early 1990s to $7.1 billion in 1996. But it rose sharply in 1999 and 2000, to an average of $9.8 billion. This surge does not capture overall military spending in the region; these data reflect only official figures. In 2001 Angola, one of the leading recipients of transfers of major conventional arms, spent 3.1% of GDP on the military—compared with 2.7% on education. Sierra Leone spends 3.6% of GDP on the military and 1.0% on education.

All the major arms-exporting governments have pledged their commitment to the Millennium Development Goals. Hence rich country governments can help shift these expenditures by reviewing their arms exports. The G-8 are among the world's top 10 supplies of major conventional weapons: the United States ($49.2 billion), the Russian Federation ($15.6 billion), France ($10.8 billion), the United Kingdom ($7.0 billion), Germany ($5.6 billion), Italy ($1.7 billion) and Canada ($0.7 billion) account for 85% of world weapon exports. Without reforms by exporters and recipients, commitments to the Goals seem questionable on both sides.

Source: SIPRI 2002b.

Limited resources—and what to do about them

Governments play a much more important role in the economies of countries where human development is high than in countries where it is medium or low. In 1999 median public spending was 35% of GDP in countries with high human development—while in countries with medium human development it was 25%, and in countries with low human development, 21%.

Small education budgets

Rich countries rarely spend less than 4.0% of GDP on public education. In countries with high human development median spending on public education is 4.8% of GDP, compared with 4.2% in medium human development countries and 2.8% in low human development countries. Moreover, lower incomes mean that per capita spending is much less in poor countries than in rich ones.

When public spending places high priorities on areas other than education and health, social spending suffers. Debt service is an important non-discretionary component of public spending in many low human development countries (see chapter 8). But military spending—a discretionary expenditure—can also squeeze out education spending (box 4.5).

During 1975–97 developing regions exhibited different patterns of public enrolments and recurrent spending on primary education.[57] In South Asia, West Asia and Sub-Saharan Africa the number of students enrolled almost doubled, while recurrent spending (in 1995 US dollars) increased modestly.[58] But in East Asia and Latin America and the Caribbean enrolments remained stable, while recurrent spending increased rapidly. Thus some regions invested in quantity (enrolments) and some in quality (higher spending per pupil). If quality is to improve in the first group of regions, more resources are needed.

Some studies argue that public spending levels are not important for education outcomes.[59] They are misguided. True, efficient spending is critical to achieving desired outcomes. But the amount of spending is also important.[60] One basic use of any additional resources would be to hire more teachers. With 26 million primary school teachers in developing countries in 2000, the estimated number of additional teachers required by 2015 ranges from 15–35 million—including more than 3 million in Sub-Saharan Africa, with more than 1 million in Nigeria alone.

The funding gap

According to the United Nations Children's Fund, achieving universal primary enrolment (not completion, the aim of the second Millennium Development Goal) in developing and transition countries by 2015 would cost another $9 billion a year.[61] That estimate includes additional capital cost requirements as well as needs to improve schooling quality—and is more than four times what donors now spend, as well as far more than current government spending. Education spending is especially low in heavily indebted poor countries. Another estimate, taking into account a variety of scenarios, is even higher.[62]

In Africa economic growth would have to exceed 8% a year to provide the required resources—an unlikely outcome

Who will foot the bill?

Economic growth is unlikely to provide enough resources for developing countries to achieve universal primary completion by 2015. In Africa economic growth would have to exceed 8% a year to provide the required resources—an unlikely outcome.[63] Thus much greater donor support is needed.[64]

But donor aid for education is insufficient: in 2000 it totalled $4.1 billion, with just $1.5 billion for primary education. In the 1990s bilateral aid for education fell from $5.0 billion to $3.5 billion, dropping to just 7% of official development assistance—an all-time low.[65] Only France, Germany, Japan, the United Kingdom and the United States devote significant shares of their assistance to education. The gap between donor rhetoric and reality must be reconciled.

In 1996–98 multilateral institutions provided an average of $954 million a year in education-related official development assistance.[66] The amount fell to $799 million in 1999–2001. Commitments for basic education were $402 million a year in 1996–98 and fell sharply to $222 million a year in 1999–2001. The Education for All Fast-Track Initiative, a good example of interagency work, could increase the funding for some countries.

Inequity—and what to do about it

Who benefits from public spending on primary, secondary and higher education: poor people or non-poor people? In most countries the poorest 20% of the population receives less than 20% of the benefits of public spending on education—and in some, much less.[67] Meanwhile, the richest 20% generally captures considerably more than 20%. But there are exceptions—including Colombia, Costa Rica and especially Chile—where a larger share of public spending on education goes to the poorest 20%. Not coincidentally, all three countries have made impressive strides towards universal primary enrolments.

Countries performing well on education devote more resources to primary education (averaging 1.7% of GDP) than do countries with average performance (1.4%). High-performing countries also spend more on primary education relative to their per capita incomes. And they allocate less of their education budgets to higher education.

Despite improvements in the 1990s, the countries with the lowest primary enrolments spend more per pupil for higher education than primary education.[68] Indeed, the lower are primary enrolments, the greater is the difference in spending.[69] These countries need to focus on primary education, not spend more on higher education. Still, additional resources are needed for higher education as well if countries are to build capacity to compete in the global economy—but not at the cost of primary education. Entire education budgets need to increase.

Improving poor people's access to primary school

The costs associated with education discriminate against the poorest people by eating up a larger share of limited household budgets.[70] A considerable body of literature argues that school dropouts and child labour can be reduced by lowering the direct and indirect costs of schooling.[71] In Bhutan, Burkina Faso and Uganda high household costs per pupil—ranging from 10–20% of per capita income—discourage primary school attendance, while in Myanmar and Viet Nam lower costs contribute to higher enrolments (figure 4.3).[72]

Uniforms are often the biggest cost for parents. In eight states in India—together containing two-thirds of Indian children out of school—uniforms are one of the largest out-of-pocket education expenses.[73] One policy option is to make uniforms optional, letting school administrations and parent-teacher associations decide whether to require them.

User fees for education have long been hotly debated, and in the 1980s and early 1990s international financial institutions sent mixed signals about them. But in the early and mid-1990s, after sharp criticism of the consequences for primary schooling, the World Bank came out (albeit late) against fees for primary education.[74] Again, high-achieving countries point the way. To ensure universal primary enrolment and completion early in their development, they largely avoided direct tuition fees—and kept indirect costs low as well.

Thus there is a strong case for reducing the out-of-pocket costs of sending children to school. Sri Lanka eliminated tuition fees in 1945 and began providing free textbooks and free school lunches in the 1950s, and free school uniforms in 1991. Botswana gave enrolments a major boost by halving fees in 1973 and eliminating them in 1980.[75] Malawi also saw enrolments increase sharply after eliminating school fees and uniforms in 1994.

Ending discrimination against girls

Gender differences in enrolments and dropouts are most severe in South Asia and Sub-Saharan Africa. How, then, can gender disparities in schooling be eliminated by 2005—just two years from now—as called for by the Millennium Development Goals? Countries that have eliminated such differences offer several lessons:[76]

- Getting and keeping girls in school requires that schools be close to their homes. School mapping can identify least-served locations, aiding the establishment of multigrade schools in remote areas.
- Lowering out-of-pocket costs prevents parents from discriminating between boys and girls when deciding whether to send children to school—and in times of declining household income, to keep children from dropping out.
- Scheduling lessons flexibly enables girls to help with household chores and care for siblings.[77]
- Having female teachers provides girls with role models—and gives parents a sense of security about their daughters.[78]

Inefficiency—and what to do about it

Efficiency means getting better outcomes from the same amount of resources—and pursuing policies that help rather than hinder learning.

Operating inefficiencies

A major problem in nearly all developing countries is making children repeat class years, a factor in high dropout rates and a significant waste of resources. Countries that have done well in primary education have addressed this inefficiency. Costa Rica cut repetitions in half by introducing automatic promotions to the next class year in the 1960s. Malaysia and Zimbabwe have also adopted automatic promotions.[79] To maintain standards, automatic promotions should be accompanied by a minimum package of inputs, especially classroom materials and teacher training.

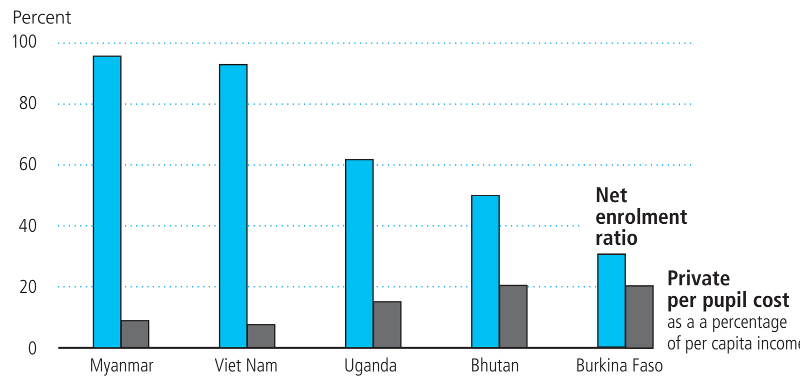
Teaching children in the appropriate language also improves education outcomes, as high-performing countries show. In all those countries the mother tongue was used for instruction at the primary level. Students learn to read more quickly when taught in the language most familiar to them and can learn to read a second language more quickly.

This is an important conclusion for, say, francophone Africa, where in most countries French is the language of instruction at all levels.[80] This alienating school experience was hardly conducive to learning.

School feeding programmes are also effective in getting children into school and keeping them

Malawi also saw enrolments increase sharply after eliminating school fees and uniforms in 1994

FIGURE 4.3
High household costs lead to lower primary enrolment



Source: Mehrotra and Delamonica 1998.

there. One of the factors behind increasing enrolments in India in the second half of the 1990s was a mid-day meal programme covering all states.

Financial inefficiencies

About 55 developing countries have low primary enrolments and require new buildings and facilities to achieve universal primary education.[81] But such capital investments are often inefficient, and the use of state construction companies and large private contractors often leads to inflated costs.[82]

How can school construction costs be kept low? One way is to use local rather than imported construction materials—an approach that Cameroon and Niger are encouraging to increase efficiency.[83] And since 1994 India has been using not only local materials but also local contractors and construction techniques to contain costs in its District Primary Education Programme.

Managing recurrent costs—to strike a better balance between salary and non-salary spending—is by far the most daunting financial challenge for countries with low enrolments. Wage bills for teachers and administrative staff often account for 90% or more of recurrent spending at the primary level, crowding out non-salary spending and leaving little money for other inputs, such as teaching materials.[84] High performing countries—Botswana, Cuba, Sri Lanka—have recognized this problem and spend reasonable amounts on teaching materials.[85]

Limited budgets also make it difficult for countries to increase the number of teachers, fundamental for universal primary schooling. Increasing salaries can help, but so can changing the salary structure—perhaps even reducing costs. One option is to manage the gap between minimum and maximum teacher salaries. In OECD countries the maximum teacher salary is on average 1.4 times the minimum wage, while in developing countries the range is 1.0 to 2.5 times the minimum.[86] The United Nations Educational, Scientific and Cultural Organization and the International Labour Organization have recommended that it take 10–15 years to reach maximum pay.[87] Another option is to unlink teacher salaries from advanced qualifications, an approach being tested in South Africa.[88]

In OECD countries the maximum teacher salary is on average 1.4 times the minimum wage, while in developing countries the range is 1.0 to 2.5 times the minimum

Better use of teachers' time and better teacher deployment could also do much to help manage teacher costs. Botswana has experimented with paying teachers more to teach double sessions—doubling the number of pupils taught with a small increase in salary cost. Investing in information technology to crack down on "ghost" teachers and incorrect salary payments also generates fairly rapid returns, as shown by the National Education Statistical Information Systems in several Sub-Saharan countries.

Salaries eroded by inflation can also erode teacher morale, forcing them to take second jobs. Teacher absenteeism, a major problem in South Asia and Africa, can be partly addressed by hiring teachers from the neighbourhoods where they are required to teach. In Indonesia and Thailand, which achieved universal primary education early on, teachers have traditionally been hired locally. But teacher salaries are often a reason for absenteeism.

In many middle-income countries teachers have fared well—especially in China, Mauritius, Thailand and Uruguay, where governments have actually managed to increase teacher salaries. But in many low-income countries teacher wages have progressively eroded, including in Cambodia, the Central African Republic, Kyrgyzstan, Madagascar, Moldova, Myanmar, Sierra Leone and Zambia. Such countries will find it difficult to maintain teacher morale without higher salaries. Some of these countries also have to sharply increase the number of teachers to achieve the Millennium Development Goal of universal primary education. For such countries, donor assistance to meet recurrent costs is crucial, at least for a limited period.

A final point on increasing financial efficiency involves official development assistance for education. Such aid tends to emphasize equipment, overseas training and technical assistance. Some 60–80% of education assistance is spent in recipient countries, the rest in donor countries—on education and training for developing country nationals and on consultants and instructors from rich countries.[89] This is not the most efficient use of funds. Technical assistance can undermine local institutions, particularly if education authorities end up being overwhelmed by an influx of advisors pushing overly elaborate systems. Between 1994 and 1997 Ethiopia conducted 66 studies on its education system, half sponsored by bilateral aid agencies—to little avail.[90]

ACHIEVING THE HEALTH GOALS

A severe shortage of trend data for many developing countries makes it difficult to appraise the likelihood of achieving the Millennium Development Goal of cutting maternal mortality by three-quarters by 2015. Yet many experts believe that already high maternal mortality—a shameful failure of development—is increasing in many countries. The situation is most urgent in Sub-Saharan Africa, which accounts for half of the developing world's maternal deaths—with 1 of every 100 live births resulting in the mother's death.

Lack of data also precludes assessing progress towards the Goal of reversing the spread of HIV/AIDS by 2015. But progress is possible—as in Brazil, Senegal, Thailand (box 4.6), Uganda and Zambia.

Of the measurable health Goals, the world is farther from achieving the one for child mortality—a two-thirds reduction by 2015—than any other. Here the highest-priority countries are in Sub-Saharan Africa and South Asia. South Asia is making progress, with child mortality falling from 12.6% to around 10.0% during the 1990's. But Sub-Saharan Africa trails far behind: there, 17% of children do not reach age five. At current rates the region will not achieve the Goal for child mortality for almost 150 years.[91]

Scale of the problem

Every day more than 30,000 of the world's children die from preventable causes—dehydration, hunger, disease.[92] In Sierra Leone, an urgent priority country, 18% of children will not see their first birthday.

Every year more than 500,000 women die in pregnancy and childbirth—one every minute of the day. A pregnant woman is 100 times more likely to die in pregnancy and childbirth in Sub Saharan Africa than in a high-income OECD country.[93]

Around the world 42 million people are living with HIV/AIDS. Moreover, the disease has killed the mother or both parents of 13 million children.[94] Tuberculosis is the other leading infectious cause of adult mortality, killing up to 2 million people a year.[95] Malaria kills 1 million people a year, and without effective intervention the number of cases could double in the next 20 years.[96]

Many diseases hurt rural poor people more than city dwellers. For acute respiratory infections, a major child killer, less than half of rural children receive care in most developing regions.[97]

Many of these deaths are readily preventable (box 4.7). Bednets, affordable antibiotics, trained birth attendants and basic hygiene and health education are hardly high-tech solutions. Yet as with education, for broad systemic reasons such solutions remain tragically out of reach for millions of poor people:

- *Limited resources.* Governments do not spend enough on overall health, and they spend even less on basic health.
- *Inequity.* Rural health systems do not have enough staff or enough resources dedicated to women and children.
- *Inefficiency.* Vertical programmes for specific diseases are not integrated with general health systems.

It is here that the links among health, education and income play out most clearly, because it is poor people who lack access to water and sanitation, who cannot afford drugs and who do not receive education about HIV prevention and family planning.

Women are at greater risk than men. Globally, women account for about half of adult HIV/AIDS cases. But among young women the share is far higher and will likely worsen. In many Caribbean countries women account for the majority of new HIV infections. And in many African countries HIV prevalence among 15- to 24-year-olds is up to six times higher for women than for men.[98]

Millennium Development Goals and targets

Goal 4: Reduce child mortality

Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

Goal 5: Improve maternal health

Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

BOX 4.6

Thailand's success in preventing HIV/AIDS

Thailand's response to HIV/AIDS is one of the developing world's few successful prevention programmes. Since peaking in the early 1990s, new HIV infections have dropped by more than 80%. How?

Political will

AIDS was first identified in Thailand in 1984, and in 1987 the government established the National AIDS Prevention and Control Program (NAPCP), chaired by the prime minister. Political will has been complemented by financial commitments: between 1987 and 1991 spending by the government and donors jumped from $684,000 to $10 million. By 1997 government spending on AIDS control programmes was $82 million a year.

Multiplayer collaboration

From patients to private practitioners to Buddhist monks, many participants have worked with the national government to plan and implement AIDS programmes. For example, 150 groups of people with HIV/AIDS provide support and advocacy for other patients. The Thai NGO Coalition on AIDS coordinates the AIDS activities of non-governmental organizations. In an innovative initiative, the government created a programme called Reduce Girls' Vulnerability that provides scholarships to young women for continuing education—aiming to discourage them from becoming prostitutes.

Targeting high-risk groups

In 1989 it was found that 44% of sex workers in Chiang Mai were HIV positive. Instead of denying that prostitution existed, the Thai government focused on reducing male visits to brothels and promoting the use of condoms by sex workers. In 1991 the 100% Condom Use Program was launched, distributing 31 million condoms a year to high-risk groups. Clinics gave away another 600 million condoms a year.

These efforts had dramatic results: between 1988 and 1992 condom use in brothels rose from 14% to 90%. In addition, the average number of men visiting each such establishment dropped from 4.0 to 1.5 a day. As a result HIV prevalence among sex workers fell from 50% in 1991 to less than 10% in 2001.

Education campaigns

A national public information campaign accompanied the 100% Condom Use Program. AIDS information was made available everywhere—from billboards to cereal boxes to televisions, with one-minute AIDS education spots appeared every hour on television and radio. Thus messages helped dispel the stigma associated with having HIV.

Monitoring and evaluation

Three surveillance systems collect information on HIV and sexually transmitted infections. This information is used to track changes in the distribution of new HIV infections and has been used by policy-makers to guide control efforts.

International support

Thailand has received abundant international financial and technical support for its AIDS programmes. The Joint United Nations Programme on AIDS (UNAIDS), for example, has been active in raising funds, evaluating programmes and helping HIV/AIDS patients. Bilateral cooperation includes partnerships with the US Agency for International Development (USAID), European Union and Australian Agency for International Development (AusAID).

Source: Avert.org 2003; Kongsin and others 1998; Forster-Rothbart and others 2002.

Poor women are especially vulnerable to HIV because of their low nutritional status, limited education and employment opportunities and low social status and consequent inability to negotiate safe sex. And once infected, women are more likely to avoid or postpone seeking care because of gender constraints, such as domestic responsibilities and the costs of travel and treatment. Autonomy is also a problem: in South Asia men often decide whether women should seek medical treatment.[99]

Limited resources—and what to do about them

Every high-income OECD country spends at least 5% of its GDP on public health care. But few developing countries achieve that share—and in most it is less than half that. (Costa Rica—a country with no military that is a high performer in health and education—is a rare exception.) In countries with high human development the median public spending on health was 5.2% of GDP in 2000—while in medium human development countries it was 2.7% and in low human development countries, 2.1%. In per capita terms public health spending is very low in most developing countries: in 2000 the median was $1,061 in high human development countries, $194 in medium human development countries—and just $38 in low human development countries (in purchasing power parity terms).[100]

The World Health Organization's Commission on Macroeconomics and Health recommends that donor assistance for health systems in low-income countries be substantially increased, along with domestic financial resources in those countries. The commission estimated that an increase in donor assistance for health to $35 billion a year by 2015 (from $5 billion a year in 2001), if properly invested in high-priority areas (infectious diseases, nutritional deficiencies, maternal complications) and if accompanied by greater health spending by

BOX 4.7

Policy priorities and technical interventions

Goal 4: cutting under-five mortality by two-thirds

Achieving Millennium Development Goal 4—reducing under-five mortality by two-thirds between 1990 and 2015—will require addressing the main causes of child mortality. Technical interventions must focus on malnutrition, infectious and parasitic diseases and immunizations, delivered through a strengthened basic health care system.

Malnutrition. Low birth-weight often leads to child malnutrition and is directly related to the mother's health before and during pregnancy. Expanding access to reproductive health care and ensuring adequate nutrition greatly enhance the health of mothers and their children.

Exclusively breastfeeding infants for the first four to six months of their lives greatly benefits their health. But when a mother is HIV-positive, substitutes for breast milk should be explored. As a first step, countries should immediately adopt into law the International Code of Marketing of Breastmilk Substitutes (promulgated by the World Health Organization and United Nations Children's Fund).

Children's health can suffer enormously from micronutrient (vitamin A, iron, zinc and iodine) deficiency, and can be addressed through supplementation (such as iodization of salt). Vitamin A deficiency can be reduced simply by providing two high-dose vitamin A capsules a year. In countries without functioning health systems, vitamin supplements should be delivered through campaigns akin to mass vaccination campaigns. In 1999 such methods enabled the least developed countries to achieve 80% supplementation coverage.

Infectious and parasitic diseases. In the worst-affected areas under-five mortality from HIV/AIDS is expected to more than double by 2010. In many countries combating HIV/AIDS—and explicitly addressing issues specific to women and children—is a top development priority (see box 4.1). Meanwhile, every year malaria kills more than 400,000 children—making it another priority in many countries.

Although under-five deaths from diarrhoea fell in the 1990s, the disease continues to take a high toll on children. Continued reductions will depend on families' ability to treat diarrhoea at home (increased fluids and continued feeding) and to use health services when needed. Increased access to clean water and sanitation, as discussed in this chapter, will also reduce the incidence of the disease.

Finally, acute respiratory infections account for nearly 20% of child deaths in developing countries, yet most are easily preventable. Data from 42 countries show that only half of children with such infections are taken to health care providers. In West Africa that share falls to one-fifth. As discussed in this chapter, a functioning health system that expands the number of health care providers in underserved areas is crucial to attacking this killer.

Immunizations. After increasing for many years, immunizations in South Asia have stagnated at their 1990 level—and in Sub-Saharan Africa they have dropped. But achieving higher levels is possible, as shown by periodic polio campaigns by national governments. Between 1998 and 2000 the campaign cut new polio cases by 99% through mass public education campaigns and better routine immunizations and surveillance.

Goal 5: reducing maternal mortality by three-quarters

Every year about 500,000 women worldwide die from complications arising from pregnancy and childbirth. Thirty times more suffer injuries, infections and other complications related to pregnancy. To achieve Millennium Development Goal 5—reducing maternal mortality ratios by three-quarters between 1990 and 2015—developing countries must expand access to skilled birth attendants, emergency obstetric services and reproductive health care, bringing these services together within a functioning health and referral system. Countries must also address the broader social issues that inhibit women from seeking health care.

Skilled birth attendants. Skilled birth attendants are present for less than half the births in developing countries. Reducing maternal mortality will require substantially increasing the number of skilled attendants, especially in areas underserved by the health system. Skilled attendants help reduce maternal mortality in two ways. First, by using safe and hygienic techniques during routine deliveries, and referring complicated deliveries to clinics and hospitals. Second, by actively managing third-stage labour—potentially reducing post-partum haemorrhages. This requires specific training beyond the distribution of safe birthing kits. Skilled attendants must be able to recognize the onset of complications, perform essential interventions, start treatment, and supervise the referral of mother and baby for emergency care when necessary.

Emergency obstetric services. Even in the best of circumstances, more than 10% of pregnant women experience potentially fatal complications. To reduce maternal mortality, skilled attendants must be able to refer complicated deliveries to emergency obstetric care. Developing countries are grossly lacking in emergency obstetric care, with more than 80% of deliveries occurring in areas without such facilities. Thus countries must commit themselves to the first UN indicator in this area: having such a facility for every 500,000 people.

Reproductive health care. Increasing access to contraception can significantly reduce maternal deaths simply by reducing the number of times that a woman becomes pregnant—and so the risks from related complications. If the unmet need for contraception were filled and women had only the number of pregnancies at the intervals they wanted, maternal mortality would drop 20–35%. In addition, unsafe abortions—those performed by untrained providers, under unhygienic conditions or both—kill an estimated 78,000 women a year, or about 13% of all maternal deaths. Thus achieving Goal 5 will require rapidly expanding access to reproductive health care.

Goal 6: reversing the spread of HIV/AIDS

In 2002, 3.1 million people died of AIDS. Another 42 million people are infected with HIV/AIDS. One of the most crippling plagues in modern history, AIDS has struck every country, devastating many in Sub-Saharan Africa. Though daunting, the first target of Millennium Development Goal 6—reversing the disease's spread by 2015—can draw on more than 20 years of successful prevention and treatment efforts. Moreover, in 2001 the UN General Assembly adopted an unambiguous declaration on the gravity of the epidemic, highlighting the need for decisive action to guide policy.

In tackling HIV/AIDS, strong leadership is essential to thwart institutional inertia and to address social issues that fuel the epidemic, including stigma, discrimination and unequal power relations between men and women. The proportion of women living with HIV/AIDS has risen steadily, from 41% in 1997 to 50% by the end of 2002. In Southern Africa young women are 4 to 6 times more likely to be HIV-positive than men of the same age group. Prevention and treatment programmes must explicitly address the conditions that make some groups more vulnerable to infection and less likely to seek health care. Strong community leadership, such as through discussions of

Continued on next page

BOX 4.7 (continued)

Policy priorities and technical interventions

behaviours and values that increase the spread of HIV/AIDS, can help generate locally acceptable responses.

Strong leadership is also needed to address disorganized, overwhelmed and grievously underfunded health systems, to promote multisectoral responses to the epidemic, to invest in effective prevention technologies (such as condoms and disposable needles) and to increase capacity through better training of health and community workers. Such efforts are being aided by HIV/AIDS control collaboration among developing countries. Thailand is sharing its expertise with Cambodia, as is Brazil with its neighbours.

In addition, prevention efforts must be intensified to curb the spread of the disease. Though control programmes will differ based on local needs, many effective interventions are available (see box 4.6). Effective prevention has enabled many countries to make remarkable progress in reducing infection rates.

Expanded treatment is also widely supported—most notably by the World Health Organization, which has placed antiretroviral drugs on its essential medicines list and issued guidelines for treatment where resources are limited. But significant constraints to scaling up these programs exist, and the timeline for expanding treatment should be ambitious, yet realistic. Involving diverse groups in planning and implementation has contributed to successful treatment programmes in Brazil, Thailand and Uganda.

Weak health systems severely constrain expanding treatment. Ensuring patient compliance with treatment regimens and monitoring drug resistance will require a larger number of well-trained health professionals, new drug distribution and storage systems and more clinics and laboratories in areas with high infection rates.

Goal 6: reversing the incidence of malaria and other major diseases

Malaria and tuberculosis are among the leading infectious causes of adult mortality, particularly in developing countries. To achieve the second target of Millennium Development Goal 6—reversing the spread of malaria and other major diseases by 2015—every developing country will need to identify and tackle the diseases that cause the most damage to its population.

Malaria. Every year malaria infects 500 million people—nearly 10% of the world's population—and kills more than 1 million. Many researchers fear that the situation could get even worse due to environmental change, civil unrest, population growth, widespread travel and increasing drug and insecticide resistance. But new approaches to malaria control have emerged, and growing international awareness has boosted resources for research and control activities. Still, reversing malaria's spread will require sustained political and financial commitments to scale up successful programmes and to invest in research that could dramatically enhance these efforts.

Because the distribution of malaria cases differs markedly across regions, control programmes must be tailored to local needs. A variety of interventions can be incorporated into local strategies:

- Distributing insecticide-treated nets to people in high-risk areas and ensuring that the nets are retreated each year.
- Training community health workers to diagnose and treat malaria by providing simple diagnostic tools and prepackaged treatment regimens.
- Ensuring that infants and pregnant women receive preventive treatment as part of routine immunizations and antenatal care (though the latter assumes a functional health system).
- Providing antimalarial drugs in combination to decrease the likelihood of resistant parasites.
- Using new techniques to facilitate service delivery by mapping the distribution of populations, health facilities and transport networks. Tools are also available to forecast malaria epidemics—making control efforts in epidemic-prone areas more timely and effective.
- There is also an urgent need to increase research for new drugs and vaccines, because resistance to current treatments undermines their efficacy. Public-private partnerships, such as the Medicines for Malaria Venture, have combined scientists, financial resources and managerial capabilities to accelerate the development of new drugs. Finally, health system capacity must be significantly increased to ensure that existing and emerging treatments are delivered effectively.

Tuberculosis. Fifty years after the introduction of effective chemotherapy, tuberculosis still kills nearly 2 million people a year—making it, along with AIDS, the leading infectious killer of adults worldwide. And its toll is rising. Between 1997 and 1999 the number of new tuberculosis cases rose from 8.0 to 8.4 million. If this trend continues, tuberculosis will still be among the leading causes of adult mortality beyond 2015.

But reversing these trends is possible. The Stop TB partnership, formed in 2000, has made remarkable strides in formulating a plan, complete with financial requirements, to achieve international targets for halting the spread of tuberculosis. This framework calls for expanding, adapting and improving directly observed therapy short-course (DOTS)—a remarkably effective programme in which health workers, while supervising treatment regimens, form close bonds with their patients.

Expanding such therapy requires strengthening tuberculosis control programmes, as well as the overall health system, in four ways:

- Increasing political support to expand DOTS.
- Increasing financial support to expand DOTS.
- Improving health system capacity to expand DOTS.
- Procuring sustainable supplies of quality drugs to expand DOTS.

Adapting DOTS to meet the challenges of drug resistance will involve moving towards "DOTS plus"—the cornerstone of managing multidrug-resistant tuberculosis, which requires strict supervision of therapy regimens. In Russia the incidence of tuberculosis rose by more than 300% between 1990 and 1996, with a substantial proportion of the cases drug resistant. There is an urgent need for clinical, epidemiological and operational research to define the most effective approaches for implementing DOTS plus.

The growing number of tuberculosis cases, combined with HIV/AIDS, places an immense burden on tuberculosis control activities—a burden exacerbated by shortages of trained health personnel, laboratory resources and drug supplies. Establishing joint tuberculosis-HIV/AIDS programmes would address overlaps between the epidemics. But it would also require substantial reconfiguration of and increased outreach between country and community agencies.

Finally, DOTS could be improved by increasing research on:

- New diagnostic tools to detect active tuberculosis cases more quickly, easily and accurately.
- Better drugs to simplify treatment regimens and improve responses to multidrug-resistant tuberculosis and latent infections.
- A better vaccine.

One step towards improving DOTS has been the formation of the Global Alliance for Tuberculosis Drug Development, which will advance such research.

Source: Millennium Project Task Force 5 2003a, p. 2; Millennium Project Task Force 4 2003; Weiss 2002; WHO 2003.998; Forster-Rothbart and others 2002.

the countries themselves, would avert 8 million deaths a year, with economic benefits on the order of $360 billion a year.

Most developing countries implementing economic stabilization or adjustment programmes have no way of expanding health spending without increasing revenues from other sources. Heavily indebted poor countries in particular do not have the fiscal space to increase social spending. Yet basic services account for less than half of public spending on education and health in such countries.[101] (The private sector's role in health care is described in chapter 5.)

What can governments do in the face of severe fiscal constraints? One source of extra funds is official development assistance, and for health such assistance has been rising—with commitments averaging $3.6 billion a year in 1999–2001, up from $3.3 billion a year in 1996–98. Still, official development assistance for health is equal to just $0.01 of every $100 of donor countries' GNP—too little to meet even the basic health needs of developing countries.

In 1996–98 multilateral institutions provided an average of $872 million a year in health-related official development assistance, though in 1999–2001 that fell to $673 million a year.[102] But commitments for basic health were $264 million a year in 1996–98 and stayed at much the same level ($249 million a year) in 1999–2001.

At the end of the 1990s, 37% of health aid from members of the OECD's Development Assistance Committee went to basic health, 23% to general health and the rest to reproductive health (figure 4.4). Thus, unlike for education, official development assistance for health is focused on basic services—good for the Goals. In the 1990s official development assistance for reproductive health rose from $572 million to $897 million a year.[103]

Inequity—and what to do about it

How should small health budgets be shared among services and users? This is a key issue for equity, because today poor people lose out. A recent survey of developing countries found that in every case the poorest 20% of the population receives less than 20% of the benefits from public health spending. They also receive less than the richest 20% (which in many countries includes a large portion of the middle class).[104]

But spending on basic health care is shared more equitably than total health spending. In some countries poor people make disproportionate use of primary health facilities. In Kenya the poorest 20% receive 22% of government spending on primary health care, compared with 14% of total health spending. In Chile—a high performer in health—the poorest 20% receive 30% of spending on primary health care. And in Costa Rica, another high performer, the poorest 20% receive 43%.[105] Thus, if poor people are to benefit, more resources must go to primary health care.

More egalitarian spending is strongly reflected in health outcomes. In countries where fewer than 70 of 1,000 children die before age five, the poorest 20% receive more than 25% of public spending on primary health care—while in countries with child mortality rates above 140, the poorest 20% get less than 15%. Moreover, in countries with high child mortality rates, the poorest 20% account for less than 10% of hospital use—the richest 20%, around 40%.[106]

When resources are limited, less developed rural areas bear the brunt of shortages in medical personnel. Moreover, efforts to deploy medical personnel in underserved areas are usually unsuccessful. In Cambodia 85% of people live in rural areas but only 13% of government health staff are located there, while in Angola 65% of the population is rural but just 15% of government health professionals work in those areas.[107] In Nepal only 20% of rural physician posts are filled, compared with 96% in urban areas.[108]

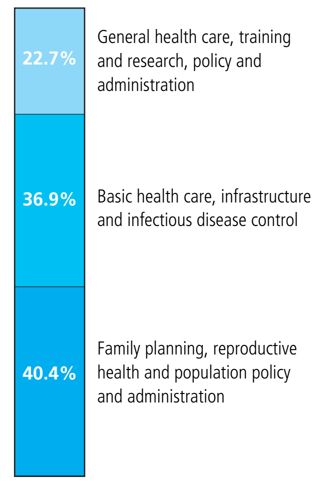
Several measures can be taken to redress imbalances in health care coverage:

- *Increase the number of nurses, paramedics and community health workers.* Nurses, trained birth attendants and community health workers are the limbs of the health system, enabling the outreach that is critical to successful reproductive health services. For example, high-achieving countries—those where life expectancy is high and under-five mortality is low relative to the average for developing countries—tend to have more nurses per doctor. Compare

FIGURE 4.4

A large share of aid for health goes to basic services

Aid for health from Development Assistance Committee members



Source: OECD, Development Assistance Committee 2003a.

Zimbabwe (9.5 nurses per doctor in 1990) and Thailand (4 in 1990) with India (1.5 in the late 1980s) and Bangladesh (1 in 1990). More recent data confirm this observation.[109]

- Use service contracts to require medical personnel to spend a certain number of years in public service. Such contracts, common in Latin America, have also been implemented in the Philippines and Tanzania. In the 1970s Malaysia, another high performer, required all holders of medical degrees to work three years for the government health service—enabling the government to post doctors to rural areas they had previously avoided. In addition, policies ensured that the poorest groups received a larger share of public health spending than the middle and upper classes.[110]
- Have donors fund some recurrent costs. The World Health Organization has recommended a package of essential health services for developing countries, including public health and clinical interventions. But this package cannot be provided without more staff, so donors should cover some recurrent staff costs.

Inefficiency—and what to do about it

Unless the performance of health systems improves, any extra funds could be wasted.

BOX 4.8

Integrating vertical programmes into working health systems

Where disease specific programmes are integrated into a working health structure, their likelihood of success is high, as India's tuberculosis programme demonstrates. More than 200,000 health workers have been trained. Some 436 million people (more than 40% of the population) have access to services. And 200,000 deaths have been prevented, with indirect savings of more than $400 million—more than eight times the cost of programme implementation.

Using the strategy of directly observed therapy short-course (DOTS), India's programme uses the existing health structure but supplements its activities with additional resources, staff and drugs, with diagnosis and treatment free of charge to patients. Once a decision is made to start a programme in a district, the health administration forms a society, which hires staff for a tuberculosis unit—covering 500,000 people. The state government trains the doctors and hires the lab technicians. Policy direction, drugs and microscopes are provided by the central government, with financial assistance from the World Bank and bilateral donors.

There are several levels of support, monitoring and supervision. Staff from the government and World Health Organization (WHO) make site visits. WHO-hired consultants, with mobile phones and Internet access, provide support to tuberculosis units. The government provides detailed feedback each quarter on the performance of each state and district.

Source: Khatri and Frieden 2002, pp. 1420–25.

Focusing on essential interventions

Cash-strapped governments have traditionally tried to ration health care by limiting overall budgets—not directing resources to specific illnesses or diseases. A different approach would be to ration funds based on essential interventions. Mexico has taken this approach, and Bangladesh, Colombia and Zambia are beginning to.[111]

Taking an integrated approach

The smallpox and malaria eradication campaigns of the 1960s started a trend towards donor-driven, disease-specific vertical programmes imposed on developing country health systems. Since the 1980s—with the launch of myriad structural adjustment programmes and especially since the World Health Organization–United Nations Children's Fund campaign promoting universal immunization of children (1985–90)—donors have tilted the balance even more towards such efforts. And with the increasing prevalence of tuberculosis, malaria and HIV/AIDS, this trend has been further reinforced.

Such programmes have risks. Resources are concentrated in these areas at the expense of the overall health system. Public health care efforts outside of such vertical structures may be gutted. And even vertical programmes, expensive to maintain, may be threatened if donor funds disappear. Vertical programmes may be affordable and prudent only for diseases that offer a reasonable possibility of eradication in a foreseeable period.

Disease-specific programmes should be integrated with overall health structures, as India's successful tuberculosis programme shows (box 4.8). But maternal and child health services are also crying out for integration: in many countries primary health care has focused on family planning to the exclusion of maternal and child health services. To avert more maternal deaths, care during pregnancy and especially during childbirth must be linked to reliable systems that ensure the availability of advanced treatment in cases of obstetrical emergencies.

BOX 4.9

Ensuring essential medicines for all—success in Bhutan

Bhutan, a small landlocked Asian kingdom, shows how a coherent national drug policy—backed by concerted international assistance—can achieve impressive results in providing essential medicines. Until 1986 public drug supplies in Bhutan were in disarray, with poor availability, erratic quality, irrational prescriptions and high costs. Then the country embarked on an essential drugs programme with extensive technical and financial assistance from the World Health Organization and donor countries. In 1987 a comprehensive national drug policy and enabling legislation were adopted. Key components of the programme include:

- National procurement and distribution facilities.
- Quality assurance through careful supplier selection and product testing.
- More rational prescriptions through the creation of standard treatment guides and better training and supervision of pharmacy technicians.
- Reduced waste and increased efficiency through workshops for storekeepers on proper drug storage and management.
- Free public provision of essential drugs and vaccines.

Since 1993 the programme has been operated by Bhutanese staff, with minimal assistance from international experts. Results include:

- Access to high-quality essential drugs for more than 90% of the population, with 90% of core essential drugs available.
- Reduced errors in medication bookkeeping, from 76% in 1989 to 14% in 1997.
- Reduced waste, with only 0.75% of the drug budget spent on drugs that expire before their use.
- Much lower prices paid by the essential drugs programme (which procures 85–90% of drugs), falling to about half of average international prices.

Source: Stapleton 2000, p. 2.

Providing essential drugs in clinics to attract patients

Grossly inadequate drug supplies are one reason public health systems become dysfunctional. When patients do not receive therapeutic drugs, they have little incentive to seek public health care. This kills the demand for medical services, causing medical professionals and paramedics to skip work.

In India public health facilities in four southern states—Andhra Pradesh, Karnataka, Kerala, Tamil Nadu—function better because drugs are distributed through the primary health care network, giving patients a reason to visit the facilities. In other countries providing essential drugs through decentralized facilities could help revive primary health systems. Providing curative services would also expand the coverage of preventive services.

In countries with high human development almost the entire population has access to essential drugs. In countries with medium human development there is a huge range: in China 80–94% of the population has access (depending on the region), in India 0–49%. Most countries with low human development have low access (defined by the World Health Organization as 50–79%). Bhutan is a low human development country but has succeeded in providing essential medicines for 80–94% of its population (box 4.9).

Many low-income countries will require concessional donor financing to provide essential drugs. High-performing countries have provided essential drugs at public health centres—stimulating local demand for other services from these centres. Increasing beneficiary interest in the public health system also improves supervision of public health workers through community monitoring.

ACHIEVING THE WATER AND SANITATION GOALS

Access to safe water and adequate sanitation is crucial for survival. Water is essential for the environment, food security and sustainable development. And adequate sanitation can also make the difference between life and death.

Scale of the problem

In 2000 at least 1.1 billion of the world's people—about one in five—did not have access to safe water.[112] Twice as many (2.4 billion people) lacked access to improved sanitation.[113] Asia contains

Millennium Development Goals and targets

Goal 7: Ensure environmental sustainability

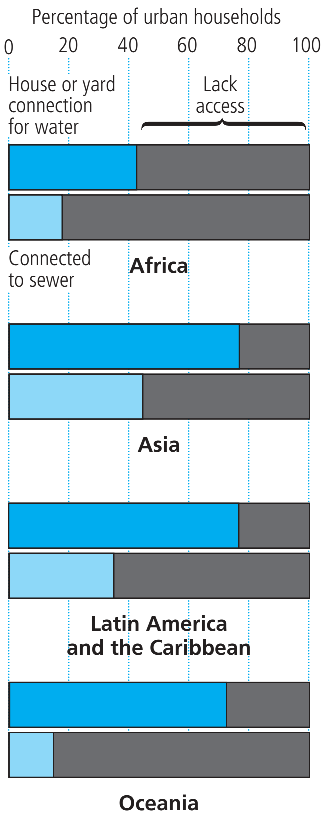
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources

Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water

Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

FIGURE 4.5

Many urban households lack water and sanitation



Source: WHO, UNICEF and WSSCC 2000.

65% of the population without safe water, and Africa 28%. For sanitation Asia contains 80% of the unserved population, and Africa 13%.[114]

There were some positive developments during the 1990s: about 438 million people in developing countries gained access to safe water, and about 542 million in urban areas gained access to proper sanitation.[115] But due to rapid population growth, the number of urban dwellers lacking access to safe water increased by nearly 62 million.[116]

In the major cities of Europe and North America more than 90% of households are connected to piped water and sewers. But in the rest of the world the situation is very different. If adequate sanitation is taken to mean a toilet connected to a sewer, there is a significant lack of adequate sanitation throughout the developing world—even in large cities. And sanitation coverage is much worse than water coverage in every region (figure 4.5).

In the 1990s the number of children killed by diarrhoea—the result of unsafe water and sanitation—exceeded the number of people killed in armed conflicts since the Second World War.[117] Moreover, half the world's hospital beds are occupied by patients with water-borne diseases, meaning that expensive curative services are being used to treat diseases that could easily have been prevented.

In South Asia only 37% of the population has access to adequate sanitation. Some 1.4 million of the region's people still either defecate in open areas or use unsanitary bucket latrines.[118] In Sub-Saharan Africa the more pressing problem is safe water, available to just 57% of the population[119]—an average masking huge gaps between urban and rural areas.[120]

Rural poor people suffer more from a lack of safe water because they generally rely on land and water resources to sustain their livelihoods. Urban poor people suffer more from inadequate sanitation, made worse by overcrowding in cities.

As with the other Millennium Development Goals, increasing access to safe water and sanitation also requires addressing gender inequities. African women and girls spend three hours a day fetching water, expending more than a third of their caloric intake. Such household chores keep many girls out of school—and if they attend school, the energy they use performing household chores seriously undermines their school performance. Moreover, when other family members become sick, often due to water- or sanitation-related diseases, girls are more likely to be kept home to care for them. And when water is needed in schools, girls are sent to fetch it, reducing their time for study and play.

The policy priorities for achieving the water and sanitation Goals involve:

- *Increasing resources.* Low-cost technologies are available to increase household and community access to safe water and sanitation. But for cash-strapped governments, wastewater treatment infrastructure is extremely expensive to install and maintain.
- *Increasing equity.* Poor people often cannot afford water and sanitation costs because wealthier users are not paying enough. And in poor households girls and women suffer more from difficult access to water and sanitation.
- *Increasing appropriate maintenance.* Too often, water and sanitation delivery systems are poorly maintained by governments and do not respond to local needs.
- *Limiting environmental damage.* Sustainable water supplies require rational water use—especially in agriculture.

Appropriate technologies for efficient use

In water supply low-tech, low-cost technologies include household connections, public standpipes, boreholes, rainwater collection and protected springs and wells. These technologies are far better than alternatives such as bottled water, tanker truck provision of water and unprotected springs and wells. Some of these alternatives are unsafe, while others are inappropriate because they cannot be secured in sufficient quantities.

In sanitation there is a pressing need to provide technologies that people want to use, because decisions about sanitation are made at the household level. Households do not need to be convinced about the merits of a well or a standpipe. But they may need to be sold on the merits of onsite sanitation, as well as given adequate hygiene education. The best way to do so is through products that match consumer demand in both price and quality (box 4.10). Appropriate technologies include pour-flush latrines, simple pit latrines, ventilated pit latrines and connections to septic tanks or covered public sewers. In rural areas waste disposal through composting is sometimes appropriate.

Such technologies are affordable to and can be easily maintained by poor communities. In the past governments often took a top-down approach, installing hand pumps, tube wells and even ventilated pit latrines regardless of whether there was demand for them. As a result communities generally neglected maintenance or relied on the government to perform it. But when communities—especially women—are involved in providing and financing facilities and trained to maintain them, ownership and sustainability increase.

Many city governments are reluctant to invest in basic sanitation without addressing the broader challenges of drainage and solid waste disposal. In developing countries very little urban wastewater is treated before being returned to the environment. But treating wastewater is much more expensive than simply providing access to safe water and household sanitation. Thus research is needed on feasible, affordable approaches to the full range of sanitation services.

It may also be necessary to accept an increase in environmental pollution as a first step towards improving sanitation. In Europe and North America, for example, improved household sanitation initially came at the cost of polluting rivers and waterways.

BOX 4.10

Affordable sanitation in India

Much defecation in India still occurs in open spaces. But pioneering work by Sulabh International, a non-governmental organization (NGO), has shown that human waste can be disposed of affordably and in a socially acceptable way. Sulabh's approach is based on partnerships with local governments, backed by community participation, and has substantially improved environmental quality in rural and urban slums inhabited by poor people.

Sulabh's solution is a low-cost, pour-flush water-seal toilet with leach pits for on-site disposal of human waste. The technology is affordable for poor people because designs suit different income levels. Flushing requires only 2 litres of water, compared with the 10 used by other toilets. Moreover, the system is never out of commission because there are two pits—so one can always be used while the other is being cleaned. The latrine can be built with locally available materials and is easy to maintain. It also has high potential for upgrading because it can easily be connected to a sewer system when one is introduced in the area.

Since 1970 more than 1 million of the units have been constructed in houses. In addition, 5,500 have been installed in pay-and-use public toilets, staffed by an attendant around the clock who supplies soap for washing hands.The public toilets include facilities for bathing and doing laundry and offer free services to children and disabled and poor people. As a result more than 10 million people have received improved, low-cost sanitation, and 50,000 jobs have been created.

Sulabh's door-to-door campaigns also provide free health education to millions of people. The organization trains local people to construct more latrines themselves, and has helped set up and maintain fee-based community toilets in slums and other areas.

Source: WSSCC 2002, 2003.

Limited resources—and what to do about them

In developing countries the domestic public sector finances 65–70% of water infrastructure, donors 10–15%, international private companies 10–15% and the domestic private sector 5%.[121] In 90% of developing countries water and sanitation services are provided by the public sector. Funding comes from users who pay bills to local authorities—the usual suppliers of services—but cost recovery usually covers only part of the capital and recurrent costs of water infrastructure and services. The financing gap is covered by tax revenue and donor funding. With political commitment and money, access to safe water can be increased—as South Africa showed in the 1990s (box 4.11).

Many developing countries struggle to pay for water and sanitation infrastructure, with funding from the cash flows of water services especially precarious.[122] Inappropriate charges are a big problem. Yet in the absence of core infrastructure, household plumbing and sanitation cannot advance. And without trunk sewerage and treatment plants, wastewater typically flows into open streams and drainage channels—posing health risks and damaging the environment.

International private investment in water services has declined after peaking in 1996–99, apparently because returns are too low.[123] Moreover, water projects require larger initial investments than electricity, telecommunications and natural gas. Currency devaluations—as in the recent economic crisis in Argentina—are another disincentive.

In the 1990s an average of $3 billion a year in official development assistance was allocated

BOX 4.11

South Africa and the "right" to water

In 1994, as a new democratic government came to power, more than 15 million South Africans lacked access to 25 litres of clean water a day within 200 meters of their homes. By 2001 that number dropped to 7 million. How?

- Top-level political support has been essential. South Africa's constitution guarantees—as a human right—access to a basic water supply and an environment not harmful to health. As a result a policy ensuring free basic water was recently adopted, providing each household with the first 6,000 litres of water each month free of charge.
- Clear laws and regulations have clarified the roles of water authorities and service providers. In addition, national standards and similar legislation have helped regulate water quality and tariff structures.
- An extensive capital works programme was quickly pursued by the new government to address areas in greatest need. This programme benefited from substantial government funding and from the support of various actors, including non-governmental organizations, private companies and community groups.
- Devolution of responsibilities to local governments gives local authorities more control over projects, allowing them to be better tailored to local needs.

Despite these achievements, South Africa still faces obstacles to sustaining and expanding access to basic water supplies. Continued political and financial commitments will be necessary to ensure continued success. The viability of the free basic water policy, for example, largely depends on government revenue—as well as the number of wealthy households available to cross-subsidize poorer households. In addition, mixed experiences with private sector participation have left uncertain the extent of its role in future service provision.

Source: Millennium Project Task Force 2003; WSP 2002b.

to water and sanitation projects. In 1996–98 such funding was $3.5 billion a year, but in 1999–2001 it fell to $3.1 billion a year. The share of water and sanitation in total official development assistance remained relatively stable in the 1990s, at 6% of bilateral and 4–5% of multilateral aid. Non-concessional lending, mainly by the World Bank, added $1.0–1.5 billion a year. Japan made by far the most significant commitments.[124]

Water supply and sanitation accounted for three-quarters of aid to the water sector in 1997–2001. Most aid to water supply and sanitation goes for large systems.[125] The number of projects drawing on low-cost technologies offering the best prospects of increased coverage for poor people—hand pumps, gravity-fed systems, rainwater collection, latrines—is very small.[126] Thus the composition of aid for water and sanitation has to change. Ten countries accounted for half of the official development assistance for water, and just one donor—Japan—provides one-third of such aid.[127] Worse, only 12% of official development assistance for water went to countries where less than 60% of the population has access to safe water.[128]

Inequity—and what to do about it

To fill part of the financing gap to meet the Goals for water and sanitation, costs must be reduced and revenues from users increased. To reduce costs, local authorities have to improve management—for which there should be more donor support and exchanges among developing countries.

In terms of revenues, local authorities commonly do not include capital costs in their cost recovery policies—and only partly recover recurrent costs. It has been suggested that "for the water and sanitation sector, full cost recovery from users is the ideal long-term aim".[129] Under such a strategy urban users would pay full costs for investments, while peri-urban and rural users would not contribute to capital costs. For operation and maintenance costs urban users would pay full costs, peri-urban users would do so where possible and rural users would pay partial recurrent costs.

But such an approach would be unfair. Since the social benefits of safe water and adequate sanitation far exceed the costs, there is a strong case for a pricing policy that reflects the wider benefits to all from, say, reducing the incidence of diarrhoea. This implies that those with direct household connections should be paying full cost. Today they are the ones paying below cost—and receiving the greatest subsidies. Charging them full cost would generate resources for the sector and make it possible to cross-subsidize those lacking improved water or sanitation or having a lower ability to pay. Such cross-subsidies would also be possible if higher rates were charged to industrial and agricultural users.

Depending on poverty levels in peri-urban and rural areas, there should be only partial cost recovery of recurrent costs. In many areas poor people currently pay exorbitant prices to water vendors. Some form of cost recovery is often desirable, less to generate resources than to ensure efficient use. Communities should be encouraged to provide labour to ensure rapid installation of hand pumps and public toilets.

How difficult is it for poor people to cover the costs of water and sanitation infrastructure? Consider an example from Bolivia and some cost estimates for water and sanitation from a project in El Alto:

- *Average monthly income:* $122 ($0.80 a day per capita).
- *Connection costs:* $229 for traditional water, $276 for sanitation (excluding trunk infrastructure).
- *Connection costs for condominial technology with community participation:* $139 for water, $172 for sanitation.[130]

An important additional cost for poor households is the construction of a bathroom or similar in-house facility, including a toilet. In El Alto these costs averaged $400, plus 16 days of labour. These costs are typically not factored into costing exercises for water and sanitation. Even with microfinance available the costs were too high for most poor people. But with hygiene education, the demand for toilets more than doubled.

Where poor people struggle to cover charges, they should be helped through credit schemes. Bangladesh's Grameen Bank has been extending credit for water and sanitation, on a group basis, for years.

Women face more problems of workload, privacy, safety and hygiene than boys and men—and so are more interested in sanitation improvements. But they often have fewer resources, so it is important to persuade men that sanitation improvements are worth it. The improvements should also be financially affordable for female-headed households, which often have less money and fewer labour resources than households with a man and a woman. Since women are more likely to know what designs and locations are suitable for use by women and children, men and women should share information and decisions.

Women also prove more reliable in maintaining equipment, such as hand pumps—partly because they are commonly responsible for fetching water for the family. Thus they should be encouraged to train as masons and plumbers, because they would feel more comfortable showing another woman where to locate a latrine in a home than showing a man. And with a job in maintenance, they are less likely to move from the community in search of work elsewhere.

Within the social services, particularly health and education, resource allocations have tended to be biased against basic health services and basic education

CROSS-CUTTING PRIORITIES

The discussion so far has focused on sectoral policy priorities. Here the focus shifts to policy priorities that cut across the Goals for all groups of countries.

Increasing the level, efficiency and equity of public spending on basic services

In most rich countries the government accounts for more than 40% of GDP—in most developing countries, less than 20%. With development the size of government is expected to rise. The enormous challenges of reducing hunger, preventing deaths and spreading literacy require a big increase in public spending.

But it is difficult to drive through multisectoral action in low-income countries, where tax revenues typically account for less than 15% of GDP. And achieving the Millennium Development Goals will require significant additional resources not likely to be generated by the economic growth of poor countries alone (see chapter 3). Their fiscal resources are squeezed by debt repayments (see chapters 3 and 8). And the allocation of what is left over is skewed too much towards defence (see box 4.5). Not enough goes for agriculture—less than 5% of budgets in Africa—or for health and education.

Within the social services, particularly health and education, resource allocations have tended to be biased against basic health services and basic education. But the capacity of governments to reallocate spending to basic services to meet the Millennium Development Goals depends partly on shifting spending away from defence and debt servicing, partly on generating more domestic revenues. Things become a lot easier if government revenues are increasing, because discretionary spending on each individual can rise.

The problem facing many developing country governments is that large budget deficits have forced them to undertake macroeconomic stabilization and adjustment. But since the early 1980s adjustment policies have focused on reducing public spending—rather than mobilizing

If public spending is stagnant or falling, it is next to impossible politically for governments to shift funds to social services—particularly to basic social services—without incurring the wrath of those better off

tax and non-tax revenues—to reduce the deficits. In a recent external review of International Monetary Fund (IMF) Extended Structural Adjustment Facility programmes, a group of independent experts concluded that public spending limits have often been set too tight, with detrimental effects on human capital and growth. This was again the case in the policy conditions laid down in the IMF's response to the East Asian economic crisis that started in 1997—conditions relaxed somewhat only after widespread criticism of the IMF on this and other counts.[131]

Another recent study shows that, for all of more than a dozen countries, real per capita public spending on basic social services (basic health, basic education and water and sanitation) declined only when public spending fell as a proportion of GDP.[132] In other words, if public spending is stagnant or falling, it is next to impossible politically for governments to shift funds to social services—particularly to basic social services—without incurring the wrath of those better off.

Much more could be done to strengthen tax collection to prevent tax evasion and tax avoidance. And much more could be done to enhance the tax base, by enlarging the tax net to catch those now escaping it. International financial institutions need to take much more seriously the technical support requirements of most developing countries in tax administration and collection, especially those in Sub-Saharan Africa and Latin America.

The prospects for enhancing the efficiency of spending (by increasing the availability of textbooks in schools, of drugs in public health clinics and so on) and improving the equity of spending on social services would be much brighter if spending was to increase. As noted, health spending—even in countries with stagnating incomes—strongly affects health outcomes. The same goes for education spending: it improves outcomes.[133]

Improving the quantity and quality of aid for basic services

Reaching the Goals requires true adherence to the Millennium Development Compact. For the poorest low-income countries a significant proportion of the additional resources needed for social investments will have to come from external sources. For heavily indebted poor countries, from debt cancellation—and much more than so far. And for all low-income countries, from enhanced official development assistance.

How has official development assistance responded? The total share devoted to basic social services (basic health, basic education and water and sanitation) has rarely surpassed 10%, despite an increase in bilateral flows in the new decade. The multilateral contribution has accounted for a third of official development assistance, including UN agencies, the World Bank and regional banks. Official development assistance for small water and sanitation projects in rural areas and for basic education are insufficient.

Official development assistance for basic services must increase. Donors worried about the fungibility of recipient government resources should bear in mind that even if governments shift resources partially to other sectors, they still increase public spending.[134]

Improving sectorwide programmes

Moving from project-oriented to sectorwide approaches is an important step forward. A sectorwide approach avoids the weaknesses of the project approach: weak links to other sectors, geographic isolation, lack of ownership and aid conditionality. It is also supposed to build an integrated programme that sets out policy objectives, a comprehensive policy framework, an investment plan, a spending plan and funding commitments for governments and donors.

The idea is that sectorwide programmes should become part of the overall policy environment—rather than bypassing national structures, as project funding does. They could also ensure clear financing commitments from donors, an improvement over unpredictable aid flows to particular projects. Though a complex exercise, because they presuppose homegrown and effective sector policies, at least they involve recipients.

The sectoral approach has had problems, however, and in many cases resource pooling has not yet occurred. First, the approach takes years to develop and finalize. It has been estimated that a sectoral approach planning cycle takes an average of five to seven years.

Second, technical cooperation (with expatriate technical personnel), which tends to dominate the project approach, remains a lingering problem with sectoral programmes. It would be useful to evaluate the opportunity costs of time and funds used for donor-financed training.

Third, donors' differing legislative constraints on spending, rigid and different procedures for resource allocation and reporting needs and weak capacity in recipient countries prevent actions from being fully harmonized. The government cannot be in the driver's seat if donor project implementation units continue to exist over which the line ministry has little control.

In Zambia donors have agreed to release the second tranche of their aid only if the government has spent at least 20% of its budget on education.[135] In addition, all the external agencies involved have linked their financial flows to specific programmes. Indeed, earmarking funds for specific elements of sectorwide approaches is widespread, often depending on donor perceptions of local political leadership and commitment in specific areas.

Donors recognize some of these problems. The February 2003 Rome Declaration on Harmonization calls for donors to commit to "providing budget, sector, or balance of payments support where it is consistent with the mandate of the donor, and when appropriate policy and fiduciary arrangements are in place".[136]

Covering some recurrent spending

Most donors have been willing to finance investment costs (building hospitals) but unwilling to finance recurrent costs (doctor salaries). This attitude is changing—but if the Goals are to be met, donors will have to more flexible than in the past in this area. Governments are often unable to absorb multilateral resources for capital costs if, as is often required, they have to show they can match these capital expenditures with funds to meet the running costs of the resulting infrastructure.

In the interim donors will need to cover some recurrent costs, especially for non-salary purposes in areas related to the Goals for heavily indebted poor countries—as long as these countries have raised some revenue from domestic sources. In cases where fiscal constraints are very severe, donors may need to show a willingness to accommodate even the salary costs of school teachers, paramedics or trained birth attendants for a transitional period until the fiscal space can be created for the government to bear those recurrent costs domestically on a sustainable basis.

For some sectors the lack of research funding is a serious problem

Devoting research and development to technologies for poor people

For some sectors the lack of research funding is a serious problem. For instance, 90% of global research for pharmaceutical drugs goes to diseases that account for 10% of the disease burden in developing countries. Thus international efforts need to be mobilized to address the need for drugs for tropical diseases. One clear case is the rapid development and testing of a vaccine for HIV/AIDS. The International AIDS Vaccine Initiative is making long strides in this area, trying to develop vaccines specific to the strains of the AIDS virus prevalent in different parts of the developing world. Vaccine trials are expected to begin soon in Uganda on the strain in that part of Africa—and in 2004 in India. But many other areas of research remain neglected.

In many other areas relevant to achieving the Goals, the solution is to diffuse existing technologies. Agricultural output in Sub-Saharan Africa, for instance, has been bedevilled by low productivity, even though high-yielding varieties are available for maize, rice and wheat. Nor have high-yielding varieties been developed for the grains consumed most by poor people, such as sorghum and millet. Part of the problem is the low commercial availability and high prices of inorganic fertilizer. Another is the limited use of organic fertilizer, despite the ease of making it from local resources. Using organic fertilizer would raise productivity and promote environmentally sustainable farming in a region where environmental degradation has been reducing already low agricultural yields.

Another example is the lack of diffusion of impregnated (or even ordinary) bednets to control malaria. Similarly, slow deaths from indoor pollution caused by smoke from cooking fires can easily be prevented by going to scale with the commercial production of smokeless ovens. Clearly, what such commercial production requires is appropriate subsidies, reinforced by a communication strategy to reach poor people in remote areas. The Sulabh latrine can promote environmental sanitation in most densely populated urban areas. But to do so, it must be adopted by international agencies as a model for widespread promotion in developing countries.

CHAPTER 5

Private finance and provision of health, education and water

For a number of reasons governments often finance and provide basic social services—basic health care, primary education, water and sanitation. One reason is that because such services are public goods, their market prices alone would not capture their intrinsic value and social benefits. Basic education benefits not only the individual who gains knowledge, it also benefits all members of society by improving health and hygiene behaviour and raising worker productivity.

A second reason for public financing is to ensure that basic social services are available equitably. Poor people usually lack these services, and if they have to pay for them they may not use them—making it difficult to escape poverty.

In addition, the state often plays a dominant role in the provision of these services. Provision by many suppliers (public or private) can result in duplication and higher costs. Moreover, access to basic social services is a fundamental human right—enshrined in the UN Covenant on Economic, Social and Cultural Rights—and governments have an obligation to ensure that these services are provided to their people. Government commitments to the UN Millennium Declaration and Millennium Development Goals reflect this obligation.

But public provision of social services is not always the best solution when institutions are weak and accountability for the use of public resources is low—often the case in developing countries. (Chapter 7 describes how to make governments more accountable in the use of public resources for social services.)

In rich countries private providers dominated health, education and water services in the first half of the 19th century. But these services were limited. In the second half of the century public financing and provision became dominant. Indeed, only when governments intervened did these services become universal in Canada, Western Europe and the United States—in the last quarter of the 19th and first half of the 20th centuries.

In poor countries private health providers and schools coexisted with a growing public sector in the first few decades after the Second World War. But in the 1980s and especially the 1990s, private provision began to increase rapidly. As loss-making state-owned enterprises were privatized in productive sectors—in both industry and services—the same trend was encouraged in social services.

The experiences of rich countries suggest that the sequence for social services should be comprehensive provision by the state early on, followed by more targeted interventions and then public-private partnerships to serve different markets—depending on the nature of services in different sectors.

Only when governments intervened did health, education and water services become universal in Canada, Western Europe and the United States

Why has private provision increased in poor countries?

In developing countries the private sector's growing role in health and education, and the push to privatize water and hospital services, have been driven by three factors: lack of government resources, low-quality public provision and pressure to liberalize the economy.

Lack of government resources

Strapped for cash—whether domestic resources or foreign aid—many governments of poor countries cannot provide social services effectively or fund large investments in infrastructure. Privatization is often pursued with a view towards obtaining revenue, but the biggest returns to government come from eliminating subsidies to loss-making public enterprises.

In some cases, such as domestic water and sanitation (and irrigation water and energy), insufficient government funds have been compounded by distorted tariff structures. Under state ownership tariffs are often too low to recoup costs, and user failures to pay tariffs are often overlooked. This approach essentially subsidizes rich people—while poor people suffer from lack of access. Moreover, as urban populations increase, fiscally strapped local authorities cannot expand services to cover them. As a result water services decline in quantity and quality in middle-class neighbourhoods—and fail to reach new poor neighbourhoods.

Low-quality public provision

Linked to lack of resources is the weak record of public provision in many countries. Stories abound of governments failing to provide their citizens, especially poor citizens, with basic social services or with services of good quality.

In India and Pakistan poor households cited teacher absenteeism in public schools as their main reason for choosing private ones.[1] Poorly paid public sector doctors often supplement their incomes by selling drugs intended for free distribution.[2] As a result poor (and non-poor) people are forced to use private providers—because such providers are more accessible and often dispense drugs as part of their consultations (unlike government facilities, where drugs may not be available).

To access more and better water, poor people often must pay exorbitant prices for it from private tankers run by small vendors. Most residents of South Asian cities receive water for only a couple hours at a time, and not every day.[3] They get electricity for a few more hours a day, but interruptions increase in the hottest parts of the summer—when temperatures can rise to 48 degrees Celsius.

Pressure to liberalize the economy

The third push for private provision has come from donor policies advocating economic liberalization and free markets to advance growth and development. Social services are frontier issues in this move to expand the private sector's role. In the 1990s many donors supported extending private provision and financing to social services, especially urban water supply. The World Trade Organization's General Agreement on Trade in Services also encourages private entry in social services (box 5.1).

Health

Many developing countries—in Latin America, South Asia and South-East Asia—have substantial, thriving private sectors. In addition, a

BOX 5.1

Social services and the General Agreement on Trade in Services

The General Agreement on Trade in Services (GATS) establishes a legal framework for international trade in services through both general trade rules and specific national commitments for accessing domestic markets. Many critics have asked if the GATS goes far enough in protecting countries' ability to decide how best to deliver social services—including determining the extent to which foreign suppliers should engage in their delivery.

On the one hand, the agreement gives governments considerable discretion in deciding how, when and whether to open services to international trade. No country is required to open any specific sector to foreign competition, and countries can set conditions on the nature and pace of such liberalization. Governments can also, with adequate compensation, suspend or modify existing commitments to liberalization. In addition, the agreement includes a "governmental authority" exclusion, which defines services covered by the GATS as "any service in any sector except services supplied in the exercise of governmental authority". Finally, countries can invoke general exceptions to protect public interests, including national security and public health.

On the other hand, the GATS commits members to "successive rounds of negotiations…with a view to achieving progressively higher levels of liberalization", and countries will come under increased pressure to liberalize new areas of service delivery. More worrisome, undefined terms in the agreement could negate the above safeguards.

The governmental authority exclusion applies only to services provided on neither a commercial nor a competitive basis. Governments, however, rarely deliver social services exclusively, but through an evolving mix of public-private actors that compete for clients. And the precise scope of services fitting the exclusion criteria remains ambiguous. If not covered by the exclusion, legislation used by governments to ensure equitable and efficient delivery of these services could conceivably conflict with the GATS. State aid offered exclusively to non-governmental organizations operating schools and clinics in underserved areas could be challenged if a government liberalized its health and education sectors and these market conditions were not officially registered.

The GATS could be strengthened by eliminating the governmental authority exclusion or by rewording the text to ensure that services provided in the "exercise of governmental authority" is understood relative to function, not means of delivery.

Source: Mehrotra and Delamonica forthcoming; Save the Children 2001; Canadian Centre for Policy Alternatives 2003; UNHCHR 2003; WTO 2003.

large portion of health spending is private in all regions,[4] with more than half of basic health services provided by private providers in low-income countries.[5] In Asia and Latin America a significant share of hospitals and health facilities are privately owned, though preventive measures are largely the responsibility of the public sector.[6]

More than any other developing region, Latin America has experienced a huge shift towards private care since opening the management of its health sector to international companies in the 1990s. Several multinational corporations (Aetna, CIGNA, Prudential, American Insurance Group—all US-based) are providing health insurance and services in the region. And they intend to assume administrative responsibilities for public health institutions and to secure access to social security funds for medical care. These companies invest by:

- Purchasing established companies that sell indemnity insurance or prepaid health plans.
- Associating with other companies in joint ventures.
- Agreeing to manage social security and public health institutions.[7]

About 270 million Latin Americans—60% of the population—receive cash benefits and health care services paid for by (and often delivered by employees of) social security funds. Penetration by multinational corporations in social security funds is most advanced in Argentina and Chile but is growing in Brazil and starting in Ecuador.[8]

Impact of managed care

All citizens should have access to basic health services. And private provision can help meet different needs. But is equity ignored in the process?

Latin America has long relied on public social security funds to provide health services. But in the 1990s the management of many funds was offered to foreign health insurance firms. As a result more funding is used to cover higher administrative costs and returns to investors, reducing access for vulnerable groups and spending on clinical services. In Chile in the late 1990s about a quarter of patients under private managed care opted for care from public clinics, citing as their main reason the high co-payments required under managed care.[9]

In Argentina public hospitals that have not converted to managed care face an influx of patients covered by privatized social security funds. These patients have had to resort to public hospitals because they cannot afford their co-payments or because private practitioners have refused to see them (due to non-payment by the social security funds).

Argentina and Brazil's public hospitals now require reimbursements from social security funds and from private insurance, as well as co-payments. To receive free care at public institutions, poor patients must undergo lengthy means testing—with rejection rates averaging 30–40% in some hospitals.[10] And because managed care organizations attract healthier patients, sicker patients are being shifted to the public sector. This two-tier system undercuts the pooling of health risks and undermines cross-subsidies between healthier and more vulnerable groups.

The supposed benefits of privatizing social services are elusive, with inconclusive evidence on efficiency and quality standards in the private relative to the public sector

Appropriateness of health care and regulation

The supposed benefits of privatizing social services are elusive, with inconclusive evidence on efficiency and quality standards in the private relative to the public sector.[11] Meanwhile, examples of market failures in private provisioning abound.

Clinical services and drugs are essentially private goods, and there is much evidence of failures in markets for them. Limited regulatory capacity compounds the problem. For example, in many developing countries overtreatment is a major problem in private health care. In Brazil caesarean sections are more common among private patients because doctors are paid more for operations than for normal births.[12] In Mumbai, India, private providers engage in unnecessary referrals and tests—with referring providers getting a cut of referred providers' fees.[13] By contrast, even though most Canadian and US and many European physicians are private, strong professional regulation ensures that there is no crisis of overtreatment.

In developing countries unregulated private pharmacists also overtreat illnesses or overprescribe expensive drugs. Such inappropriate use of medicines leads to dangerous treatment practices, higher health care costs and growing drug resistance. Drugs account for 30–50% of health care spending in poor countries, compared with 15% in rich.[14] People who cannot afford professional services must go to pharmacies, which often do not follow prescribing regulations—especially in China, South Asia and parts of Africa. In India more than half of out-of-pocket health spending and nearly three-quarters of inpatient spending go to medicines and consultation fees.[15]

Requiring poor households to pay for schooling is not conducive to achieving universal primary education and so is unlikely to help achieve the Millennium Development Goals

Costs

In many developing countries costs are rising and technology is accumulating in the private health care sector. Thailand's private health sector has as much or more of some high-technology equipment as the private sectors in most European countries, even though Thailand's per capita income is much lower and its disease burden is much different.[16]

In China a shift in focus from preventive to curative services has significantly increased drug sales since economic reforms began. Foreigners have invested in about 1,500 drug manufacturing ventures across the country.[17] With limited access to professional services and aggressive drug production in an unregulated market, the result is irrational drug use—particularly among poor people. In 1993 drugs accounted for 52% of China's health spending, compared with 15–40% in most developing countries.[18] In some rural areas Chinese farmers spend two to five times the average daily per capita income on a typical prescription. Apart from contributing to unnecessarily high medical costs, excessive and inappropriate prescribing of drugs in poor rural areas exposes patients to the risk of ineffective treatment and adverse side effects.[19]

As noted, in Latin America managed care organizations have taken over the administration of public health institutions—diverting funds from clinical services to cover higher administrative costs. To attract patients with private insurance and social security plans, public hospitals in Buenos Aires, Argentina, have hired management firms that receive a fixed percentage of billings, increasing administrative costs to 20% of health spending.[20] In Chile administrative and promotional costs account for 19% of managed care spending.[21]

Brain drain

In developing countries growth in private health care often draws badly needed human resources away from fragile public systems—as in Thailand in the 1980s and 1990s.[22] Public clinics are left to care for the most vulnerable groups—the poor, the elderly, the disabled—with fewer well-trained physicians.

Education

In most OECD countries about 10% of students attend private primary schools (both independent and government-dependent). That share tends to be higher in developing countries. In Latin America private schools account for more than 14% of primary enrolments, though in high-performing Costa Rica the share is just 7%.[23] Among 22 Sub-Saharan African countries with data the private share in 10 is 10–40%—in the other 12, less than 10%.[24] In India the share of private schools is highest in states with the lowest primary enrolments (Bihar, Uttar Pradesh), indicating that the private sector is the escape route for a poorly performing public sector.[25]

In many (though not most) developing countries private enrolments rise with the level of education.[26] Yet for a large number of countries in all regions, recent data are lacking on private enrolments at all levels—making this an area deserving attention from governments and donors.

Three issues are crucial in the private financing and provision of education. The first affects demand: high household costs compromise universal access to basic education. The other two are related to supply, affecting equity and efficiency. One relates to the comparative performance of public and private schools, the other to public subsidies for private schools.

High fees, lower enrolments

Requiring poor households to pay for schooling (private or public) is not conducive to achieving universal primary education and so is unlikely to help achieve the Millennium Development Goals. In Ghana two-thirds of rural families cannot afford to send their children to school consistently, and for three-quarters of street children in Accra (the capital) the inability to pay school fees was their main reason for dropping out.[27] Where school fees have been removed in Africa, children have flooded into schools.

Quality issues

Many proponents of private education claim that private schools outperform public ones, are inherently more accountable and help students develop stronger cognitive skills and feel a greater sense of ownership for their education.[28] But little evidence substantiates these claims.[29] Private schools do not systematically outperform public schools with comparable resources. In Peru students in private primary schools outperform their public counterparts—but pay up to 10 times more for their education.[30]

In Brazil achievement scores in maths and language favour private school students to the same degree as in several OECD countries (Greece, Ireland, Spain).[31] But this advantage is linked to the students in each type of school. In every country studied, students in private secondary schools come from wealthier households than do students in public schools.

Public financing for private schools—potential drawbacks and benefits

The main rationale for government support is that private education meets excess demand for education. But in most cases fee-based private education responds to different demand, not excess demand—particularly in low-income countries, where poor households have limited capacity to pay even public school fees. Thus government support for private education can be inequitable if it is not targeted to poor households. In OECD countries direct support for private primary and secondary schools averages about 10% of government spending on education. By contrast, in India nearly a third of direct education spending supports private institutions—yet the country is home to more than a third of the world's children of primary school age not in school.[32] In Indonesia most rural private schools are as dependent as public ones on state subsidies.[33]

Many developing country governments also pay the salaries of private school teachers, making them less accountable to parents and principals.[34] Such subsidies place even greater stress on already weak public systems, which must provide services for the most vulnerable groups with fewer human and financial resources.

A study of 16 developing countries found that those with the highest private upper secondary enrolments also have the lowest overall upper secondary enrolments (India, Indonesia, Zimbabwe).[35] But in China, Jamaica, Malaysia and Thailand—which have relatively high enrolments—more than 90% of direct public spending on education reaches public schools.

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Making private provision work for poor people

Despite its potential drawbacks, public funding of private schools can help in certain circumstances—particularly if governments have trouble paying the full costs (building schools, paying teacher salaries) required to achieve universal primary schooling. In some countries a shortage of public schools has led to expansion in private schools. To ensure that children from poor families unable to pay school fees are able to attend private schools, governments could finance their education through vouchers.

Colombia, for example, introduced a voucher system in response to a shortage of public secondary schools. This approach to public funding of private education can help expand schooling at lower cost for the government, because the only cost the government bears is the voucher. This is slightly different from a voucher system that enables families to enrol their children in the school of their choice, public or private. To avoid giving windfall gains to the middle class that customarily purchase private education, vouchers should be restricted to poor families—as in Bangladesh, Chile, Colombia, Puerto Rico and the United Kingdom.[36]

WATER AND SANITATION

Only about 5% of the world's people (about 300 million) receive their water from private companies. Most privatization of water and sanitation services has occurred through public-private partnerships in urban areas, with almost all occurring in the 1990s in highly urbanized countries (table 5.1).

Private companies are unlikely to be interested in providing water services in rural areas in low-income countries—because rural areas are generally considered unprofitable. In sanitation, public-private partnerships sometimes also view poor people as being unprofitable. Reflecting such biases, some private water companies have found ways of excluding poor people from service even in urban areas. In Cartagena, Colombia, a large shantytown did not receive water services because the company considered it outside the city area.[37] Moreover, in some countries the extension of connections has been limited. In Dakar, Senegal, about 80% of the population had access to safe drinking water in 1994. Four years after the service was privatized, only 82% had access.[38]

International private sector involvement in water and sanitation remains limited in the urban areas of low-income countries. Even in middle-income countries, where most people live in urban areas, international private firms may be discouraged by the scale of investments required. Sustained service provision is best achieved through the efforts of local communities and firms (private and public), and building this capacity is an important role for government.

MIXED PERFORMANCE, UNCERTAIN FINANCING

Public-private partnerships in water and sanitation—which have grown from almost none in the early 1990s to more than 2,350 today—have a mixed record of performance

Public-private partnerships in water and sanitation—which have grown from almost none in the early 1990s to more than 2,350 today—have a mixed record of performance. One of the main arguments for privatization is that it provides new capital, enabling public-private partnerships to mobilize additional resources for basic services. But since peaking in 1996, international private financing for water and sanitation has declined. And that decline is expected to continue.[39]

TABLE 5.1
Investments in water and sanitation projects involving private participation, various countries, 1990–94 and 1995–2000
(millions of US dollars)

Country	1990–94	1995–2000
Argentina	4,075	4,173
Brazil	3	2,891
Chile	128	3,720
Czech Republic	16	37
Indonesia	4	883
Malaysia	3,977	1,116
Mali	0	697
Mexico	295	277
Philippines	n.a.	5,820
Romania	n.a.	1,025
South Africa	n.a.	209

Source: World Bank 2002j.

SERVICE CHARGES

The private sector's reluctance to fund less profitable investments in poor rural areas hurts users. But public-private partnerships often do the same, even more directly—through charges that hit poor people disproportionately more. This fact has to be balanced against the even higher prices that poor people previously paid for water from small vendors.

Public-private partnerships are based on the assumption that customers pay for services. Privatization in water and sanitation has led to much higher fees, sometimes overnight—and sometimes with disastrous consequences (box 5.2). But if success requires higher tariffs, state water companies have shown that it is possible to use the additional revenue to improve services and expand coverage.

POSITIVE PRIVATE PROVISION

Not all privatizations of water and sanitation have been failures. In Sub-Saharan Africa, for instance, public-private partnerships have improved water quality.[40] More generally, success in privatizing water services largely depends on government regulation, investor interest and the initial state of the enterprise.[41] Countries with decent services before privatization often continue to do well after.

Where poor people have reaped the benefits of privatized water services, it has been due to political will. In Bolivia water and sanitation concessions in La Paz and El Alto were

BOX 5.2

User fees in South Africa and Bolivia

Privatization of water services has often led to increased tariffs largely unaffordable to poor households. Under some public systems, households enjoyed low water bills—well below the rate needed to recoup costs—and non-payment of bills was largely overlooked. This approach is undesirable because cash-strapped public companies essentially subsidize both rich and poor people. But an overnight jump from exceptionally low to excessively high water bills also has disastrous consequences for poor households.

South Africa

South Africa has made incredible progress in providing water supplies to its people, though managing fee structures has been a challenge. In August 2000, however, a cholera epidemic broke out in the province of KwaZuluNatal—infecting nearly 14,000 people and claiming more than 250 lives. The epidemic started after local authorities cut water supplies to people living in an informal settlement who were unable to afford new user fees. The minister of water affairs and forestry admitted that the policy of cost recovery exacerbated the cholera epidemic, forcing households to seek alternative water sources.

In the build-up to privatizing water services, South Africa reversed its policy of keeping tariffs low and overlooking non-payment. But this reversal occurred overnight—and without concurrent measures to ease the financial burden on poor people.

Bolivia

In early 2000 protests broke out in Cochabamba, Bolivia, largely in response to the tripling and quadrupling of household water costs. This price hike came only weeks after Aguas del Tunari, a London-based private company, took over the city's water system. The protests effectively shut down the city for four days. And as protests spread throughout Bolivia, 50 people were detained, dozens injured and 6 died from the violence.

Many analysts agree that the significant increase in water tariffs was driven by the cost of an expensive construction project that households were obliged to pay for up-front. The Misicuni Project, one of the most complex engineering projects in South America, involves building a $130 million dam, a hydroelectric power station and a $70 million, 20-kilometre tunnel used to transport water from the Misicuni River to Cochabamba.

User fees have great potential for impoverishing users and deterring people from using badly needed services. When user fees for basic social services have to be increased, governments must ensure that they are tailored to users. First, governments should be open with citizens about why increases are needed. There should be clear communication between service providers and users in this regard. Second, governments should strategically fix tariffs so that wealthier households can subsidize poorer. Other means of subsidizing poor people should also be sought. For instance, many campaigners in South Africa asked that the government provide 50 litres of water a day free of charge to poor households—the World Health Organization minimum for maintaining health and hygiene. Third, increases in water bills should be instituted progressively, not overnight.

Sources: ICIJ 2003c; Lobina 2000; Sidley 2001, p. 71.

awarded to the bidder that promised to make the most new connections in poor neighbourhoods. The winning bidder was then obliged to connect 72,000 families to piped water and 38,000 to sanitation over a five-year period.

In addition to contractually obliging private providers to expand services, governments have used revenue from privatization towards that end. Financial incentives, such as capital grants, have been offered to providers that service poor neighbourhoods. In addition, the high tariffs that tend to accompany privatization can be offset with subsidies targeting poor people. In Chile government subsidies ensured that no household spent more than 5% of its income on water.[42]

Promising approaches

Government programmes have registered many successes in delivering basic social services to all citizens. Thus privatization need not be seen as the only option for reforming poorly run public services.

Relying on effective government systems

Many activities in the social sectors produce public goods or have many externalities, requiring state involvement to provide basic services to all. The recent push to privatize basic social services has ignored the past experiences of rich countries—as well as of many developing countries today—which relied on state systems to provide basic social services to most (if not all) of their people when they were developing. Private actors played only a limited role.

Many of today's high-performing developing countries managed to improve health indicators early in their development—providing universal health care paid out of government revenues. In many (Botswana, Costa Rica, Zimbabwe) better-off citizens opted out by taking private health insurance.[43] Or, if private insurance was not available (Sri Lanka and Kerala, India), they paid private providers directly.[44] But for most of these countries' populations, better health was the result of universal and affordable care—financed by government revenues and made effective by allocating resources to the lower levels of the health system.[45]

High-performing developing countries also began pursuing universal primary education early in their development, when their incomes were lower. Countries with literacy rates above those of their neighbours in 1980 also had smaller shares of students in private schools in the 15 years leading to 1980. In South Asia, for example, Sri Lanka's literacy rate in 1980 was 85%—while the regional average was an extraordinarily low 38%.[46] And Sri Lanka's proportion of students in private primary and secondary education was low in the 15 years to 1980.

In water and sanitation there is ample evidence of inefficient, oversized, corrupt state-owned companies. But there are also successful public systems largely ignored by proponents of privatization. Chile, for example, made safe water available to 97% of its urban population by 1990, and sanitation to 80%. And in Bogota, Colombia, municipal water services were threatened with privatization—but, completely reformed, they have expanded coverage (box 5.3).

In Debrecen, Hungary, the state-run water company required considerable investment in the mid-1990s. Attempts were made to contract the service to one transnational water company, then another—but both attempts failed. In 1995 the city council decided that local water managers had the expertise to carry out the work. A new local public company made the needed investments at much lower costs than the bids by the private companies, partly by sourcing supplies locally instead of importing them. As a result prices are 75% lower than predicted by the private companies.

Strengthening the state

Regulatory capacity in developing countries has to be built up so that public and private provision works for all services and users. A key policy recommendation is to retrain government staff. This does not necessarily mean rich countries providing more technical assistance or technical cooperation—it means them paying for transfers of skills and exchanges of experience among poor countries.

In health the need for regulation applies to both privatized companies and existing private services, both to protect consumers and contain costs. Most health ministries in developing countries have extremely weak information systems, undermining their ability (or perhaps indicating their unwillingness) to regulate private

BOX 5.3

Successful state-run water systems

Efforts by the Chilean government in water and sanitation show that state-run systems can achieve positive results. By 1990, 97% of Chile's urban population had access to safe water, and 80% had access to sanitation. The cornerstones of the country's success:

- Separating central regulation and regional operation.
- Increasing financial investments in the sector.
- Developing a system for fixing tariffs objectively.
- Introducing incentives for efficiency.

Between 1988 and 1990 Chilean authorities established a new system for fixing tariffs objectively—essential to revitalize the industry. The regulator established a maximum tariff based on a model efficient provider, and any differences of opinion between the company holding the concession and the regulator were to be resolved by a tripartite commission of experts. The reform permitted the gradual adjustment of tariffs to new, higher levels. Objective tariff fixing was a main contributor to the success achieved in the management of water and sanitation services since 1990.

The private sector played a role in Chile's water and sanitation sector, but this role was limited and strictly regulated by the central government. There was a big increase in the contracting out of many activities by all companies, including operation, management and capital investment of entire systems, as well as maintenance of all aspects of the networks, meter reading and billing. Contracting out reduced the number of workers per connection. And in 1995 the average level of unaccounted-for water was 31%, far less than the Latin American norm of 40–60%.

In Colombia's capital, Bogotá, privatization was rejected in the late 1990s. The city refused World Bank money and transformed its public utility into the most successful in Colombia.

Source: ICIJ 2003a; Mehrotra and Delamonica forthcoming.

providers. In South Asia, despite widespread private provision and high private spending, regulation has failed abysmally to ensure quality care for most users of private providers.[47]

Regulation of clinical health services, for instance, requires tackling the proliferation of private providers—often untrained, unlicensed and unregulated. Governments must bring these actors into the public domain, which will require licensing and regular training to improve knowledge and skills. Training has increased provision of antimalaria drugs in Kenya and improved management of acute respiratory infections and diarrhoea in Mexico.[48] In addition, the Rural Medical Association of West Bengal has adopted the World Health Organization's list of 40 essential medicines for recommended use by its members. Getting practitioners to restrict their use of these drugs will improve quality and control. Other measures for regulating providers include developing consumer protection legislation, promoting professional ethics and providing non-financial incentives, such as enhanced prestige.

Accreditation can be used to inform consumers about which private medical providers are registered. A professional body that offers accreditation and training to unregistered providers would benefit both providers and the public. It would build on the desire of providers for social recognition and prestige. And it would help promote the use of essential medicines through public campaigns.

Improving consumer behaviour is also important for health care regulation. This can involve improving consumer knowledge or providing subsidies to make quality services more affordable. Governments can also create institutions that enable consumers to challenge private providers who offer poor care.

Regulation of education and water services is often equally weak. In water privatizations public water authorities often assume the role of regulator. But international private providers rarely adhere to their agreements with host governments (box 5.4).[49] Much more international support is needed to build regulatory capacity in these and other infrastructure areas if the private sector is to do more in achieving the Millennium Development Goals.

BOX 5.4

Metropolitan Manila and Buenos Aires: mixed record of experience with water privatization

Manila

In 1995 the Philippines declared a water crisis. The public water utility had left 3.6 million people unconnected to a water supply. And for those with connections, service was often erratic. In 1997 two private water companies won concessions to take over Manila's water system, dividing the metropolitan area into eastern and western zones. Within five years the companies had connected roughly 2 million more people to the network and service had improved significantly. During this time new service connections tripled from 17,040 a year (before privatization) to 53,921 (after).

Yet six years after privatization the water companies have performed below their targets—and are even asking to withdraw from the concessions. By 2001 one company had supplied water to 85% of its population, slightly below its projection of 87%, while the other company surpassed its target. But much debate surrounds the calculation of these figures, possibly leading to the dampening of reported success rates. Although one private water company saw no decline in the number of leaking pipes and water thefts, the other saw these figures increase. And by January 2003 water tariffs had risen by two to five times 1997 rates in both zones. Indeed, a 2000 survey of residents in 100 districts revealed a mixed perception of privatization, with 33% of respondents noticing better service, 55% noticing no change and 12% noticing deterioration.

Buenos Aires

In 1993 Argentina's government privatized the Buenos Aires water utility, and service quality and expansion subsequently increased. Company figures indicate that it connected roughly 1 million new users to the water system. And in the first year the company reduced water rates by 27%. But this drop simply rolled back significant rate hikes instituted by the public utility prior to privatization. In subsequent years the company repeatedly raised water rates, and in 1996 protests against high water bills occurred in Buenos Aires.

Furthermore, a government review found that by 1997 the company had built only about one-third of the pumping stations and underground mains it had promised to complete by then. And investments in sewerage networks totalled just $9.4 million—one-fifth the level promised. According to recent estimates, the picture is quite different when the country is considered as a whole. In the second half of the 1990s municipalities with privately managed water services have worked better than those publicly managed, particularly in poor areas, contributing to faster reductions in child mortality.

Source: ICIJ 2003b; Galiani, Gertler, and Schargrodsky 2002; ICIJ 2003d.

Involving non-governmental organizations

Social service provision by non-governmental organizations (NGOs) has been viewed as the "middle way" between market and state provision. For some analysts it provides a rationale for increasing the role of civil society organizations in providing these services. NGOs are often quite successful at filling gaps left by the public system (as with the primary schools set up by the Bangladesh Rural Advancement Committee). They are also useful in articulating community concerns, especially for poor people, to make institutions perform better. In water and sanitation, rural areas have been best served through user committees supported by NGOs.

But NGOs should be a complement to, not substitute for, state activities.

NGOs have also joined partnerships among governments, businesses and civil society organizations. When private firms win long-term concessions for urban water and sanitation services, the contracts usually require significantly increasing coverage. Doing so may require skills and resources beyond the scope of private firms, especially foreign ones. NGO partners can improve a firm's understanding of its poor customers (expanding the customer base, improving project design), reducing capital and operation and maintenance costs, as with the water concessions in La Paz and El Alto, Bolivia. NGOs can also lend credibility and outreach to education and awareness campaigns. Vivendi, the French water company, initiated a partnership with an NGO in its Kwazulu-Natal project to better understand the needs of poor communities in South Africa.[50]

Through the politics of pressure and engagement, NGOs are creating new agendas for businesses. A continuum of protests and partnerships between businesses and NGOs is creating a new form of regulation for global business—civil regulation.[51]

IDENTIFYING BETTER WAYS OF FINANCING SERVICES

Aside from increasing government tax revenues, there are ways of improving service tariffs and charges to make them more rational and equitable. In health sudden, steep out-of-pocket costs can drive patients into (or further into) poverty. Surveys from 60 countries show that among poor groups, a larger proportion of households has high levels of health spending.[52] In the absence of public financing, prepayment schemes—which contain high health costs by spreading risks among pools of individuals—can help deal with this problem. Such schemes have not only helped protect poor households from catastrophic health costs, they have also helped organize communities to sustain local public health systems (box 5.5).

In public education there is scope for much greater cost recovery at higher levels in most developing countries. In the 1990s Africa and India increased cost recovery in public universities.[53] Still, it is nowhere near its potential: higher education provides enormous private benefits, and most people who can access it are not poor. Thus there is scope for much greater cost recovery (combined with exemptions for poor people).

In water and sanitation strategic tariff fixing (whether the provider is public or private) that raises user fees in line with higher use—coupled with targeted subsidies—is a good way to provide water services to more people. Targeting that is geographic (to places that poor people reside), rather than based on income, is more likely to succeed.

BOX 5.5

The Bamako Initiative: pooling community resources for health care

The Bamako Initiative is an initiative that pools community resources to finance local health care. The initiative has been implemented to a varying degree in more than 40 low-income countries, with half in Sub-Saharan Africa. It has not only protected households from catastrophic health costs, but has also organized communities to help strengthen and sustain local public health services. These communities contribute financial resources to local health clinics and have a voice in the management of these services.

The initiative's strategy is to revitalize public health systems by decentralizing decision-making from the national to the district level, instituting community financing and co-management of a minimum package of essential services at the level of basic health units. The aim is to improve services by generating sufficient income to cover some local operating costs, such as supplies of essential drugs, salaries of some support staff and incentives for health workers. Funds generated by community financing do not revert to the central treasury but remain in the community and are controlled by it through a locally elected health committee. From mere recipients of health care, consumers become active partners whose voices count.

After 10 years of implementation of the initiative, community action in most rural health centres in Benin and Guinea has enabled nearly half the population to be regular users of the services. It has also raised and sustained immunization levels close to health for all targets for 2000. Charging modest fees to users is seen in some cases as the most affordable option for the poorest people, who otherwise have to use more expensive alternatives—though it is less clear whether mechanisms exist to protect indigent members of the community.

Much of the success has been in ensuring that affordable essential drugs are readily available in health centres, under the scrutiny of committees. Another factor has been the improved attitude of health workers—traditionally one reason for people, especially women, not to use health services.

This experience suggests that in the absence of adequate government financing of health care, pooling of community resources, with some prepayment by the poor, is a fair and efficient mechanism for providing health services to poor people. Health systems that require individuals to pay out of pocket for many of the costs of health services restrict access to those who can afford to pay, and most likely exclude the poorest people. Fairness of financial risk protection thus requires the highest possible separation between contributions and use. There is consensus on the central role of public financing in public health. But for personal health care it is not the public-private dichotomy that is most important in determining health system performance—but the difference between prepayment and out-of-pocket spending.

Source: Mehrotra and Delamonica forthcoming.

Addressing the risks of privatization

International institutions promoting privatization of social services need to provide much more advance support to build regulatory capacity. The World Bank has some initiatives in this area, such as the International Forum for Utility Regulation, created in 1996 as an umbrella structure for learning and networking initiatives for utility regulators. But international agencies should do more than offer advice. They should also enable field visits of developing country regulators to other countries more experienced in private sector regulation. There is also a need to prepare model clauses for public-private partnerships in water. Such clauses would draw on the lessons discussed in this chapter, so that future contracts can avoid the pitfalls of past ones.

In water all revenues come in local currency, so servicing foreign loans involves an exchange risk for both borrowers and investors. This became a problem in Argentina, Indonesia and the Philippines after devaluations, putting pressure on water subsidiaries to raise tariffs to water users to service the loans. Thus central governments should encourage local authorities, which are usually responsible for water services, to borrow domestically—from national development banks.

Too often it is assumed that private sector involvement in water implies the involvement of foreign multinational companies. In many developing country cities small providers cover significant sections of the population: in Delhi, India, 6%; in Dhaka, Bangladesh, 10%; in Ho Chi Minh City, Viet Nam, 19%; and in Jakarta, Indonesia, 44%.[54]

In all sectors regulatory capacity should be built up before privatization. Otherwise, the private sector may merely respond to different demand, not to excess demand, whether in education, clinical health care or water and sanitation. With better information on the private sector and stronger regulatory capacity, the state can ensure that the private sector plays a complementary role in providing and financing these basic social services.

CHAPTER 6

Public policies to ensure environmental sustainability

Ensuring environmental sustainability—the seventh Millennium Development Goal—requires achieving sustainable development patterns and preserving the productive capacity of natural ecosystems for future generations. Both efforts in turn require a variety of policies that reverse environmental damage and improve ecosystem management. The challenge has two dimensions: addressing natural resource scarcity for the world's poor people and reversing environmental damage resulting from high consumption by rich people.

Many environmental problems arise from the production and consumption patterns of non-poor people, particularly in rich countries. Rich countries consume a lot of fossil fuels and deplete many of the world's fisheries, damaging the global environment. They also use a lot of tropical hardwoods and products from endangered species.

To ensure the sustainability of Earth and its resources, including the development prospects of poor countries, these harmful production and consumption patterns must change. Energy systems will have to generate much lower greenhouse gas emissions. Fisheries will have to be managed based on ecological limits rather than heavily subsidized free-for-alls. And international rules of the game will have to mitigate the overconsumption that endangers ecosystems and certain plants and animals. But with smart policies and new technologies, the costs of these changes can be quite low.

At the same time, many environmental problems stem from poverty—often contributing to a downward spiral in which poverty exacerbates environmental degradation and environmental degradation exacerbates poverty. In poor rural areas, for example, there are close links among high infant mortality, high fertility, high population growth and extensive deforestation, as peasants fell tropical forests for firewood and new farmland.

Given this chain of causation, policies that reduce child mortality can help the environment by lowering population growth and reducing demographic pressures on fragile ecosystems. Other examples of poverty contributing to environmental degradation abound.

Thus reducing poverty can play a pivotal role in environmental protection. Worsening environmental conditions—including depletion of natural resources and degradation of ecosystems and their services—hit poor people the hardest. And when poor people degrade the environment, it is often because they have been denied their rights to natural resources by wealthy elites. In many cases, for example, poor people are forced onto marginal lands more prone to degradation.[1]

Around the world, 900 million people live in absolute poverty in rural areas, depending on the consumption and sale of natural products for much of their livelihoods. In Tanzania poor people derive as much as half of their cash incomes from the sale of forest products such as charcoal, honey, firewood and wild fruits.[2] The least developed countries are the most dependent on agriculture and natural resources. Yet relying on primary products—agricultural and forest products, minerals, fish—for export earnings makes developing countries highly vulnerable to resource depletion and worsening terms of trade.

The relationship between poverty and environmental resources also has a strong gender component. Poor women and girls are hurt disproportionately by environmental degradation, often because they are responsible for collecting fuel, fodder and water. In many countries deforestation forces rural women and girls to walk farther and spend more time and energy collecting fuel wood. In Africa they spend up to three hours a day just fetching water, expending more than a third of their daily food intake.[3]

Goal 7: Ensure environmental sustainability

Target 9: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water

Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers

BOX 6.1

How global climate change threatens developing countries

Global climate change is expected to increase the economic disparities between rich and poor countries, especially as temperatures increase. The estimated damage for poor countries partly reflects their weaker adaptive capacity. Hence climate change is a major development issue.

Climate change could lead to large-scale, possibly irreversible changes in Earth systems, with effects at the global and continental levels. Though the likelihood and scope of these effects are not well known, they will be significant and so must be reflected in policy-making. Potential effects include:

- Reduced crop yields in most tropical and subtropical regions and increased variability in agricultural productivity due to extreme weather conditions (droughts and floods).
- Increased variability of precipitation during Asian summer monsoons, which could reduce food production and increase hunger.
- Reduced water availability in many water-scarce regions, particularly subtropical regions. Increased water availability in some water-scarce regions—such as parts of South-East Asia.
- Increased destruction of coral reefs and coastal ecosystems and changes in ocean-supported weather patterns.
- Rising sea levels. With a 1 metre rise in sea level, partly due to global warming, Egypt could see 12% of its territory—home to 7 million people—disappear. Rising seas threaten to make several small island nations—such as the Maldives and Tuvalu—uninhabitable, and to swamp vast areas of other countries.
- Increased exposure to vector-borne diseases (malaria, dengue fever) and water-borne diseases (cholera).

Source: IPCC 2001a, b; UNDP 1998.

Poor people tend to suffer the most from air and water pollution. They spend more of their household incomes on energy, yet the services they receive are often of low quality—such as biomass fuels burned in inefficient, polluting stoves, or kerosene lamps that cost more per unit of illumination than lamps powered by an electricity grid.

Poor people are also the most vulnerable to environmental shocks and stresses, including floods, prolonged droughts and the emerging effects of global climate change (box 6.1). Moreover, they are the least capable of coping with such shocks and stresses. In dryland India biodiversity-related products (such as wild fruits or honey) usually account for about 20% of the incomes of poor rural people. But during droughts they account for more than 40% because cultivated crops fail.[4]

Ignoring environmental sustainability, even if doing so leads to short-run economic gains, can hurt poor people and undermine long-run poverty reduction.[5] The strong links between poverty and the environment call for a focus on the needs of people whose livelihoods depend on natural resources and environmental services. In policy and practice, environmental management should create income-generating opportunities, strengthening people's property and user rights and fostering their participation in political decision-making.

The links between poverty and the environment also run in the other direction. Poor people are often deprived of the means and rights to invest in the sustainable use of environmental resources through improved water treatment and sanitation, cleaner energy technologies and so on. Poor people also lack the money to invest in substitutes for environmental services.

Ever-expanding consumption hurts the environment through polluting emissions and wastes. Growing depletion and degradation of renewable resources also undermine livelihoods. Over the past 50 years carbon dioxide emissions quadrupled, with much of the increase occurring in rich countries. In 1999 per capita carbon dioxide emissions in high-income OECD countries exceeded 12 metric tonnes—compared with 0.2 tonnes in the least developed countries.

Because of their larger contributions to global environmental degradation and their greater financial and technological resources, rich countries bear much of the responsibility for addressing environmental concerns. Rich countries also need to help poor ones pursue environmentally sustainable development. Achieving the Millennium Development Goals requires policies that stress the complementarity between sustainable development and environmental management and that minimize the trade-offs. Indeed, ensuring environmental sustainability is essential for achieving the other Goals (table 6.1).

Environmental resources

Ecosystems and natural resources, fundamental to so many productive activities, contribute much to the global economy. In the late 1990s agriculture accounted for nearly a quarter of the GDP of low-income countries.[6] Industrial wood products contributed $400 billion to the global economy in the early 1990s, and fisheries accounted for $55 billion in exports in 2000.[7]

Scarce natural resources and ecosystem stresses often force unwanted trade-offs on poor communities. A community can get more food by converting a forest to farmland, but in doing so it may lose environmental services such as timber, biodiversity, clean water, flood regulation and drought control.

Food

Human well-being depends on natural resources and environmental services that help produce food. People rely on soils to grow crops, grasslands to raise livestock and freshwater and oceans to support fisheries. Underlying much of this productivity: genetic resources. Over centuries farmers have generated crucial stocks of knowledge and productivity by breeding livestock and selecting, storing and propagating plant varieties. Diverse genetic resources enable farmers to adapt to environmental change by creating new livestock and plant varieties better suited to new conditions. In periods of scarcity, wild biodiversity is also a source of alternative food products.

Water

Natural resource mismanagement and degradation threaten vital water services—undermining economic growth, human well-being and environmental resilience. About 1.7 billion people, a third of the developing world's population, live in countries facing water stress (defined as countries that consume more than 20% of their renewable water supply each year). If current trends persist, this number could increase to 5.0 billion people by 2025.[8] Limited access to water is weakening the development prospects of many countries, and conflicts over water use and distribution are a common cause of international disputes.

TABLE 6.1

Why reaching the environmental Goal is so important for the other Goals

Goal	Links to the environment
1. Eradicate extreme poverty and hunger	Poor people's livelihoods and food security often depend on ecosystem goods and services. Poor people tend to have insecure rights to environmental resources and inadequate access to markets, decision-making and environmental information—limiting their capability to protect the environment and improve their livelihoods and well-being. Lack of access to energy services also limits productive opportunities, especially in rural areas.
2. Achieve universal primary education	Time spent collecting water and fuel wood reduces time available for schooling. In addition, the lack of energy, water and sanitation services in rural areas discourages qualified teachers from working in poor villages.
3. Promote gender equality and empower women	Women and girls are especially burdened by water and fuel collection, reducing their time and opportunities for education, literacy and income-generating activities. Women often have unequal rights and insecure access to land and other natural resources, limiting their opportunities and ability to access other productive assets.
4. Reduce child mortality	Diseases (such as diarrhoea) tied to unclean water and inadequate sanitation and respiratory infections related to pollution are among the leading killers of children under five. Lack of fuel for boiling water also contributes to preventable waterborne diseases.
5. Improve maternal health	Inhaling polluted indoor air and carrying heavy loads of water and fuel wood hurt women's health and can make them less fit to bear children, with greater risks of complications during pregnancy. And lack of energy for illumination and refrigeration, as well as inadequate sanitation, undermine health care, especially in rural areas.
6. Combat major diseases	Up to 20% of the disease burden in developing countries may be due to environmental risk factors (as with malaria and parasitic infections). Preventive measures to reduce such hazards are as important as treatment—and often more cost-effective. New biodiversity-derived medicines hold promise for fighting major diseases.
8. Develop a global partnership for development	Many global environmental problems—climate change, loss of species diversity, depletion of global fisheries—can be solved only through partnerships between rich and poor countries. In addition, predatory investments in natural resources can greatly increase pressure to overexploit environmental assets in poor countries.

Source: Based on UNDP; DFID; World Bank.

Energy

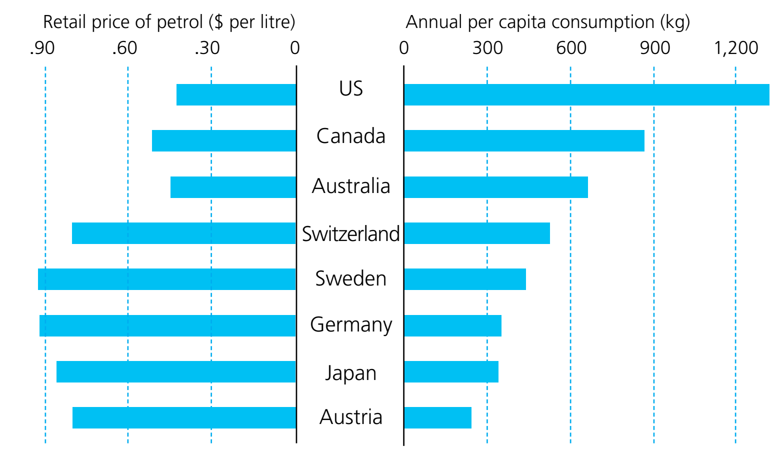
More than 2 billion people lack access to electricity and the services it provides, including lighting, refrigeration, telecommunications and mechanical power.[9] These services are essential to delivering education and health care and to creating productive employment opportunities.

In the poorest countries more than 80% of energy comes from traditional sources such as dung, crop residue and fuel wood.[10] Inefficient stoves and heating technologies often force local people to gather traditional fuels at a rate that exceeds the natural regeneration of these resources, degrading land. Cooking with such fuels can produce extremely high levels of health-damaging air pollutants, both indoors and out. Solutions to such problems involve linking changes in energy consumption patterns in rich countries to the use of low-cost, low-emission technologies in developing countries.

Transportation, the most energy-intensive sector, is a key challenge for achieving sustainable energy use. Governments should provide incentives for consumers and producers to switch to more efficient vehicles and more sustainable resource use. The price of petrol, much of which is determined by taxes, can make a big difference. Among OECD countries Canada and the United States have some of the lowest petrol prices—and, not surprisingly, the highest per capita consumption. Austria and Japan have among the highest petrol prices—and per capita consumption one-quarter the US level and one-third the Canadian level (figure 6.1). In India petrol costs four times as much (at market exchange rates) as in the United States.

FIGURE 6.1

Higher petrol consumption is associated with lower prices in OECD countries, 2001



Source: IEA and OECD 2003.

Livelihoods

Natural resources and environmental services are a direct source of livelihood for many people—especially poor people in rural areas, who are the most severely affected when the environment is degraded or access to environmental assets is limited or denied. By maintaining the environment's health and productivity, natural resources and environmental services maintain livelihood options and potential for diversification. Variety is essential because poor people need to be able to diversify their use of natural resources and environmental services as conditions change.[11]

Policy responses

Policy interventions to address natural resource scarcity for the world's poor people—and to reverse environmental damage from overconsumption in rich countries—must take into account the diversity of the natural environment, the many and varying causes of environmental degradation and the complex links between poverty and the environment. Interventions should also draw on past efforts to improve environmental management:

- Environmental management cannot be treated separately from other development concerns. To achieve significant, lasting results, it must be integrated with efforts to reduce poverty and achieve sustainable development. Improving environmental management in ways that benefit poor people requires policy and institutional changes that cut across sectors and lie mostly outside the control of environmental institutions—including changes in governance, domestic economic and social policies and international and rich country policies.[12]
- Successful environmental policies must see poor people not as part of the problem but as part of the solution (boxes 6.2 and 6.3).

- Environmental problems must be actively managed as part of the growth process. Environmental improvements cannot be deferred until rising incomes make more resources available for environmental protection.

Six policy principles should guide environmental policies:

- Strengthening institutions and governance.
- Making environmental sustainability part of all sector policies.
- Improving markets and removing environmentally damaging subsidies.
- Bolstering international mechanisms for environmental management.
- Investing in science and technology for the environment.
- Increasing efforts to conserve critical ecosystems.

BOX 6.2

Improving the lives of slum dwellers

An estimated one-third of the developing world's urban population lives in slums. They contend with overcrowding, substandard housing and poor access to safe water and sanitation—resulting in high rates of disease and infant mortality.

Rapid urban growth suggests that the problems of slum dwellers will worsen in cities already vulnerable. The United Nations projects that between 2000 and 2010, 85% of the growth in the world's population will occur in urban areas—almost entirely in Africa, Asia and Latin America. In 2001 more than 70% of the urban populations in the least developed countries and Sub-Saharan Africa lived in slums. Without substantial interventions, this figure will increase.

Millennium Development Goal 7 calls for significant improvements in the lives of at least 100 million slum dwellers by 2020. Traditionally, donors have been less focused on the needs of urban residents. But with growing pressure to manage rapid urban growth, that is beginning to change.

Though cities are often associated with environmental destruction, their high population densities offer opportunities to build crucial infrastructure—such as sanitation, transport and health care services—at lower costs per capita than in rural areas. Urban environments can also offer better prospects for making governments more responsive and accountable to people's needs. The success of slum dweller associations around the world—such as in Mumbai, India, and Nairobi, Kenya—suggests that higher population densities and closer proximity to decision-makers enable poor urban residents to make their voices heard.

Total, urban and slum populations worldwide, mid-2001

Region	Total population (billions of people)	Urban population (percent)	Urban slum population (percent)	Urban slum population (thousands of people)
World	6.1	47.7	31.6	923,986
Rich regions	1.2	75.5	6.0	54,068
Developing regions	4.9	40.9	43.0	869,918
North Africa	0.2	52.0	28.2	21,355
Sub-Saharan Africa	0.7	34.6	71.9	166,208
Latin America and the Caribbean	0.5	75.8	31.9	127,567
East Asia and Oceania	1.4	39.0	36.3	194,323
South-Central Asia	1.5	30.0	58.0	262,354
South-East Asia	0.5	38.3	28.0	56,781
West Asia	0.2	64.9	33.1	41,331
Central and Eastern Europe and CIS	0.4	62.9	9.6	24,831

Estimates from African Population and Health Research Center, in collaboration with UN HABITAT.
Source: UN-HABITAT 2002; UN 2002i.

Strengthening institutions and governance

Many environmental problems are grounded in institutional failures and poor governance. Three institutional failures are especially important for environmental management: inadequate property and user rights, insufficient information and opportunities for local stakeholders to participate in decision-making and weak monitoring and enforcement of environmental standards (box 6.4).

At the international level institutional and governance problems are evident in struggles to develop fair, effective systems to manage global resources such as oceans and the climate. At the national level weak property and user rights are a common cause of environmental problems such as deforestation, overgrazing and overfishing. Managing open access to a common resource is difficult because the decisions of individuals and companies are based on private costs and benefits—and so can reduce environmental and community well-being.

To respond, local people must have the power to manage the environmental systems on which their livelihoods depend. How? Partly by clarifying overall property and user rights to common resources, which may require reforming policies and institutions that control access to land and natural resources. And partly by strengthening women's property rights, because women tend to be more dependent on environmental resources for their livelihoods.

Decentralization can improve environmental governance (see chapter 7). But it should be accompanied by efforts that build community capacity to manage environmental resources and influence planning and policy-making. Respecting the rights of marginal and indigenous groups, who often rely on natural resources for

BOX 6.3

Involving local residents in conservation in Guanacaste, Costa Rica

Since its inception in 1985, Costa Rica's Area de Conservación Guanacaste (ACG) has exemplified a new model of conservation—one featuring decentralized decision-making, a commitment to making wild land a productive asset and a focus on making conservation economically sustainable. Designated as a World Heritage site by the United Nations Educational, Scientific and Cultural Organization, the ACG encompasses 2% of Costa Rica's national territory and is home to more than 235,000 species—65% of the country's biodiversity.

Through a local council, civil society is involved in decision-making on the area, which is one of the region's largest employers and hires only native Costa Ricans. More than $45 million has been invested in the area's development, and its annual budget of $1.5 million is spent directly in the area and neighbouring towns. Local businesses benefit from the influx of visitors. In addition, the ACG serves as a springboard for applied research being conducted by the National Institute for Biodiversity: forest restoration will increase the habitat available to search for profitable natural chemicals. Other environmental services provided by the ACG include eco-tourism, water generation and carbon storage.

The main lesson of Guanacaste is that protected areas must be managed entirely at the local level, with resources suitable for their sustainability. The ACG manages and develops 2% of the country at almost no cost to Costa Rican taxpayers.

Source: Janzen 2000, pp. 122–32; UNDP 2001a.

BOX 6.4

Promoting equity and the environment—a creative fiscal example from Brazil

In 1992 most Brazilian states adopted an ecological value added tax (Imposto sobre Circulacao de Mercadorias e Servicos, or ICMS-E). A levy on goods, services, energy and communications, the tax is the largest source of revenue in Brazil. One-quarter of the revenue goes to municipalities, with allocations to individual municipalities based on various indicators of environmental performance. The states of Paraná and Minas Gerais, for example, distribute revenue based on the proportion of protected areas in each municipality, weighted by a conservation factor related to protection of each area.

The ICMS-E was intended to compensate municipalities with large conservation areas for the resulting loss of revenue. Revenue from the tax is often used to maintain parks and reserves, including tool purchases and employee salaries.

In some states the tax appears to have significantly increased the number and size of protected areas. In Paraná conservation areas grew by more than 1 million hectares between 1991 and 2000—a 165% increase. During 1995–2000 Minas Gerais also added more than 1 million hectares—a 62% increase.

Source: May and others 2002.

much of their incomes, is particularly important.

In many developing countries natural resources are plundered by corruption, benefiting powerful elites at the expense of poor people who depend on such resources. Countering corruption requires strengthening governance, with better enforcement, stiffer penalties and increased community involvement. In several countries citizens are assessing how well governments provide access to environmental decision-making and regularly monitoring environmental governance. Both efforts will likely spur further progress.[13]

Making environmental sustainability part of all sector policies

Most sector policies affect the environment, but too often environmental considerations do not inform policy-making. More scientific advice can ensure that understanding of the natural world feeds into the political process at all levels. Economic analysis, incorporating valuations of environmental assets, should also inform policy-making in all sectors.

Sector policies with significant effects on the environment should be subject to rigorous environmental impact assessments. In addition, Poverty Reduction Strategy Papers—as well as national development and sector strategies—should explicitly address environmental protection and management. National governments, multilateral organizations and bilateral aid agencies need to systematically incorporate environmental impact assessments into their policies and programmes.

Social policies related to the Millennium Development Goals also affect environmental quality (see chapter 4). Investments in human development, particularly in education for women and girls, offer numerous environmental benefits, including reduced population pressure. So, environmental policies need to address the gender dimensions of the links between poverty and the environment, integrating them into the formulation, implementation and monitoring of Poverty Reduction Strategies and related policy reforms.

National frameworks, such as strategies for sustainable development, should guide policies for natural resource management in light of a country's specific resources and concerns. Many national environmental action plans fail to address their effects on other sectors and on the needs of poor people. To improve environmental policy-making, such plans should explicitly address these concerns—as well as their contributions towards reaching the Goals.

Improving markets and removing environmentally damaging subsidies

The normal operations of markets drive apart private gains and social costs because productive activities often generate private benefits for economic agents but impose costs on society. Thus regulation or corrective taxation may be required to align private and public incentives with the need for environmental protection.

Especially harmful are government policies, such as direct or hidden subsidies, that send the wrong signals by pricing environmental resources inappropriately. Reducing environmentally damaging subsidies is often far more cost-effective than directly regulating economic activity. Reflecting environmental costs in market prices—through pollution charges and other market-based policies—also promotes environmentally sound practices and sustainable use of natural resources.

Prices for irrigation water are an important example. Even though water is becoming more scarce in many countries, it tends to be provided to users almost free of charge. That approach promotes waste, increases soil waterlogging and salinization and discourages farmers from investing in water conservation. Other environmentally damaging policies include subsidies that promote large-scale commercial fishing and forestry and excessive use of agricultural chemicals such as fertilizers and pesticides (boxes 6.5 and 6.6).

Topping the list of damaging subsidies, however, are those for fossil fuel consumption. Worldwide, their value exceeds all foreign aid from all sources.[14] There is growing consensus that energy subsidies should focus on expanding access to technology, developing and disseminating cleaner fuels and increasing end use efficiency—not promoting consumption. As some European countries show, pricing fossil fuels appropriately can provide a powerful incentive for increasing the use of renewable energy. The lower unit costs of renewable energy technologies benefit both rich countries and developing countries considering their adoption.

Policy interventions should also account for the impact of economic activities on environmental assets. National income accounts (such as GDP) should differentiate between income from sustainable use of natural resources (sustainable agriculture and forestry) and from activities that reduce stocks of natural capital (extracting minerals or oil). These accounts should also include the effects of economic activities on environmental quality and productivity, such as soil and water degradation.

Such "green" accounts place environmental problems in a framework that economic ministries understand. They also encourage decision-makers in finance, planning and sector ministries to pay more attention to environmental degradation. When the costs of environmental degradation and natural resource

BOX 6.5

Global fisheries—getting sunk by subsidies

Around the world, fish stocks are being depleted because of unrestricted, highly advanced fish harvesting. Overfishing occurs in Asia, parts of Africa and Latin America and many small island countries—with overfishing by local residents often aggravated by fishing fleets from rich countries. According to the United Nations Food and Agriculture Organization, more than a quarter of the world's fisheries are overexploited or depleted.

Global subsidies for fishing are conservatively estimated at $10–15 billion a year—about a quarter of the annual $56 billion trade in fish. These loans, tax incentives and direct payments often support distant fleets that are too large given available fish stocks. The United States provides about $400,000 a boat to help its fishers catch tuna in the South Pacific. In 1996 the European Union spent $252 million—a third of its budget for fisheries—on access agreements for its fleets to fish in distant waters. The European Union also continues to spend more on harmful subsidies—such as to build new boats or modernize old ones (1.2 billion euros in 2000–06 from EU and national budgets)—than on efforts to reduce fishing (1.1 billion euros). According to the World Bank, only 5% of fishing subsidies have a positive environmental aim. Most reduce fish stocks and hurt marine ecosystems.

Source: Institute for European Environmental Policy 2002; WWF 1998; IFPRI 2001; Milazzo 1998.

BOX 6.6

Felling forests—with subsidies

In 1998 the Group of Eight (Canada, France, Germany, Italy, Japan, the Russian Federation, the United Kingdom, the United States) committed to protecting the world's forests. But some G-8 members continue to subsidize forest industries—undermining forest protection and accelerating forest loss.

Among the most pervasive subsidies are low charges for logging companies cutting old-growth wood on public lands, tax write-offs for logging companies, government construction of logging roads at no cost to the companies that will use them and direct grants to logging companies for, say, planning costs. Canada, Japan and the United States are the leading G-8 subsidizers. Among European members, France stands out as the only government with direct investments in logging companies.

Canada's subsidies total $2.0–2.7 billion a year. Japan subsidizes sawmills that process logs imported from old-growth forests in Canada, Siberia and elsewhere, and its export promotion agencies support programmes that destroy old-growth forests and hurt traditional communities in Australia, Indonesia and elsewhere. In the United States timber sale programmes in national forests cost taxpayers more than $2 billion in 1992–97. France is building roads and making related logging investments in environmentally sensitive areas of Central Africa. Numerous studies have shown that such road building does serious harm to the region's primary tropical forests. The Russian Federation's forests are beset by massive illegal logging. Not collecting taxes and fees from such operations is a type of subsidy, offset somewhat by the high risks of doing business in the country.

Source: Sizer 2000; Myers and Kent 1998.

depletion are accounted for, Sub-Saharan Africa's net savings rate goes from positive to negative in most years between 1976 and 2000.

Bolstering international mechanisms for environmental management

Environmental degradation rarely stops at national borders, yet many environmental policies and institutions do. International watersheds, fisheries, pollution and climate change pose environmental policy challenges that must be addressed by countries working together—because the actions of one country affect the welfare of others. Compounding the problem are the unequally distributed benefits of environmental services and the costs of managing them within and between countries.

BOX 6.7

Policy responses to climate change

Scientific evidence strongly supports immediate action to curb the greenhouse gas emissions that cause global warming. The 1997 Kyoto Protocol places most of this burden on rich countries—because while they contain only 16% of the world's population, they generate 51% of such emissions.

The protocol calls on rich countries to reduce carbon dioxide emissions by at least 5% of 1990 levels by 2008–12. Supporters of the protocol see this as an important step towards mitigating climate change. Opponents castigate it for unnecessarily high implementation costs—due to restrictions on emissions trading—and for a lack of emission limits for poor countries. Another criticism is that, even if fully implemented, the protocol would reduce the average global temperature by less than 0.15 degrees Celsius by 2100.

The United States, which produces 25% of global greenhouse gas emissions, has refused to ratify the protocol. Without US participation, no international agreement on climate change is likely to significantly reduce the threat of global warming. But international cooperation is required to provide incentives for the private sector, consumers and governments to reduce greenhouse gas emissions.

To increase acceptance of the protocol, more attention should be paid to minimizing the costs of combating climate change. It will also be important to build on the Clean Development Mechanism, which permits reductions in carbon emissions through innovative international trading systems.

In addition, there is scope for long-term reductions in greenhouse gas emissions in rich and poor countries beyond the terms of the Kyoto Protocol:

- Developing clean energy technologies—solar or wind energy, fuel cells, hydropower, geothermal energy—that release little or no carbon dioxide. Making these technologies cost-competitive with fossil fuels will require increasing public investment in research and development and removing fossil fuel subsidies.
- Developing safe, economical carbon sequestration technologies that prevent the release of carbon dioxide into the atmosphere. Promising examples include natural carbon sinks such as forests, sequestration in deep seas and mines and chemical fixation of carbon dioxide as thermodynamically stable metal carbonates.
- Increasing energy efficiency through more efficient vehicles, appliances, lighting and industrial motors, and through reduced electricity transmission losses.

Source: UN 1997; Nordhaus and Boyer 1999, pp. 93–130; World Bank 2003i; Baumert and others 2002.

Several international environmental agreements have drawn attention to the need to manage the global environment. But implementation of these agreements could be improved. Greater emphasis should be placed on the needs of poor people, particularly in reaching the Goals. And more needs to be done to build developing countries' capacity to implement these agreements and integrate them with national policy-making.

New institutional arrangements may be needed to coordinate national policies in response to regional and global environmental challenges. Stronger cooperation is needed for regional environmental management. The countries along the Rhine river show how costs and benefits can be shared in managing an international watershed.

Intergovernmental processes tend to be difficult to organize and slow to execute, but they are the only realistic way to address cross-border pollution and ecosystem degradation. International agreements should share burdens equitably and ensure that the benefits of better environmental management accrue to the local people who bear the direct costs and lost opportunities of environmental resource protection. The Montreal Protocol—the international agreement to protect the ozone layer—has been a resounding success of global environmental policy. But its implementation was facilitated by cost-effective alternatives to ozone-depleting substances, limiting the need for extensive benefit- and cost-sharing between rich and poor countries.

Although rich countries produce most of the emissions that lead to global warming, the effects are felt all over the world. Meanwhile, progress on curbing these emissions has been mixed (box 6.7).

Investing in science and technology for the environment

Available technologies can go a long way towards addressing complex environmental challenges cost-effectively. Needed are ways to provide these technologies to people who need them most. In poor countries this will often require significantly strengthening institutional capacities for technological cooperation.

Improving technologies for environmental problems will require dramatically reorienting research and development policies. In rich countries public investment in energy research and development—including for renewable energy—has dropped precipitously over the past two decades.[15] Given the need to address climate change, increased investment is essential to expand markets for renewable energy technologies and lower unit costs, benefiting rich countries and enabling poor countries to adopt the same solutions.

Scientific understanding of the natural world is substantial, but a remarkable amount remains unknown. No mechanism exists to track major ecosystems and their continued ability to produce needed goods and services. A Life Observatory should be established to systematically monitor major ecosystems such as coastal habitats, major watersheds and wetlands. Such an observatory would complement current efforts, including the Global Terrestrial Observing System, the Global Climate Observing System and the Global Ocean Observing System.

The Life Observatory should build on the Millennium Ecosystem Assessment, a four-year effort involving 1,500 scientists compiling the best available knowledge on the world's ecosystems and the services they provide. The Life Observatory would ensure that these analyses are continuously updated to map the long-term effects of human activities on specific ecosystems.

To devise responses, policy-makers require reliable scientific forecasts of human-induced environmental change. Environmental indicators that accurately track the environment should be developed and integrated with national policy-making. Long-term planning should factor in projected changes in climate and changes to specific ecosystems to assess how these trends will affect development progress and needs.

Increasing efforts to conserve critical ecosystems

Creating protected areas is often the best way to conserve species diversity and critical ecosystems. More than 60% of terrestrial species are found in 25 ecoregions on just over 1% of Earth's land surface. These biodiversity hotspots face extreme threats that have already caused a 70% loss of their original vegetation.[16]

Available technologies can go a long way towards addressing complex environmental challenges cost-effectively

The best hope for conserving biodiversity and critical ecosystems is for the world's governments, scientists and other key stakeholders to set priorities and cooperate on common goals. Conservation efforts are most effective when constructed by experts from a wide array of disciplines, in consultation with local residents.

Well-managed protected areas can generate significant revenues through tourism and innovative financial mechanisms, such as payments for ecosystem services. Local people, particularly poor people, should be seen as part of the solution—not part of the problem. People whose livelihoods depend on protected areas must benefit from them and have a stake in their continued success. Otherwise such efforts will not be sustainable.

CHAPTER 7

Mobilizing grass-roots support for the Goals

Men and women have the right to live their lives and raise their children in dignity, free from hunger and from the fear of violence, oppression or injustice. Democratic and participatory governance based on the will of the people best assures these rights.

—UN Millennium Declaration, p. 2

Implementing the policies and interventions required to meet the Millennium Development Goals requires the commitment of political leaders. But it also requires sustained political pressure, broad popular support and mechanisms for delivering services effectively. An open democratic state that guarantees civil and political freedoms is essential for such popular mobilization and participatory civic engagement, so that poor people can pressure their leaders to deliver on their commitments to the Goals.

Upon his inauguration as president, Brazil's Luiz Inacio "Lula" da Silva vowed to eradicate hunger by 2005 through his Fome Zero (Zero Hunger) programme.[1] This kind of political momentum, support and mobilization is critical for the Goals, and the Brazilian initiative will go a long way beyond halving the country's proportion of hungry people (Goal 1). Such mobilization around the Goals should be encouraged and sustained. Political leaders must be able to use the Goals to structure their political platforms and campaign manifestos, and electorates must be able to judge leaders' performance based on progress towards the Goals.

Such efforts are already under way in many countries:

- In Cambodia and Niger political leaders have articulated political platforms and policy agendas integrating several Goal-related concerns.
- Chile is promoting public debate on the Goals and making them a major part of parliamentary discussions.
- Paraguay has a tradition of community involvement in setting development priorities, including training community leaders.
- Albania has a strategy to follow up its report on the Goals, including a regional advocacy tour and a plan to establish a forum for civil society organizations.
- Poland has a project to integrate poverty reduction and environmental protection efforts with its national strategy for achieving the Goals.
- Kenya is promoting partnerships with civil society organizations on the Goals. The Goals will also be part of a national meeting of stakeholders in Kenya's Poverty Reduction Strategy Paper (PRSP) process.
- Zambia's 2002 national human development report focuses on poverty and hunger, bringing these concerns into public and policy debates.[2]

The risk is that the Millennium Development Goals will be undermined by entrenched groups that resist policies reallocating resources to the poorest, most marginal members of society. It is more the rule than the exception that more schools and health clinics are built in urban areas than in poor rural villages, and that poor communities often pay more for water than rich ones (see chapter 4).

It is also often the case that pro-poor priorities—such as basic health and education—receive little political attention. The more unequal a society, the less likely it is to generate sustained political support for the Goals, because political power is usually concentrated and overlaps with economic wealth and social dominance. In unequal societies, elite-dominated progress towards the Goals is also less likely to benefit the poorest people. Moreover, overall national progress may still mean that large sections of the population are being left behind, as in Brazil, China, India and elsewhere (see chapter 2).

The risk is that the Millennium Development Goals will be undermined by entrenched groups that resist policies reallocating resources to the poorest, most marginal members of society

Whether the Goals succeed partly depends on the local political environment—on whether there are avenues for citizens to participate in decision-making through formal democratic structures or through direct collective mobilization and action

Reversing such inequities requires political pressure, with people making demands on decision-makers. But even if resources are reallocated and political pressure succeeds, a further risk is that mechanisms for effective implementation will not be created. Basic public services closest to the needs of the poorest people—health clinics, schools, hand pumps, standpipes or wells—are usually managed by bureaucrats and government employees who report to their superiors within the vertical hierarchy of line ministries. Such bureaucrats and government employees rarely feel a strong sense of accountability or belonging to the communities or neighbourhoods they administer. If they were instead held accountable to locally elected municipal bodies, services would likely be delivered more effectively. Effective, accountable responses are encouraged by local incentives—and censure.

The Millennium Development Goals are national political commitments with the potential to provide ordinary people with a powerful tool for holding their leaders accountable for results. The Goals are exciting because they articulate the dreams of ordinary people: to have a school nearby with teachers who show up for work and with books and pens for students. To have at least a hand pump that provides safe water and that women and children can walk to easily. To have a local health clinic supplied with drugs and staffed by a doctor and nurse.

But realizing the potential of the Goals requires that poor people organize and take collective action. This is not simple. Poor people tend to be less organized, less capable of articulating their concern politically, less able to gain access to public services and legal protection, less connected to influential people and most vulnerable to economic shocks.

Whether the Goals succeed partly depends on the local political environment—on whether there are avenues for citizens to participate in decision-making through formal democratic structures or through direct collective mobilization and action (box 7.1). The political processes that matter most to poor people are at the local level, because that is where they have the best chance of holding governments accountable.

The major political reforms of recent decades have made such outcomes more feasible. The 1980s and 1990s saw a huge increase in the global spread of democracy. Some 81 countries—29 in Sub-Saharan Africa, 23 in Europe, 14 in Latin America, 10 in Asia and 5 in the Arab States—took steps towards democratization.[3] As part of these political changes there have been moves towards decentralization and an emergence of new social movements, giving citizens new ways to take collective action. This chapter examines these two political developments to draw lessons for political reforms and social actions that can provide the political momentum needed to achieve the Millennium Development Goals.

Decentralization—its rise, its role, its requirements

In recent years a wide variety of countries—transition and developing, solvent and insolvent, authoritarian and democratic, with governments of the left, right and centre—have pursued decentralization. Since the early 1980s such reforms have been introduced in regimes ranging from monarchies to military juntas to single-party systems to multiparty democracies.

Decentralization involves a central government transferring to local entities some of its political authority and, crucially, some of its resources and administrative responsibilities. These local entities then provide some basic public services and functions. Multipurpose local councils have been created for this purpose in more than 60 countries.[4] And in Latin America, except in a few small countries, nearly all legislative and executive authorities are now elected in 13,000 units of local government.[5]

It is widely believed that decentralization increases popular participation in decision-making because it brings government closer to people—making it more accessible and more knowledgeable about local conditions and so more responsive to people's demands. But does evidence support this idea? More important, does decentralizing authority and resources help advance the pro-poor agenda?

The case for decentralization

Where decentralization has worked (and this is no mean feat)—as in parts of Botswana, Brazil,

BOX 7.1

Madhya Pradesh and Rajasthan—education policies that deliver results

Madhya Pradesh and Rajasthan—two of India's poorest states, with the country's worst social indicators—have transformed schooling for poor people. How?

In 1994 Madhya Pradesh became the first state in India to implement the newly resurrected local governance system—*panchayati raj* institutions. The panchayat leadership, along with the state government, made universal primary education a priority. Between 1991 and 2001 Madhya Pradesh increased its literacy rate by 20 percentage points, from 44% to 64%. Similarly, literacy rates in Rajasthan rose by 22 percentage points, from 39% to 61%. Clearly, both governments were doing some things right.

Rajasthan's success in increasing literacy was driven by the 1987 Shiksha Karmi project and 1992 Lok Jumbish project. These projects initiated state-wide processes that created village education councils representing every part of each village, including women and most castes. The councils made decisions about setting up local schools, monitoring teacher and student performance and raising funds for them.

In Madhya Pradesh participatory surveys under the Lok Sampark Abhiyan (Public Interaction Campaign) at the village and panchayat levels found that dropout rates were not especially high, contrary to what teachers had reported. Instead, initial enrolments were low. Low enrolments were caused by several factors—not least the problem of access to schools.

The policy response was to introduce an Education Guarantee Scheme for primary schooling in all hamlets—not just all villages. Under this scheme, if the parents of 40 children in a locality (25 in a tribal area) seek a school for their children, the state government must provide, within 90 days, a lower-paid teacher's salary for that purpose. The village panchayat can appoint the teacher from within the community. It must also make arrangements for spaces where teachers can hold classes.

In the 50 years since independence, 80,000 schools had opened in Madhya Pradesh as part of the regular government primary school system—while within three years of the scheme's announcement in January 1997, 30,000 new schools were created. Of particular importance is that the scheme dramatically increased enrolments of tribal children—who had among the lowest enrolment rates among vulnerable groups. The scheme also led to a larger than proportionate increase in girls' enrolment.

The Education Guarantee Scheme offers lessons for similar situations around the world. Community demand for schools triggered government action. And while state governments pay and train the teachers, communities recommend them from among local people and provide the teaching spaces. The scheme's success shows that even with severe resource constraints, policy changes and innovative participatory and accountable processes can deliver pro-poor outcomes.

The scheme was so successful that it inspired a national campaign for universal primary education. But the national plan overlooked one crucial factor: the 90-day deadline for providing teacher salaries. This change in project design removed the imperative for the government to deliver within a specified period—and predictably, the national plan has stalled. Replicating project design therefore requires the successful integration of all elements of its success.

Source: Mehrotra and Delamonica forthcoming, Institute of Development Studies 2003.

Colombia, Jordan, South Africa and many states in India (Karnataka, Kerala, Madhya Pradesh, Rajasthan, West Bengal)—impressive achievements have been made, including:

- *Faster responses to local needs.* Local authorities tend to act more in line with local preferences and conditions, and no longer have to wait for permission from higher levels before acting. Decentralization also provides opportunities for women to participate at the local level, enabling a more gender-sensitive approach to policy formulation and implementation. Moreover, government health programmes become more widely used because local councillors are better able than bureaucrats to explain the rationale for them in terms that local people can understand—contributing significantly to the success of the health-related Millennium Development Goals.
- *More accountability and transparency, and less corruption.* Because decentralization tends to enhance transparency, the amount of money corruptly diverted from development programmes often declines in countries that pursue it. A recent study of 55 countries found that decentralization of government spending is closely associated with lower corruption among bureaucrats and reduced rent seeking by private parties—leaving more money to spend on basic services for poor people.[6]
- *Improved delivery of basic services.* Decentralization often reduces absenteeism among government employees in local schools and health clinics because elected local officials receive complaints from their constituents and

can impose discipline. Thus reduced absenteeism enhances basic services at no extra cost—and is crucial to achieving the Goals for health and education.[7] Increased accountability also encourages local people to monitor programme implementation and to protest when government employees perform badly.

- *Better information flows.* Decentralization provides bureaucrats with early warnings of potential disasters—disease outbreaks, floods, droughts—and allows empowered local authorities to take swift remedial action.
- *More sustainable projects.* Decentralization makes development projects more sustainable because local people are more likely to be involved in their design, execution and monitoring (see chapter 4).[8] In addition, participatory budgeting and accounting enhance efficiency and transparency and make projects more gender-responsive.
- *Stronger means for resolving conflict.* Empowering regions and localities helps promote national unity and resolve conflicts, as in Ethiopia and Rwanda. In Namibia and South Africa decentralization was undertaken to redress inequalities among regions.[9] Reallocating resources ensured a more equitable distribution of national funds to regions previously neglected by dominant groups at the centre. It also enabled debate and renegotiation on the allocation of national resources—a source of long-standing conflicts between regions and ethnic groups.
- *Increased energy and motivation among local stakeholders.* Decentralization encourages local people to find solutions to their everyday problems—yielding innovative ideas and reducing the workload in centralized, hierarchical systems.[10]
- *Expanded opportunities for political representation.* Decentralization provides people with a much stronger voice in public policy decisions that affect their lives. In particular, it has increased representation among women (as in India, where one-third of council seats are reserved for women at the *panchayat*, or local, level[11]) and among previously marginalized ethnic groups (such as the Quechua and Aymara communities in Bolivia, the Kalingas and Gaddangs communities in the Philippines and rural ethnic groups like the Songhai and Dogon in Mali).[12]

Decentralization provides bureaucrats with early warnings of potential disasters—disease outbreaks, floods, droughts—and allows empowered local authorities to take swift remedial action

Decentralization can make a particularly big difference in the provision of social services. It facilitates community participation in decision-making and can help resolve issues related to sharing the costs of service delivery. For example, in many cases where governments have been unable to provide schools, communities have pooled resources and labour to build them, with teacher salaries usually paid by the state (see chapter 5). Similarly, the Bamako Initiative has ensured the supply of essential drugs to remote rural communities in Mali and helped identify poor community members who cannot cover certain costs.

Decentralized entities are more efficient at delivering services than top-down sectoral ministries because local planning and participation ensure stronger links between interventions in health, education, water and sanitation and other services (see chapter 4). Local crises receive faster responses—especially because of the improved communications that decentralized systems facilitate. For example, in the Dhar district of Madhya Pradesh, India, a rural community intranet project, Gyandoot, started in January 2000, enabling prompt responses to an early e-mail warning and so preventing an outbreak of a cattle epidemic.[13]

Decentralization also improves implementation and monitoring of service delivery—and expedites responses to bad performance. Around the world, increased transparency and improved scrutiny have reduced both the level of corruption and the scale of embezzlement. Political power is no longer concentrated solely in the hands of national elites. As a result state employees—whether local elected representatives, civil servants or service personnel such as nurses, teachers and water engineers—are held accountable not just to the most powerful segments of society but also to the poorest citizens (box 7.2). Such a setup is critical when planning policy interventions for the Goals.

Many experiments with decentralization are under way. And while their full impact is still being assessed, early indications are promising.[14] The creation of locally elected authorities with jurisdiction over social services ensures

BOX 7.2

Mutual pressures for accountability—between local governments and civil society—strengthen governance in Ceará, Brazil

In 1987 the newly elected state government of Ceará, Brazil, facing falling federal transfers and payroll commitments absorbing 87% of state receipts, undertook several innovative measures. It tried to overcome problems in service delivery by forming alliances with local workers and communities. The initiatives put pressure on local municipalities—from above and below—to improve their performance in areas such as public health, agricultural extension, drought relief and infrastructure construction (such as schools).

Having reduced payroll commitments to 45% in 1991, the government initiated programmes for preventive health and for public procurement from informal producers, as well as a large emergency employment generation scheme for workers laid off from government employment. The state recruited grass-roots workers to provide these services, and motivated them by publicizing their work and offering official recognition for their services—reinforcing respect for the workers.

At the same time, the government encouraged the public to have high expectations of the programmes and to hold workers accountable for their performance. It also informed people of what services they should receive, so they could put pressure on local governments to provide them if the services were not forthcoming. This publicity campaign helped mobilize collective action in communities, with technical support where necessary.

Between 1997 and 2001 the state saw impressive improvements in health indicators. Infant mortality fell by more than one-third, from 40 to 26 per 1,000 live births. Immunization coverage increased by more than one-third, with the number of fully immunized children rising from 67% to 91%. The rate of exclusive breastfeeding for the first four months of life increased from 46% to 61%, and the incidence of child malnutrition was halved to 7%.

Source: Fuentes and Niimi 2002, pp. 123–33; Mehrotra and Delamonica forthcoming.

that these authorities are held accountable to local leaders and citizens (box 7.3).

When decentralization initiatives are pursued with appropriate institutions and resources, they mobilize pressures from civil society and engaged citizens. Such reforms can yield significant benefits not just for poor and excluded groups but also for governments. By addressing many of the problems of poverty, such reforms tend to boost the legitimacy and popularity of governments that introduce them.

Decentralization is particularly significant for the Goals because many are contingent on the effective delivery of basic services. For Goals 2–7, for example, outcomes depend on better services and active engagement of the main stakeholders.

Preconditions for effective decentralization

Decentralization tends to be successful when the central government is stable, solvent and committed to transferring both responsibilities and resources, when local authorities are able to assume those responsibilities and when there is effective participation by poor people and by a well-organized civil society. These conditions generally result in responsive policies and services, increasing growth, equity and human development.

Still, the mere existence of a functioning state, capable local authorities and active civil society does not ensure successful decentralization. The relationships between these three levels are crucial: local authorities must feel pressure from both above (for accountability to national governments) and below (for service delivery to local citizens) to ensure effective and appropriate policies. Thus successful decentralization requires more than just certain political reforms—it also requires establishing a three-way dynamic among local governments, civil society and an active central government.[15]

Decentralization efforts are strongly influenced by a country's size, population, history, political climate and geographic and ethnic diversity. These differences call for different arrangements between central and subnational levels, including devolution, delegation and deconcentration.[16] Experiences with decentralization point to the importance of a few core principles, particularly those related to:

- The functions to be decentralized—which must be carefully selected.
- The resources that enable local authorities to deliver services—which must be provided for in decentralization plans.

BOX 7.3

Decentralization helps increase equity in Kerala, India

The Kerala People's Campaign started in 1996, sparked by the state government's decision to devolve 35–40% of state plan funds to village and municipal bodies. In its first two years the campaign led to the construction of 98,494 houses, 240,307 sanitary latrines, 17,489 public taps and 50,162 wells—all far more than in previous years.

The campaign mobilized local volunteers, notably from the Kerala Sastra Sahitya Parishad (People's Science Movement), and retired experts to assist with technical and financial appraisals of the projects, including engineers, doctors, professors and other professionals. The volunteers assessed residents' needs and resources in each locality, compiling information for *panchayats* (local elected councils), urban development reports and earmarked development projects. They also provided training in project planning, implementation and monitoring.

The participatory, consultative local deliberations increased resources by 10% for the projects because of material and labour donations—and delivered a larger percentage of project funds to scheduled caste and scheduled tribe communities (both historically oppressed social groups). More than 30% of project funds were dedicated to providing housing for these groups.

Under its Women Component Plan, 10% of every project budget was committed to projects benefiting women—such as vegetable gardening, sewing cooperatives, mobilization of *anganwadi* (preschool) personnel and the establishment of community centres for women. With new programmes in the public sector for health care and education, there have also been significant increases in literacy and health.

Source: Franke and Chasin 2000; Mehrotra and Delamonica forthcoming.

Without fiscal decentralization, efforts to decentralize are inevitably stymied

First, many functions with national scope require standardized, uniform provision by a central authority. Examples include defence, foreign policy, currency regulation and maintenance of national standards for primary education and immunizations and other public health interventions. The central government is best entrusted with tasks involving economies of scale and requiring higher financing and stronger regulation (such as training, oversight, technical assistance and capital-intensive facilities). For instance, Lao People's Democratic Republic experimented with decentralizing currency exchange across regions—leading to varied exchange rates and creating tremendous administrative and financial difficulties.[17]

Second, devolving decision-making to local authorities risks being an empty gesture unless backed by sufficient financial resources, administrative capacity and mechanisms for holding those authorities accountable. Village and town councils can sometimes raise some fiscal resources locally—provided they are given powers to do so, which is seldom the case. But much of the needed funding needs to be devolved from above. This does not necessarily require new spending, but rather transferring control over existing spending. Devolving spending does not risk fiscal irresponsibility, as some argue. Nor does it make councils hopelessly dependent on higher authorities, as others claim—as long as councils have some power to decide how to use the funds.

Yet most central governments have failed to devolve adequate funds for local service delivery. Sometimes this is because they derive substantial tax revenues from certain sectors, such as forestry or mining, and want to retain control over them rather than turn them over to local councils or communities.[18] But without fiscal decentralization, efforts to decentralize are inevitably stymied.

Patronage systems—whether dominated by political parties or local elites, or reflecting an undemocratic environment—can also hijack decentralization. Inadequate, unreliable financial commitments from national governments, accompanied by political manipulation and favouritism of specific regions and constituencies, have disastrous consequences. Such shortcomings have created serious challenges for decentralization in Bangladesh, Côte d'Ivoire, Ghana, Kenya and Nigeria.

Some myths about preconditions for successful initiatives need to be dispelled. First, some insist that decentralization is doomed without land reform.[19] But experiences in Karnataka, India, and elsewhere show that is not true. Second, some maintain that a market orientation and an entrepreneurial middle class are essential to decentralization.[20] This too is inaccurate: there have been encouraging initiatives in countries such as Mozambique, where the middle class is underdeveloped.[21]

Successful decentralization involves three indispensable elements:

- Effective state capacity.
- Empowered, committed, competent local authorities.
- Engaged, informed, organized citizens and civil societies.

Effective state capacity. For a central government to devolve authority to local authorities effectively, it must have power to start with. Decentralization requires coordination between levels of government and requires more regulation—not less—to guarantee basic transparency, accountability and representation. The state has to oversee, regulate and where necessary sanction local authorities so that poor people really benefit from political reform. The state also has to raise adequate fiscal resources to support decentralization. When a weak state tries to decentralize, problems arise. In Ukraine, for example, it has been a challenge for a weak, unstable central government to keep local governments functioning with vastly shrunken resources and little or no civil society engagement at the local level.[22] Similar problems of weak national and local capacity have plagued other former Soviet countries that have attempted decentralization.

Decentralization is about state potential, not state failure. When a weak state devolves power, more often than not it is simply making accommodations with local elites—creating what has been called decentralized despotism[23]—rather than expanding democratic spaces. Take Sub-Saharan Africa, where centralized regimes have tried to control rural areas by appointing their own people at the local level—the opposite of sharing political power and enhancing local accountability.[24] Such moves have failed to deliver desired development outcomes.

Nor have decentralization efforts in Papua New Guinea given local people a stronger voice. They have been more about staving off a breakup of the country, under pressure from secessionist movements. The absence of a strong national government able to ensure territorial integrity has undermined the country's decentralization efforts. In such circumstances reforms cannot deliver expected benefits.

Empowered, committed, competent local authorities. Responsibilities for delivering social services need to be devolved to local authorities through legislative or constitutional means that transfer control over both functions and functionaries. But functionaries cannot perform their functions without adequate finance. And whether decentralization serves the interests of poor people depends on whether local authorities promote social justice and are committed to pro-poor mobilization and policies.[25]

In Ceará, Brazil, and Kerala, India, state authorities were strongly committed to reducing poverty and prepared to challenge local elites if they resisted such efforts. For example, in Ceará the Northeast Rural Development Programme was administered by local governments but able to bypass local patronage systems.

Engaged, informed, organized citizens and civil societies. For local authorities to be responsive to people's needs, the two groups must be in constant communication. A well-developed, well-informed civil society, able to collect and articulate the views of the community, is thus indispensable.

In Mozambique committed local authorities working in a decentralized system doubled health staff and focused on outreach—improving vaccination coverage and prenatal consultations by 80%.[26] The government is trying to overcome capacity constraints by engaging partners and commissioning services from a range of providers—public, private, non-governmental organizations (NGOs)—at all levels.

In the state of West Bengal, India, where local authorities (panchayats) were empowered long before the national government required all state governments to create and empower them, poverty declined sharply in the 1980s.[27] Under Operation Barga the panchayats helped improve agricultural technology and reform land tenancy. They also helped register 1.4 million sharecroppers.

Since the late 1980s Mazdoor Kisan Shakti Sangathan (MKSS, or Workers' and Peasants' Strength Organization) in Rajasthan, India, has been campaigning for the right to information. MKSS organizes public hearings to examine official information—detailed accounts derived

For a central government to devolve authority to local authorities effectively, it must have power to start with from official spending records—and assess its validity. It uses these "social audits" to promote democratic functioning at the most tangible and immediate level: the village.

The Philippines is pursuing decentralization under the 1991 Local Government Code, which allocates new functions to locally elected bodies and provides for wide participation. Civil society has been active in promoting public accountability at the local level.[28] The challenge has been to keep local elites from hijacking the process.

Where civil society has demanded accountability and responses from local authorities, decentralization has been more effective

The failures of some decentralization initiatives point to a lack of public awareness and an absence of a culture of participation. Where civil society has demanded accountability and responses from local authorities, decentralization has been more effective.

Ensuring that these three actors—state authorities, local authorities and civil society—interact to improve the lives of poor people is a complex challenge. Indeed, there is nothing automatically pro-poor about decentralization (box 7.4). Dominant groups and narrow interests can hijack it. In Bangladesh, Côte d'Ivoire, Ghana, Kenya, Mexico, Nigeria, Papua New Guinea and Uganda such decentralization led to neither greater participation nor better social and economic outcomes for poor people. Uganda's ambitious but poorly financed and centrally directed decentralization programme has run aground because of its overly centralized technocratic approach and system of local patronage.

Social movements and innovations in popular participation

Direct collective action is another way for ordinary people, especially poor people, to influence decision-making and hold authorities accountable. Social movements have brought exclusion and deprivation to the political fore. They are most active where democratic freedoms have been won recently—or remain to be won. More than mere protests in the streets, they demand changes in decision-making processes. Decentralization has created new possibilities for popular engagement at the local level, leading to the proliferation of municipal activism.

Mobilizing for better living conditions in Bogota, Colombia

For decades, residents of Bogotá, Colombia—particularly those in poor neighbourhoods—have been organizing and mobilizing support to improve the quality of life in the city and reduce violence. These efforts have had some impressive results. Residents were able to elect their mayor for the first time in 1988. In 1994 they elected the first independent mayor, Antanus Mockus, ending the dominance of liberal and conservative parties in the city. The rise of Mockus was largely the result of organization efforts in poor neighbourhoods. His administration put forth a development plan based on "constructing a new city". The following administration, of Enrique Peñalosa—another independent—emphasized the development of public spaces such as parks, plazas, sidewalks and bicycle paths.

Such efforts have tangibly improved living conditions in Bogotá. Deaths from traffic accidents are down, from a peak of 1,387 in 1995 to 745 in 2001. Homicide rates have fallen even more sharply, from a peak of 4,452 in 1993 to 2,000 in 2001. Perhaps most surprising was a voluntary tax campaign that increased city revenues by $500,000 during the same period.[29] A recent study of political, fiscal and administrative indicators by the Colombian National Planning Office gave Bogotá the highest score of all Colombian municipalities.[30]

Promoting a democratic culture in Bolivia

Bolivia's Popular Participation system is an example of the recent trend towards administrative and fiscal decentralization in developing countries.[31] The Popular Participation Law, passed in 1992, ensures that decentralization includes participation by local civil society and grass-roots organizations in municipal planning and oversight of development projects.

This approach was driven by the challenges facing local civil society organizations and reflected Bolivia's long tradition of community participation in both indigenous cultures and labour and mining unions. The Popular Participation Law divided the country into 314 municipalities

BOX 7.4

Does decentralization help reduce poverty?

Area/country	*Outcome* — *Participation by or responsiveness to poor people*	*Outcome* — *Impact on social and economic poverty*
Bangladesh	Poor: some improvement in participation, but very weak representation of and low responsiveness to poor people	Poor on all criteria, undermined by corruption and political patronage
Brazil	Little evidence, but thought to be poor, as spoilage and patronage systems run by powerful mayors and governors still dominant	Good on equity and human development in exceptional areas where state and federal programmes combined with decentralization; poor on spatial equity
Chile	No evidence	Mixed: growth and equity good as a result of targeting, but human development and spatial equity show negative outcomes
Colombia	Fairly good: ambiguous evidence on participation and representation, but improved responsiveness	Fairly good: little evidence on growth or equity, but good results on human development and spatial equity
Côte d'Ivoire	Poor: low participation and representation, very low responsiveness	Spatial equity probably improved through government allocations to rural areas
Ghana	Mixed: improved participation by poor and community groups—but representation has hardly improved, and responsiveness is quite low	Limited evidence shows that resources were too insignificant to have made much impact; spatial equity may have improved through government allocations
Karnataka, India	Fairly good: improved representation, but poor people's participation is less effective and responsiveness low	Neutral: did little to help pro-poor growth or equity; human development and spatial equity indirectly benefited from funding allocations and development programmes
Kenya	Very poor: deconcentration scheme was politically run	Some impact on spatial equity through politically motivated redistribution
Mexico	No evidence available, but it is assumed that party-dominated patronage system has changed little	Poor despite significant central funding; equity, spatial equity and human development undermined by political patronage
Nigeria	Very poor: low participation and representation, bad record of responsiveness and lack of accountability	Poor: bad record on equity and human development; spatial equity subject to political manipulation and urban bias
Philippines	Mixed: representation and participation improved through people's organizations and nongovernmental organizations (NGOs), but evidence on responsiveness contested—and local elites remain powerful	No evidence
West Bengal, India	Good: improved participation, representation and responsiveness	Good: increased growth, equity and human development; evidence lacking on spatial equity

Source: Adapted from Crook and Sturla Sverrisson 2001, forthcoming.

In Bolivia decentralization has also increased participation by indigenous populations, especially the Quechua and Aymara communities

that receive central funding for projects based on their populations.

While these reallocations have had mixed results in reducing poverty, they have reduced spatial inequality by providing resources to regions—such as remote rural areas—previously neglected. Decentralization has also increased participation by indigenous populations, especially the Quechua and Aymara communities. Among the new system's most important effects has been promoting an inclusive democratic culture.

Raising awareness of HIV/AIDS in Thailand

Since the early 1990s Thailand's Population and Community Development Association, a non-governmental organization (NGO) previously focused on family planning, has made enormous strides in raising awareness about HIV/AIDS. It helped promote compulsory informational broadcasts on radio and television for 30 seconds every hour. It also helped establish a national AIDS education programme. And it has conducted "condom nights" and "Miss Anti-AIDS beauty pageants" in the most frequented sex districts of Bangkok, providing an opportunity to educate high-risk groups—prostitutes and their clients—and to distribute condoms.

Such efforts have helped reduce new HIV cases, highlighting the importance of local mobilization. Building awareness, promoting contraceptive use and fostering local participation and support are thus critical for achieving the Millennium Development Goal of reversing the spread of HIV/AIDS, malaria and other infectious diseases.

Mainstreaming gender into budget policies in South Africa

In 1995 the South African Women's Budget Initiative was established by the Gender and Economic Policy Group of the Parliamentary Committee on Finance and by two policy-oriented NGOs focused on research and advocacy. By linking researchers and parliamentarians, the research was assured of being advanced into advocacy—while the parliamentarians were given a solid basis for their advocacy. Not restricted to economics, the exercise promoted a multidisciplinary approach, integrating issues that conventional economic analysis does not address. Such oversights had often resulted in gender-blind policies. The initiative documented this gender blindness as well as the emerging problem of HIV/AIDS.

This work was extended when the Gender Advocacy Programme, a women's NGO, performed research in Western Cape Province on budget allocations in 2000 related to the Domestic Violence Act of 1998. Supported by the provincial government, the research examined the budget provisions made in the departments (justice, safety and security, welfare) responsible for implementing the act. Though such initiatives are still too recent to have affected policy outcomes, they are a step towards increasing participation and inputs for policy-making.[32]

Such policy formulation and budget measures have great significance for the Goals, especially those for hunger, education, women's empowerment, child mortality, maternal health and HIV/AIDS and other diseases. Providing basic services for targeted people and groups improves their outcomes, as do specialized services for vulnerable groups.

Participatory budgeting in Porto Alegre, Brazil

In Porto Alegre, in Rio Grande do Sul, Brazil, the Workers' Party initiated participatory budgeting in 1988, thereafter strengthened with its electoral wins in 1992 and 1996.[33] Clientelistic budgeting was transformed into a fully accountable, bottom-up deliberative system, driven by the needs of city residents.

The scheme has had several good results.[34] Citizen participation in preparing and ranking public policies has increased impressively. The share of the city population with access to water rose from 49% in 1989 to 98% in 1996.[35] The number of children enrolled in elementary or secondary schools doubled in the same period.

All this was made possible by a 48% increase in local revenue collection that accompanied the interventions. Municipal funding has been redistributed to fund works in poor areas of the city. Transportation has expanded to outlying zones. The quality and reach of public works and services—such as road paving, housing and urban development projects—have increased. Many slums have been urbanized. Half the street pavement deficit has been eliminated. And corruption has been reduced.

The high level of civil society engagement and the change in attitude of the political authorities has been an enormous advantage for deliberation and consensus building. Representatives of the city's 16 administrative regions meet twice a year at plenary assemblies to settle budget issues. The events are coordinated jointly by the municipal government and community delegates, and attendees include city executives, administrators, representatives of neighbourhood associations and youth and health clubs and any other interested residents.

An annual assembly of the 16 regions in March assesses the previous year's budget and elects representatives to participate in weekly meetings for the next three months to work out the region's spending priorities for the coming year. The three months spent preparing for the second regional assembly involve local and neighbourhood consultations on issues such as transportation, sewerage, land regulation, day care centres and health care, and these findings are reported at the second assembly. Also at the second assembly, two delegates and their substitutes are elected to represent the region in the citywide Participatory Budgeting Council, to work for five months on formulating the city budget, incorporating the regional agendas.

The council is made up of the regional delegates, elected thematic representatives and delegates representing the municipal workers union, the neighbourhood associations union and central municipal agencies. This body meets weekly from July until September to formulate a municipal budget to be presented to the mayor. On 30 September every year, the annual municipal budget is presented, which the mayor can accept or remand to the council by his veto. The council can then respond by amending the budget or by overriding the mayoral veto with a two-thirds vote.

This participatory budgeting exercise has become popular, with more than 100,000 people (8% of the adult population) participating in the 1996 round of regional assemblies and the various intermediate meetings.[36] The work of several civil society organizations sustains the popular momentum by providing support to various meetings and raising awareness, advocating and researching for common community objectives.

The Porto Alegre experiment has been so successful that it has spread to many other Brazilian cities, including São Paulo, Santos, Belo Horizonte, Campinas and Vitoria, as well as other Latin American countries. These experiences offer important lessons for formulating strategies to address the Millennium Development Goals, especially those aimed at improving the lives of slum dwellers and ensuring sustainable access to safe drinking water and improved sanitation.

The Porto Alegre experiment has been so successful that it has spread to many other Brazilian cities, including São Paulo, Santos, Belo Horizonte, Campinas and Vitoria, as well as other Latin American countries

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The examples of decentralization and local mobilization provided here focus on the redistribution of public spending, especially for social services. But they do not address other key issues of access to economic opportunities and productive assets. They are less likely to be effective in exerting political pressure for public policies that contribute to growth and that raise the incomes of poor households, such as tax reform, asset redistribution and promotion of investments in employment-generating industries.

That does not mean that the scope and ambition of such efforts are modest. There are other constitutional and legal commitments for which governments are accountable where social mobilization can also play a role: the elimination of poverty, the provision of employment, the reduction of inequality and the progressive realization and guarantee of human rights. The Millennium Development Goals put a spotlight on these objectives, which are properly the focus of human development. The path for reaching those Goals also matters and, as stated in the Millennium Declaration, democratic and participatory forms are best equipped for this.

CHAPTER 8

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

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

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

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

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

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

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

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

BOX 8.1

Millennium Development Goal 8

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

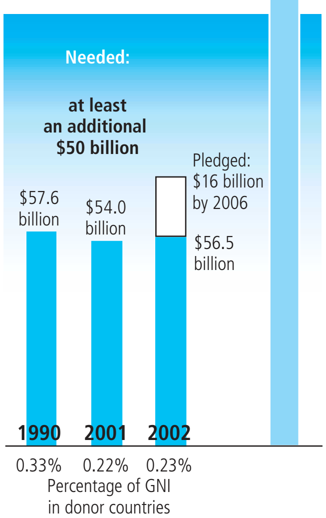
- Develop further an open trading and financial system that is rule-based, predictable and nondiscriminatory. Includes a commitment to good governance, development and poverty reduction—nationally and internationally.
- Address the least developed countries' special needs. This includes tariff- and quota-free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

Source: UN 2003b.

FIGURE 8.1

Aid—what's needed, what's given?

2000 US dollars

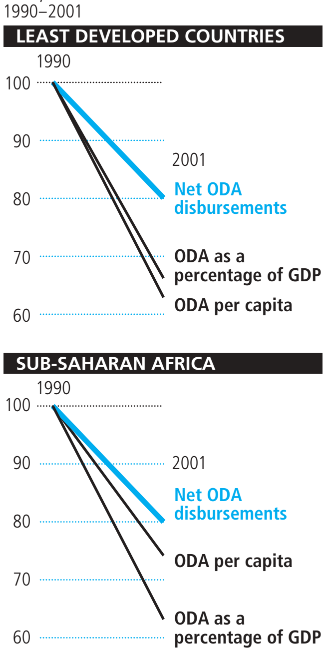


Source: Total needed: World Bank and IMF 2001; total given: OECD, Development Assistance Committee 2003c; *Economist* 2001.

FIGURE 8.2

Official development assistance (ODA) in decline

Index, 1990=100
1990–2001



Source: OECD, Development Assistance Committee 2003a.

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

Aid—more and more effective

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

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

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

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

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

BOX 8.2

Official development assistance: the 0.7% target

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

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

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

Source: UN 2002e.

TABLE 8.1

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

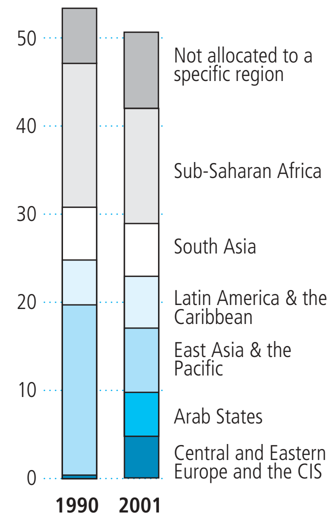
Region	Per capita of recipient 1990	Per capita of recipient 2001	Percentage of GDP 1990	Percentage of GDP 2001
All developing countries	15	10	1.61	0.81
Least developed countries	33	20	12.92	8.45
Arab States	59	18	2.85	1.00
East Asia and the Pacific	5	4	0.77	0.32
Latin America and the Caribbean	13	12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

Source: OECD, Development Assistance Committee 2003a.

FIGURE 8.3

Official development assistance, net disbursements

2000 US$ billions



Source: OECD, Development Assistance Committee 2003a.

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

MAKING AID MORE EFFECTIVE

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

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

BOX 8.3

New financing for the Goals

Pledges since Monterrey

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

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

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

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

A proposal for a new financing mechanism

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

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

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

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

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

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

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

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

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

What should be done?

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

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

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

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

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

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

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

BOX 8.4

Making government-led partnerships work in Tanzania

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

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

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

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

Source: Hendra and Courtnadge 2003.

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

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

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

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

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

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

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

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

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

BOX 8.5

Refocusing technical cooperation on capacity development

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

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

Source: Lopes and Thieson 2003.

For donor countries, Mr. DUCCA:

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

For recipient countries, Mr. LIPPO:

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

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

Debt relief—faster and deeper

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

Following through on commitments to relieving debt

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

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

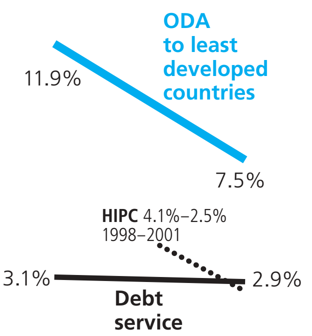
By early 2003 the HIPC initiative had benefited 26 countries.[11] Eight countries have reached their completion points, meaning that some of their debt has been forgiven. Another 18 countries have reached their decision points, meaning that they will begin to benefit from debt service relief. For these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

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

FIGURE 8.4

For the poorest: caught between falling aid and level debt

Percentage of GDP in least developed countries, 1990–2001



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

BOX 8.6

What is the Heavily Indebted Poor Countries initiative?

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

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

Debt relief occurs in two steps:

• At the decision point the country gets debt *service* relief after having demonstrated adherence to an IMF programme and progress in developing a national poverty strategy.

• At the completion point the country gets debt *stock* relief upon approval by the World Bank and the IMF of its Poverty Reduction Strategy Paper. The country is entitled to at least 90% debt relief from bilateral and multilateral creditors to make debt levels sustainable.

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

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

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

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

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

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

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

What should be done?

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

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

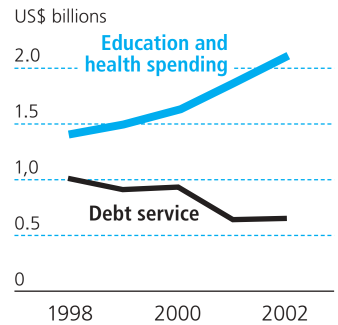
More relief. Debt servicing capacity should be assessed relative to the country's needs for achieving the Goals. For many countries this will require full debt cancellation. The HIPC debt-export measure of debt sustainability has little to do with the needs of poor people. If debtor countries and donors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

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

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

FIGURE 8.5

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



Source: OECD, Development Assistance Committee 2003a.

BOX 8.7

A proposal for restructuring debt to reach the Goals

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

Apply justice and reason to the resolution of debt crises

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

Recognize the responsibilities of both debtors and creditors for the crisis

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

Ensure an open, accountable, transparent process

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

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

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

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

Source: Pettifor and Greenhill 2003.

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

TRADE—OPENING MARKETS, REDUCING SUBSIDIES

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

CHANGING TRADE PATTERNS

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

TABLE 8.2

Trade: exploiting the opportunities—or not

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

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

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

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

WHAT SHOULD BE DONE?

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

TABLE 8.3
Post–Uruguay Round tariffs and reductions in selected countries and groups
(percent)

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

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

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

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

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

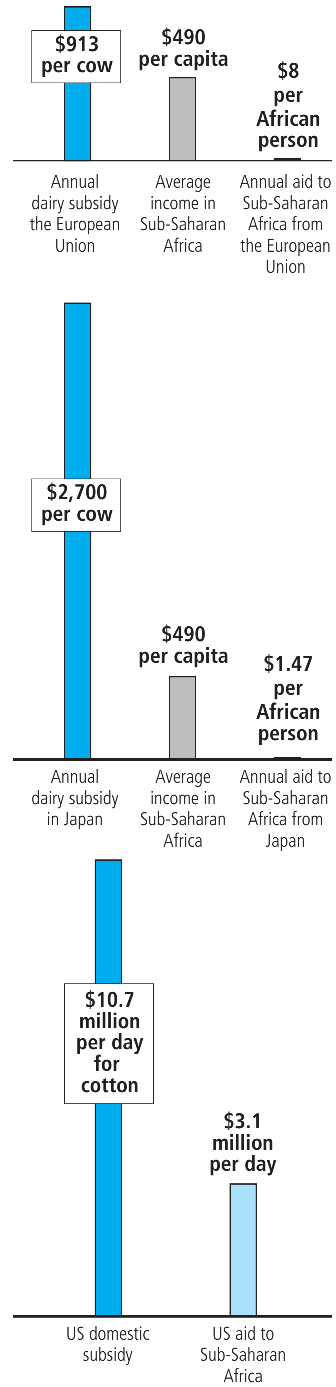
Quotas. Import quotas are a more extreme version of the same policy. Rather than just making developing country products less competitive, quotas do not allow those products past a certain volume to compete at all. OECD countries subject imports to a wide variety of quotas, particularly for clothing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

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

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

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

FIGURE 8.6
Cows and cotton receive more aid than people, 2000



Source: Birdsall and Clemens 2003b.

BOX 8.8

The long international reach of domestic subsidies

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

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

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

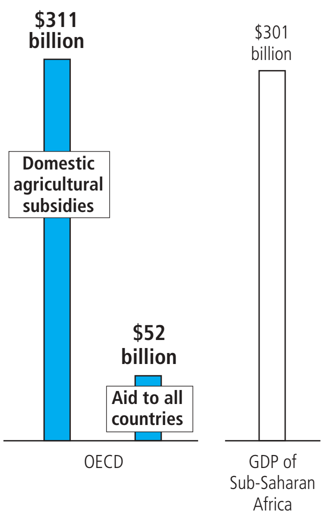
What about consumers in poor countries? Other things being equal, rich country subsidies should drive down the prices they pay for traded food, so they should benefit. But in many poor countries a large share of consumers are also agricultural producers. Such people are affected in two ways by rich country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

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

Source: Cline 2002.

FIGURE 8.7

OECD agricultural subsidies dwarf aid, 2001



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

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

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

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

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

BOX 8.9

The Doha gamble for Africa's cotton exporters

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

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

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

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

Source: ICCC 2002.

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

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

Global technology—sharing the fruits of global knowledge

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

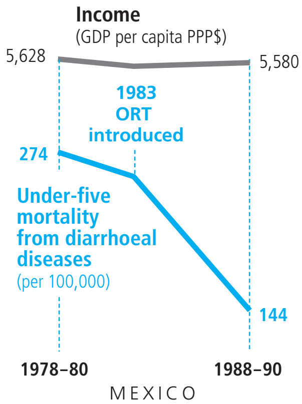
Linking technology and human development—and harnessing global knowledge

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

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

FIGURE 8.8

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



Source: Gutierrez and others 1996.

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

Underinvestment in technology for poverty reduction

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

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

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

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

Technology access and intellectual property rights

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

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

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

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

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

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

What should be done?

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

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

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

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

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

TABLE 8.4

Rich country responsibilities

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

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

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

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

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

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

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

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

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

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

BOX 8.10

The commitment to development index

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

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

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

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

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

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

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

Source: Birdsall and Roodman 2003.

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

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

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

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

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

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

Notes

Chapter 1

1. UN 2000a.
2. UN 2000a.
3. UN 2001b.
4. See for example Khor 2000.
5. UN 2002d.
6. Jolly 2003; Foster 2002; Bissio 2003; White and Black 2002.
7. World Bank 2003i.
8. UNICEF 2003b.
9. World Bank 2003i.
10. UNICEF 2003b.
11. WFUNA and North-South Institute 2002.

Chapter 2

1. Except for income, reversals do not include countries with low levels of human poverty in the relevant indicator. For definitions of the human poverty levels, see technical note 2.
2. Measured using the $2 a day poverty line, considered a more appropriate extreme poverty line for Central and Eastern Europe and the CIS (UNDP 2003c).
3. Human Development Report Office calculations based on indicator table 27.
4. Human Development Report Office calculations based on Alvarez and others 2002.
5. World Bank 2003i.
6. Birdsall and Clemens 2003b.
7. World Bank 2002f.
8. World Bank 2002f.
9. Covers different periods between 1990 and the mid- to late 1990s for countries with data on national poverty trends.
10. Data are from World Bank 2000a and 2003i, ECLAC 2002, UNCTAD 2002a and Milanovic 1998.
11. Measured using the $2 a day poverty line, considered a more appropriate extreme poverty line for Central and Eastern Europe and the CIS (UNDP 2003c).
12. UNAIDS 2000.
13. FAO 2001b.
14. UNAIDS 2000.
15. UN 2002g.
16. UNAIDS 2002b.
17. Eberstadt 2002.
18. See technical note 2 for more details on the categorization of top priority and high priority countries.
19. Refers to a score of 4 or greater from Marshall 2000.
20. UNAIDS 2002b.
21. Gwatkin 2002.
22. Vandemoortele 2001.
23. Filmer and Pritchett 1999; Watkins 2000.
24. Data are from demographic and social surveys. Data on wealth are based on household characteristics and possessions. The "wealthy" class is the top fifth of the distribution, determined after ranking households by wealth (Minujin and Delamonica 2003).
25. Minujin and Delamonica 2003.
26. Watkins 2000.
27. Watkins 2000.
28. Sahn and Stifel 2003.
29. Minujin and Delamonica 2003.
30. Watkins 2000.
31. Klasen and Wink 2002.
32. UNDP 2003c.
33. Minujin and Delamonica 2003.
34. UNAIDS 2002b.
35. Chapter 5 provides a more conceptual and systematic discussion of gender discrimination.

Chapter 3

1. The Dominican Republic is a top-priority country in hunger and sanitation. Mozambique is a top-priority country in primary education and gender equality. See feature 2.1 for further information.
2. Commission on Macroeconomics and Health 2001.
3. Commission on Macroeconomics and Health 2001.
4. Sen 1999.
5. Mehrotra and Jolly 2000.
6. UNICEF 2000.
7. Based on Human Development Report Office calculations using Maddison 2001 and World Bank 2003i.
8. Based on Human Development Report Office calculations using Maddison 2001 and World Bank 2003i.
9. Excludes transition countries and fuel exporters and includes only countries with a population of at least 1 million and for which data on the export structure are available.
10. Prosterman and Hansted 2000.
11. The distribution of social and cultural power adds an important caveat to this ability. Many microfinance schemes have failed to prevent the funds from eventually reaching and being controlled by male heads of household.
12. Daley-Harris 2003.
13. World Bank 1998b.

Chapter 4

1 Caldwell 1979.
2. Carnoy 1992.
3. Caldwell 1986.
4. Caldwell 1986.
5. Mehrotra 2000c; UNESCO 1999.
6. UNICEF 2001b.
7. UN 2002b.
8. Millennium Project Task Force 2 2003b.
9. Millennium Project Task Force 2 2003b.
10. Pinstrup-Andersen, Pandya-Lorch and Rosegrant 1999; Millennium Project Task Force 2 2003b.
11. Millennium Project Task Force 2 2003b.

12. UN 2002b.
13. Panos Institute 2001.
14. MDG indicator table 1.
15. FAO 2002b.
16. MDG indicator table 1.
17. MDG indicator table 1.
18. Millennium Project Task Force 2 2003b.
19. FAO 2002b; MDG indicator table 1.
20. World Bank 2003i.
21. Seventeen countries, including some of the most populous, have achieved reductions of 25% or more over the decade.
22. Millennium Project Task Force 2 2003b.
23. Millennium Project Task Force 2 2003b.
24. Human Development Report Office calculations based on Millennium Project Task Force 2 2003a.
25. Millennium Project Task Force 2 2003b.
26. Millennium Project Task Force 2 2003b.
27. Millennium Project Task Force 2 2003b.
28. Millennium Project Task Force 2 2003b.
29. Millennium Project Task Force 2 2003b.
30. Drèze and Sen 1995.
31. World Bank 2002d.
32. Panos Institute 2001.
33. Panos Institute 2001.
34. Panos Institute 2001.
35. IFAD 2001.
36. Agarwal 1994.
37. FAO 2002a.
38. Swaminathan 2001.
39. Millennium Project Task Force 2 2003b.
40. Millennium Project Task Force 2 2003b.
41. Millennium Project Task Force 2 2003a.
42. Millennium Project Task Force 2 2003a.
43. Millennium Project Task Force 2 2003a.
44. Pretty and Hine 2000; Millennium Project Task Force 2 2003a.
45. Millennium Project Task Force 2 2003a.
46. Millennium Project Task Force 2 2003a.
47. Millennium Project Task Force 2 2003a.
48. Scherr, White and Kaimowitz 2002.
49. OECD, Development Assistance Committee 2003c.
50. MDG indicator table 1.
51. MDG indicator table 1.
52. MDG indicator table 1.
53. India, Planning Commission 2002.
54. Human Development Report Office calculations.
55. Indicator table 10.
56. UNESCO 2002a.
57. UNESCO 2002a.
58. Includes Afghanistan, Bangladesh, Bhutan, India, the Islamic Republic of Iran, Maldives, Nepal, Pakistan and Sri Lanka.
59. Flug, Spilimbergo and Wachtenheim 1998; World Bank forthcoming.
60. See for example Gupta, Verhoeven and Tiongson 2002 and Mehrotra and Delamonica forthcoming.
61. Delamonica, Mehrotra and VandeMoortele 2001.
62. Millennium Project Task Force 3 2003.
63. Hanmer and Naschold 2001.
64. Millennium Project Task Force 3 2003.
65. UNESCO 2002a.
66. Multilateral here refers to the African Development Bank, Asian Development Bank, Inter-American Development Bank (Special Fund), European Development Fund of the European Community, International Development Association (of the World Bank Group), United Nations Development Programme and United Nations Children's Fund (OECD, Development Assistance Committee 2003c).
67. Mehrotra and Delamonica forthcoming.
68. Mehrotra 1999.
69. Mehrotra and Jolly 2000.
70. Mehrotra 1998.
71. Mehrotra and Biggeri 2002.
72. Mehrotra and Delamonica 1998.
73. Mehrotra and others forthcoming.
74. Tilak 1997.
75. Mehrotra 1998.
76. Mehrotra 1998.
77. UNICEF 1999.
78. In many African countries at the junior secondary level and beyond, the phenomenon of teachers becoming "sugar daddies" is seen as a disincentive for sending postpuberty girls to school.
79. Heng and Hoey 2000; Loewenson and Chisvo 2000.
80. Alidou and Jung 2002.
81. Delamonica, Mehrotra and VandeMoortele 2001.
82. World Bank 1996.
83. Mehrotra 1998.
84. At the secondary level in developing countries the share of teacher costs is about 80%, while at the higher level it is about 60% (Mehrotra and Buckland 1998).
85. Mehrotra 1998.
86. UNESCO Institute for Statistics and OECD 2002.
87. UNESCO and ILO 1966.
88. UNESCO and ILO 1966.
89. Buckland, Hofmeyr and Meyer 1993.
90. Watkins 2000.
91. Human Development Report Office calculations based on feature 2.1 in chapter 2.
92. UNICEF 2001b.
93. Millennium Project Task Force 4 2003.
94. UN 2003g; UNDP 2002e.
95. Millennium Project Task Force 5 2003b.
96. Millennium Project Task Force 5 2003d.
97. UNICEF 2001b.
98. Carlsson and Valdivieso 2003.
99. International Institute of Population Sciences 2000.
100. According to estimates by the World Health Organization's Commission on Macroeconomics and Health, the minimum financing needed to cover essential interventions, including those for fighting the AIDS pandemic, is about $30-40 a person per year. Actual health spending in the least developed countries is around $13 a person per year, of which $7 is from budgetary outlays. Other low-income countries spend around $24 a person per year, of which $13 is from budgetary outlays (Commission on Macroeconomics and Health 2001). Clearly, health spending needs to be substantially increased.
101. Mehrotra and Delamonica forthcoming.
102. Multilateral here refers to the African Development Bank, Asian Development Bank, Inter-American Development Bank (Special Fund), European Development Fund of the European Community, International Development Association (of the World Bank Group), United Nations Development Programme and United Nations Children's Fund.
103. OECD, Development Assistance Committee 2003c.
104. Mehrotra and Delamonica forthcoming.
105. Mehrotra and Delamonica forthcoming.
106. Mehrotra and Delamonica forthcoming.
107. Mehrotra and Delamonica forthcoming.
108. WHO 2000.
109. Mehrotra and Delamonica forthcoming.
110. World Bank 1993.
111. WHO 2000.
112. Millennium Project Task Force 7 2003.
113. Millennium Project Task Force 7 2003; UN 2002c.
114. WHO, UNICEF and WSSCC 2000.
115. WHO, UNICEF and WSSCC 2000.
116. UN 2000b.

117. WSSCC 2002.
118. World Bank 2003i; UN 2002c.
119. Indicator table 6.
120. UN 2002c.
121. World Panel on Financing Water Infrastructure 2003.
122. According to the World Bank Operations Evaluation Department.
123. World Panel on Financing Water Infrastructure 2003.
124. OECD 2003b.
125. This includes aid for water resources development, water resources protection, water supply and use, water legislation and management, sanitation (including solid waste management), education and training in water supply and sanitation and water resources policy, planning and programmes. It excludes aid for dams and reservoirs primarily for irrigation and hydropower and activities related to water transport.
126. OECD 2003b.
127. OECD 2003b.
128. OECD 2003b.
129. World Panel on Financing Water Infrastructure 2003.
130. WSP 2002a.
131. Stiglitz 2002a.
132. Mehrotra and Delamonica forthcoming.
133. Reddy 2003; Mehrotra and Delamonica forthcoming.
134. Mehrotra and Delamonica 1998.
135. Mehrotra and Delamonica forthcoming.
136. World Bank 2003g.

Chapter 5

1. For Pakistan, Watkins 2000 and Mehrotra and Delamonica forthcoming; for India, De and Drèze 1999.
2. Van Lerberghe and others 2002.
3. Leipziger and Foster 2003.
4. For evidence, see World Bank 1993.
5. World Bank 2002b.
6. Berman and Rose 1996.
7. Iriart, Merhy and Waitzkin 2001.
8. Iriart, Merhy and Waitzkin 2001.
9. Stocker, Waitzkin and Iriart 1999.
10. Iriart, Merhy and Waitzkin 2001.
11. Mills 1997.
12. Barros, Vaughan and Victora 1986.
13. Yesudian 1994.
14. Velasquez, Madrid and Quick 1998.
15. Iyer and Sen 2000.
16. Yang 1993; Nittayaramphong and Tangcharaoensathien 1994.
17. Saywell 1999.
18. Tomlinson 1997.
19. Shaokang, Shenglan and Youde 1997.
20. Iriart, Waitzkin and Trotta 2002.
21. Iriart, Merhy and Waitzkin 2001.
22. Van Lerberghe and others 2002; Sitthi-Amorn, Janjaroen and Somrongthong 2001.
23. Watkins 2000.
24. UNESCO and OECD 2000.
25. De and Drèze 1999; Mehrotra and others forthcoming.
26. UNESCO Institute of Statistics and OECD 2002.
27. Results USA 2003.
28. Cox and Jimenez 1991; Mehrotra and Delamonica forthcoming; Watkins 2000.
29. Mehrotra and Delamonica forthcoming; Watkins 2000.
30. Watkins 2000.
31. UNESCO Institute for Statistics and OECD 2002.
32. UNESCO Institute for Statistics and OECD 2002.
33. Watkins 2000.
34. Mehrotra and Delamonica forthcoming.
35. UNESCO and OECD 2000.
36. West 1997; Kremer 2003.
37. Hall 2002.
38. Bayliss 2002b.
39. World Panel on Financing Water Infrastructure 2003.
40. Bayliss 2002b.
41. Bayliss 2002b.
42. Leipziger and Foster 2003.
43. Garnier and others 2000; Duncan, Jefferis and Molutsi 2000; Loewenson and Chisvo 2000.
44. Alailama and Sanderante 2000; Krishnan 2000.
45. Mehrotra and Jarrett 2002.
46. UNESCO 1996.
47. Rohde and Vishwanathan 1995.
48. Mills 1997.
49. See detailed accounts at http://www.icij.org such as ICIJ 2003b, 2003d and 2003e.
50. Business Partners for Development 2002.
51. Murphy and Bendell 1999.
52. Mehrotra and Delamonica forthcoming.
53. Kawabata, Xu and Carrin 2002.
54. World Panel on Financing Water Infrastructure 2003.

Chapter 6

1. UNDP, DFID and World Bank 2002.
2. IMF 2000.
3. WEHAB Working Group 2002b.
4. UNDP 2002d; UNDP, DFID and World Bank 2002.
5. UNDP, DFID and World Bank 2002.
6. Khemani 2001.
7. Khemani 2001.
8. IPCC 2001a.
9. UNDP, WEC and UNDESA 2000.
10. UNDP, WEC and UNDESA 2000.
11. Koziell and McNeill 2002.
12. UNDP, DFID and World Bank 2002.
13. Petkova and others 2003.
14. UNDP, WEC and UNDESA 2000.
15. IEA 1999.
16. Myers and others 2000.

Chapter 7

1. Osava 2003. Lula's first high-profile decision was to delay for a year the tender for a $760 million purchase of 12 fighter planes that were to replace the air force's fleet of combat jets, now nearly 30 years old and due to be phased out by 2005. The funds will instead go towards the "Zero Hunger" programme. All ministries will have to cut costs as part of a united effort to allow greater social spending, especially on the Zero Hunger programme.
2. UNDP 2002f.
3. UNDP 2002e.
4. Manor 2003.
5. Mehrotra and Delamonica forthcoming.
6. Fisman and Gatti 2002. The authors discuss decentralization of government expenditure and conclude, based on a study of 55 country cases, that it has a strong and significant association with lower corruption and bureaucratic rents.
7. Manor 2003.
8. Manor 2003.
9. Watson 2002.
10. Turner and Hulme 1997.
11. In India the local administrations at the village, block and district levels are called panchayati raj institutions. In 1992 national legislation under the 73rd and 74th constitutional amendments required that a third of all seats in panchayats be reserved for women.
12. Blair 2000.
13. UNDP 2003d.
14. Much of the evidence on these decentralization initiatives is derived from extensive case studies. The reason is that quantifying many important effects of political reform poses both

an empirical and a conceptual challenge. Some are exceedingly difficult—and in some cases impossible—to measure. For further discussion of this issue, see Manor 2003.
15. Tendler 1997.
16. Decentralization initiatives involve different types of arrangements between central and local authorities. These may take the form of deconcentration, where local offices implement policies decided at the national level; delegation, where local governments have limited decision-making power over funding and policy and act as agents ultimately responsible to the central government; and devolution, where the central government transfers resources, responsibility and decision-making to the local level. Decentralization commonly involves a mix of all three.
17. UNDP 2001b.
18. Manor 2003.
19. For a discussion, see Manor 1999, Evers 1996 and Hessling and Ba 1994.
20. For a discussion, see Manor 1999 and Fuhr 2003.
21. Manor 1999.
22. Blair 2000.
23. Mamdani 1996.
24. Turner and Hulme 1997.
25. Interventions hailed for furthering effective decentralization have been spearheaded by political parties such as the African National Congress in South Africa, the Workers Party in Porto Alegre, Brazil, and the Communist Party of India in Kerala. All these parties have tried to address the dominance of economically and socially entrenched groups through policies and such political measures as decentralization and agrarian reform. For further discussion, see Heller 2001.
26. Foster and Mackintosh-Walker 2001.
27. Crook and Sturla Sverrisson 2001.
28. Blair 2000.
29. Calderón and Pinc 2003.
30. Calderón and Pinc 2003.
31. Rojas 2002.
32. Budlender and others 2002.
33. Calderón and Pinc 2003.
34. Calderón and Pinc 2003.
35. Fung and Wright 2002.
36. Fung and Wright 2002, p. 14.

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1. UN 2001a.
2. Devarajan, Miller and Swanson 2002.
3. OECD, Development Assistance Committee 2003d.
4. Human Development Report Office calculations based on MDG indicator table 7.
5. World Bank 1998a.
6. Birdsall and Clemens 2003b.
7. World Bank 2003g.
8. OECD, Development Assistance Committee 1991.
9. Stewart 2003.
10. Birdsall, Williamson and Deese 2002.
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19. Wood 1995.
20. Millennium Project Task Force 9 2003.
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22. Millennium Project Task Force 9 2003.
23. New Zealand 2003.
24. WTO 2000.
25. CAFOD 2002.
26. UNDP and others 2003.
27. Birdsall, Williamson and Deese 2002.
28. WTO 2001.
29. Commission on Macroeconomics and Health 2001.
30 Trouiller and others 2002.
31 Michaud and Murray 1996.
32. van den Haak, Vounatsos and McAuslane 2001.
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