DEVELOPMENT CO-OPERATION REPORT FOR 2000

CHAPTER II: PROGRESS TOWARDS THE INTERNATIONAL DEVELOPMENT GOALS

(Note by the Secretariat)

The attached draft of Chapter II of the 2000 Development Co-operation Report is circulated for COMMENT and INFORMATION. Comments should be sent to Mr Brian Hammond (see details below) no later than 3 November.

The draft of the entire report, including Chapter II with any amendments, will be circulated later.

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CHAPTER II

PROGRESS TOWARDS THE INTERNATIONAL DEVELOPMENT GOALS

I. The goals

Overview

2.1 Since the OECD’s Development Assistance Committee published the international development goals (see Box II-1) in 1996 in *Shaping the 21st Century: the Contribution of Development Co-operation*, the commitment to halve world poverty has become the focus of the development policies of the majority of donor organisations. Indeed, many donors measure their performance - and some set their budgets - by the contribution that they make towards achieving this goal (see Box II-2). This focus on poverty reduction - long central to UN programmes - is now key to future IMF and World Bank lending to low-income countries, which is to be provided in support of locally-owned, participatory poverty reduction strategies, usually in connection with debt relief.

2.2 The international development goals address that most compelling of human desires - a world free of poverty and free of the misery that poverty breeds. They come from the agreements and resolutions of the world conferences organised by the United Nations in the first half of the 1990s. These conferences provided an opportunity for the international community to agree on steps needed to reduce poverty and achieve sustainable development.

2.3 Each of the seven goals addresses an aspect of poverty. They should be viewed together because they are mutually reinforcing. Higher school enrolments, especially for girls, reduce poverty and mortality. Better basic healthcare increases enrolment and reduces poverty. Many poor people earn their living from the environment. So progress is needed on each of the seven goals.

2.4 This chapter describes progress in the 1990s. It elaborates on the first-ever joint IMF/OECD/UN/World Bank report: *2000 - A Better World for All*. This section provides an overview of progress. The following sections describe each of the seven goals in turn, puts forward the policies required to achieve the goals and the need to act on those recommendations.

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1. All authors and contributors to the 2000 Development Co-operation Report will be listed in the Foreword of the published version of the report. Key contributors to the present chapter are listed by section at the end of the chapter, together with relevant references.

2. See www.paris21.org/betterworld, *2000 - A Better World for All* (henceforth referred to simply as *A Better World for All*) The report, published in June 2000, was co-signed by Kofi A. Annan, Secretary-General of the United Nations; Donald J. Johnston, Secretary-General of the OECD; Horst Köhler, Managing Director of the International Monetary Fund; and James D. Wolfensohn, President of the World Bank.
Box II-1. The international development goals

Reduce the proportion of people living in extreme poverty by half between 1990 and 2015

As growth increased globally in the mid-1990s, poverty rates fell - rapidly in Asia, but little or not at all in Africa. Income inequality is a barrier to progress in Latin America.

Enrol all children in primary school by 2015

Although enrolment rates continue to rise, they have not risen fast enough. On current trends, more than 100 million school-age children will not be in school in 2015.

Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005

Getting more girls through school is essential but not enough. The gender gap may be narrowing, but girls’ enrolments remain persistently behind those of boys.

Reduce infant and child mortality rates by two-thirds between 1990 and 2015

For every country that cut infant and under-5 child mortality rates fast enough to reach the goal, 10 lagged behind - and another one moved backwards, often because of HIV/AIDS.

Reduce maternal mortality ratios by three-quarters between 1990 and 2015

Skilled care during pregnancy and delivery can do much to avoid many of the half million maternal deaths each year. But the proportion of births attended by skilled personnel rose slowly in the 1990s.

Provide access for all who need reproductive health services by 2015

Contraceptive use is one indicator of access to reproductive health. With increasing access to reproductive health services, the rate of contraceptive use is rising in all regions.

Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015

Despite their commitments at the Rio Earth Summit in 1992, fewer than half the world’s countries have adopted strategies, and even fewer are implementing them.
2.5 The goals will not be easy to achieve, but progress in some countries and regions shows what can be done. China reduced its number in poverty from 360 million in 1990 to about 210 million in 1998. Mauritius cut its military budget and invested heavily in health and education. Today all Mauritians have access to sanitation, 98% to safe water, and 97% of births are attended by skilled health staff. And many Latin American countries moved much closer to gender equality in education.

2.6 If some countries can make great progress towards reducing poverty in its many forms, others can as well. But conflict is reversing gains in social development in many countries in sub-Saharan Africa. The spread of HIV/AIDS is impoverishing individuals, families and communities on all continents. And sustained economic growth - that vital component for long-run reductions in poverty - still eludes half the world’s countries. For more than 30 of them, real per capita incomes have fallen over the past 35 years. And where there is growth, it needs to be spread more equally.

Box II-2. The goals in action

The United Kingdom’s Department for International Development (DFID) has made the international development goals central to its policies and programmes. In its 1997 White Paper it pledged: “We shall work closely with other governments and organisations to eliminate poverty, and use our influence to encourage others to achieve the international development targets. We shall pursue these partnerships with poorer countries, which are also committed to them. We shall measure how effective our efforts are against the internationally agreed targets.” In order to secure additional development financing for 2001-2004, DFID has set intermediate targets, by which its results will be judged. These include:

- Improved education systems in the top ten recipients of DFID education support demonstrated by an average increase in primary school enrolment from a baseline established in 2000 of 75% to 81% on the basis of data available in 2004.

- Improvements in child, maternal and reproductive health in the top ten recipients of DFID healthcare assistance demonstrated by: a decrease in the average under-5 mortality rate from 132 per 1 000 live births in 1997 to 103 on the basis of data available in 2004; an increase in the proportion of births assisted by skilled attendants from a baseline established in 2000 of 43% to 50% on the basis of data available in 2004.

The World Bank adopted the goals in its Strategic Compact in 1997 and reports annually on progress toward the goals in the World Development Indicators. This year the Bank's annual report and the World Development Report: Attacking Poverty, include a section, adapted from A Better World for All showing an overview of progress. The poverty and social goals make up the first tier of the Bank's internal corporate scorecard. They appear in the Comprehensive Development Frameworks (CDF) and Poverty Reduction Strategies Papers (PRSPs) prepared by member countries in a participatory manner. These strategies and frameworks are being produced in close collaboration with the IMF which, in 1999, published the goals on a small card called the “seven pledges of sustainable development”. The PRSPs are critical for ensuring that debt relief in heavily-indebted poor countries is directed to poverty-reducing programmes.

2.7 So, the goals can be met. But it will take hard work and management of development risks (see Box II-3). Success will require, above all, stronger voices for the poor, economic stability and growth that favours the poor, basic social services for all, open markets for trade and technology and enough resources for development, used well.
Box II-3. Development risks

The international goals serve as a benchmark by which development can be measured in the coming decade. They are ambitious, and possibly over-optimistic. But if the goals have a weakness, it is not so much that as the implicit assumption that the international economy and geopolitics will remain benign in the next 15 years, and that both partners - donors and recipients - will behave responsibly. Global economic risks, such as a possible oil price induced slowdown in the international economy, a hard landing for the US economy, or another generalised emerging markets crisis similar to the Asian/Russian/Brazilian traumas, could setback the achievement of these goals by limiting the funds which industrialised countries are able, or willing, to channel to developing countries. Global political risks, for example renewed conflict in the Gulf or the Balkans, could also detract attention and constrain financing.

There are also other risks. Inadequate funding of the IMF and the World Bank and the problematic support of major donors concerned by these organisations’ aims, methods and influence could constrain their capacity to boost their lending to developing countries in the years ahead. Limited implementation capacity on both the part of donor nations - where aid fatigue is still manifest and where electorates often appear increasingly reluctant to pay higher taxes in return for improved domestic social services, never mind foreign aid projects (witness the fuel protest crises in the major European economies) - and the recipient governments - many of which are still struggling with structural adjustment and have little scope for large-scale investment in key social areas (education, healthcare, infrastructure) - is likely to prevent achievement of the goals.

With privatisation shrinking the public sector in industrialised and developing countries alike, private-sector participation will be required to achieve these goals. Country risks - political instability and inefficacy, policy mismanagement, structural constraints and liquidity inadequacies - already constrain private capital flows to developing countries (see Box II-5). It is unclear how, in a profit-oriented global marketplace, the international organisations intend to design incentives which - without incurring sizeable debts for either themselves or the recipient countries, or accelerating the rapid and potentially environmentally damaging exploitation of natural resources which fuelled much of the growth of the 1990s (particularly in Latin America) - might persuade companies to collaborate in the large-scale infrastructure development needed to reduce poverty, increase the length and quality of life and protect the environment.

Swift and significant progress in two areas - international debt relief/restructuring and international trade liberalisation - are priorities if the agenda is to retain credibility. With many developing countries often paying out more in non-productive debt service payments (as measured by debt service/GDP) than they gain through national income growth in any given year, their domestic savings capacity and hence ability to invest in social sectors will be limited until their debt burden is eased, either through restructuring or relief. This is as true for medium-sized, middle-income developing countries such as Brazil or Argentina as it is for less developed countries. Trade barriers in industrialised countries restrict the export capacity of many developing countries, whose main comparative advantage lies in low value-added primary products. International trade liberalisation would help boost exports, and consequently national savings, in a best case scenario providing scope for countries to reduce their debts and releasing funds for investment. More importantly, both these initiatives would empower developing countries and their peoples by giving them greater control over their income and boosting earnings capacity.
1. Cutting poverty

**Goal:** Reduce the proportion of people living in extreme poverty by half between 1990 and 2015

2.8 Despite the economic boom in the western world, notably the United States, global poverty remains a serious problem. Across the globe, one person in five lives on less than $1 a day; and one in seven suffers from chronic hunger. True, the world-wide number and proportion of people living in extreme poverty or on less than $1 per day declined slightly through the mid-1990s (see Chart II-1). But most of that decline was in East Asia, notably China. Overall progress slowed temporarily in some Asian countries in the late 1990s, and ground to a halt or reversed in others. In the rest of the world, while the proportion of people in poverty declined, population growth meant that the number of poor people increased. And in the countries of the former Soviet Union, undergoing economic and social transition, the proportion of poor more than trebled.

Chart II-1.3

2.9 The numbers of poor are greatest in South Asia, but the proportions are highest in sub-Saharan Africa. Most of the poor live in rural areas, but urban poverty is growing faster. Women are more likely than men to lack rights to land and other assets. They also have difficulty getting access to credit. And they lack adequate employment and economic security in old age.

2.10 In many developing countries, the poor struggle at the margin of the formal economy. They lack political influence, education, healthcare, shelter, personal safety, regular income and food. An important symptom of poverty is malnutrition. People who are ill-fed and under-nourished are less productive and spend a greater proportion of their meagre budgets on medication and healthcare, thus reinforcing the effects of poverty and making it harder to escape it.

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3. The source of all charts in this chapter is A Better World for All (see footnote 2).
2.11 As shown in Chart-II-2 above, there are 150 million underweight children in the developing world. The proportion is falling everywhere except Africa. Being underweight, even mildly, increases the risk of death and inhibits mental and physical development. The problem extends itself from one generation to the next, simply because malnourished women are more likely to have underweight babies. Malnutrition and income poverty can be reduced, by providing all citizens with income-earning opportunities, access to basic resources, security and political empowerment.

Opportunity and access

2.12 Providing economic opportunity is a precondition for achieving growth that is both sustainable and equitable. Governments should introduce reforms that spur growth: a sound pro-poor macroeconomic framework; policies that promote low inflation and fiscal discipline. Governments should also promote integration into the global economy to stimulate trade and investment and spur private sector activity. However they may need external assistance to determine the pace and order of integration so that the benefits can spread as widely as possible.

2.13 Reforms that improve the access of poor people to markets should also be pursued. Regulations that pose a heavy burden on small firms could be changed, such as the recent simplification of the tax system for small firms in Bolivia. Access to credit should be improved, following the example set by the Grameen Bank and other micro-finance institutions in Bangladesh and elsewhere. Investments in basic assets have also to be carried out - in schooling and skill development, food security, preventive healthcare, rural infrastructure and credit systems.

2.14 Of course, governments have not only to ensure that these investments reach the poor, but that the poor have the capacity to take advantage of them. The policy can work. Take China for instance: by building upon its prior investment in people, by empowering them through training and education, not only was China able to reinforce its rapid growth, but also to reduce the gap between the average income of its people and that of the rest of the world to half of what it was 40 years ago. Vietnam is another country to have reduced its poverty rate from 58% to 37% between 1993 and 1998, thanks primarily to landreform that created opportunities for people to improve agricultural yields and incomes.
Empowerment

2.15 Empowerment gives people dignity, a sense of inclusion and the moral strength to help themselves economically. Providing a voice in decision-making means pursuing the involvement of poor people and society at large in policy and programme design and implementation. Indeed, responsive and accountable institutions of governance have often been found to be the missing link between anti-poverty efforts and poverty reduction (see Box II-4).

Box II-4. The governance factor

Poverty has traditionally been considered as a lack of means. It is certainly that in part. Without resources, people cannot satisfy even their most basic physiological needs. But poverty can be more meaningfully defined as deprivation of capability, a concept associated with Nobel prize winner Amartya Sen, and elaborated in UNDP’s Human Development Report of 1997, which called it "human poverty". Capability deprivation means that people are unable to play a full part in society, are economically inactive, marginalised by conflict or discrimination. While they lack income, simply providing more money will not be sufficient for them to escape their deprivation. In any case, being incapacitated inhibits people’s abilities to earn a living.

As highlighted in the UNDP’s Human Development Reports and most recently in the study entitled Voices of the Poor, conducted for the World Development Report 2000/2001, the poor themselves often allude to the importance of non-material deprivation. They often define their own lot in these terms. Not "lack of money" but lack of empowerment. Resources are important, and a measure of economic dynamism is a prerequisite for making progress on poverty reduction. But while the economic engine may be revving, the transmission may be faulty. And often governance is the missing link.

In today’s developing world, the overall lack of resources is commonly not the stumbling block, but the way they are used is. In countries where progress towards poverty alleviation is slow, public spending intended for basic social services is not put to best use and may not always reach the needy. (See also Annex 2 to Chapter 5 of this report on Measuring Aid to Basic Social Services.) Sound governance makes the links more solid between resources and needs. If people have a say in the choice of elected decision-makers, can give expression to their views through a free media, and can have fuller access to information about government activities, resources are more likely to be used productively.

Empowering the poor is itself a means of overcoming poverty, because it allows the poor to gain greater control over their lives rather than remaining the hapless recipients of benefits delivered from some far-away centre. Take the case of Andhra Pradesh in India. There, village women have organised themselves into self-help groups and with their own resources are increasingly able to respond to the growing needs of the poor for access to credit, information, skills and technology. Similarly, in Cambodia’s Seila initiative, local communities are encouraged to formulate their own anti-poverty projects. In Ghana, district authorities are raising their own revenues for poverty reduction projects. In Uganda, the government has made efforts to increase the transparency of its budget procedures, both at the central and at the local government level, and set up a poverty reduction strategy, the Poverty Eradication Plan, with broad participation.

These examples demonstrate that through governance, the leaders of the poorest countries have the power to make a direct attack on poverty. By helping to decentralise power and authority, promote land reform, encourage community solidarity and the emergence of independent civil society organisations, governments can make a difference.
Security

2.16 Poverty reduction clearly cannot happen without peace. All too many countries are suffering from (often local) conflicts, many of which are reversing gains in social development in many countries, notably in sub-Saharan Africa. Moreover, poor people are more exposed to such risks than richer ones.

2.17 Conflict is only one dimension of the security issue, since the poor also tend to be exposed to natural disasters, such as flooding. They face economic risks too, like crop collapse and sudden falls in commodity prices. Reducing poverty demands providing poor people with greater security, which requires mechanisms to help manage risks (even before a crisis strikes) and mitigate the impact of local and national crises. These include cushioning the impact of sudden price shocks on the most vulnerable and mechanisms to keep children in school; public works and “food for work” programmes that provide work at slack times; and sustainable, well-designed pension, unemployment and social assistance programmes.

2.18 Thailand, which is redirecting its development strategy to reduce inequality, has provided safety nets of this kind in the aftermath of its crisis. Similar programmes have been set up in Indonesia and Korea. In Brazil, the Bolsa Escola programme helps parents keep children in school by providing assistance to families whose children attend class regularly.

2.19 While poverty reduction begins at home, developed countries also have their role to play. As aid donors, they should focus more strongly on questions of governance, and should be more generous in funding cohesive programmes to address all aspects of human poverty and deprivation drawn up by governments, and in measuring progress. They can also continue easing the debt burden on the poorer countries.

2.20 Globalisation of markets, the volatility of commodity prices, the availability of knowledge, and flows of private and official capital have a powerful impact on poor countries and their ability to reduce poverty. As the experience of the 1990s has shown, financial crises can wipe out a decade of progress. Rich countries can do more to open up their markets to trade with developing countries, so that heavily indebted countries in particular can generate more export earnings. They should also support the provision of global public goods, such as vaccines against malaria and AIDS, and research into agricultural advances, particularly in those areas that enjoy wide public support.

2.21 Local and global action in these areas will help address not just income poverty, but other dimensions of deprivation as well, such as malnutrition and exclusion, as there are powerful linkages between them. However, there is no simple relationship between rising income levels and improved nutrition levels or life expectancy, access to formal education, and so on. Improvements in the quality of life depend not only on the resources available, but also on public priorities. Investments in primary education and in rural infrastructure have helped countries like Costa Rica, Cuba, Sri Lanka and Vietnam to attain higher standards of health, larger reductions in mortality rates and higher literacy rates than other countries with similar or greater economic resources. These improvements have helped to alleviate many of the worst manifestations of poverty, even without increases in income levels. Conversely, improvements in social standards, combined with other policies, often form the basis of an increase in incomes.

2.22 Poverty reduction is an attainable objective, but meeting the goal of halving income poverty by 2015 is only part of the battle. As the world’s population is projected to increase to 7.1 billion by 2015, the number of poor stands to rise. So even if the goal of halving the proportion is reached, almost 900 million people will still be left living on less than $1 per day. Nonetheless, the price of doing nothing would be very great indeed. By acting now, there is a chance that poverty reduction efforts will be sustained over the long run.
2. Education: quality is important

**Goal:** Enrol all children in primary school by 2015

2.23 Providing universal primary education in developing countries remains a great challenge - and a great opportunity. Educational success would give millions more the skills to rise out of poverty. But failure would fuel an educational - and social - crisis in the decade ahead. In developing countries one child in three does not complete five years of schooling. Improving on that figure is only part of the challenge. Enrolment rates are in fact up in most regions (see Chart II-3), but the quality of education has been suffering. Education for all is important, but the quality of education is just as important. At the World Education Forum in April 2000, the international community agreed that providing good education must be at the top of the agenda.

![Chart II-3](chart.png)

2.24 Providing quality education means investing in training teachers, improving facilities, providing materials, and making sure what is being taught is relevant. It means increasing family and community participation and eliminating the gender bias that is impairing girls’ education.

2.25 Many developing countries are now making quality education a top priority. In 1994, Malawi decided to address the issues of inadequate access and inequality, high repetition and dropout rates and poor infrastructure in its school system. More government money for schools and the elimination of fees boosted enrolments by 50% and focused Malawi’s education system on helping the poor. In 1994–95, the poorest fifth of the population received 16% of all public education spending, up from 10% in 1990–91, while the share going to the richest fifth declined from 38% to 25%.

2.26 Bangladesh’s education minister, Abu Sharaf Hifzul Kader Sadique, acknowledged at the E9 (nine high-population countries) in February 2000, that in his country’s “rush for numbers, quality missed out”. Bangladesh has since made great strides in literacy, although difficulties in quality remain. China acknowledges the same problem: at the same E9 meeting, Lu Fuyuan, Deputy Minister for Education, stated that the “overall quality of school teachers leaves much to be desired”; he was referring in particular to the difficulty in reaching remote areas. Bangladesh and China are not alone. Brazil, Malawi, and Mexico, along with most countries that have made major strides towards education for all, are now turning their attention to improving quality.
Teacher training, improved facilities, relevant curricula and children able to learn

2.27 Improving the quality of education entails several steps. Teachers have to be trained. Having achieved 96% primary school enrolment, Brazil is now concentrating its efforts on improving the quality of instruction, as almost half of the country’s pupils repeat one or more classes. A recent nation-wide study showed that teachers with university-level education helped their pupils make much faster progress than teachers without it. But today only about half of the 1.5 million teachers in State primary schools in Brazil have a higher-education qualification. Important efforts to boost in-service training for teachers are now being made by the Brazilian authorities.

2.28 Of course, once teachers are trained, they have to be retained. Paradoxically, as some countries are upgrading teacher training, others are watching as qualified, talented teachers desert the profession for better paid work in computers or tourism. Teaching suffers from a brain drain provoked by low status and low salaries. There is a need to restore value, both morally and materially, to the function of teachers and educators and give them the status, recognition and dignity their profession deserves within their society. Financial constraints and political sensitivities have made this difficult in the past; change is now required. However, in many developing countries, teachers’ salaries already amount to as much as 95% of public education budgets; so any improvement in teachers’ employment conditions will clearly require increased funding.

2.29 Improving facilities and materials is also important. A good school environment has a positive impact on attendance and success rates. The opposite is also true. A UNESCO/UNICEF study in fourteen least developed countries in Asia and Africa found that at least 35% of schools (often much more than that) needed repairing or rebuilding. Many had no furniture or running water. Most developing countries face serious problems in producing and distributing appropriate textbooks and teaching materials, from mathematical instruments to maps. Again it is a question of political will and increased funding. In the case of learning materials sound national strategies are often lacking. Countries such as Namibia, South Africa, Nigeria and Ghana, where African publishing is developing most rapidly, are exemplary because they have managed to establish a close co-operation between the book trade, governments and national publishers' associations.

2.30 Another problem is that education systems in many countries are becoming obsolete: what is being taught in school is simply not always relevant. When education programmes exist out of context, without a bearing on the surrounding job market, or on the local culture, sooner or later they lose their "clients". Proper teacher training would help to resolve this, as would the establishment of relevant curricula and appropriate textbooks and materials.

2.31 Finally, external factors influence the quality of education, not least the pupils' social status and state of health. After all, quality education does not only involve good teachers and materials. It also needs pupils to be healthy, well-nourished and so ready to learn.

A privileged pursuit

2.32 Today, 113 million children, most of them girls, are excluded from education. 110 million of them live in developing countries. An excluded child might be a street child, or a boy from a South American hill tribe recruited into a militia, or a girl who is a sex worker in an Asian slum. But there may be more mundane reasons for exclusion, though the effect is just as pernicious, such as an African child - usually a girl - who is kept at home to tend crops, fetch water or look after younger siblings. Or simply the fact that families cannot afford school fees.
2.33 A mixture of socio-cultural, economic and physical factors excludes children from education. Schools exclude when they do not welcome families as partners: the education bureaucracy excludes by failing to back their teachers; and governments exclude by failing to pursue pro-child policies. As governments have been slow to embrace non-formal education, non-governmental organisations provide most of the schooling to children in need. But for real advances to be made, more effective partnerships between non-governmental organisations and governments must be built.

2.34 Declining birth rates may cause the world’s school-age population to increase by only 9 million in the next 15 years, but there are large regional differences. In East Asia the school-age population will decline by 22 million, thanks to reduced fertility rates. But in sub-Saharan Africa it will rise by 34 million. Added to the 46 million children not in school in 1998, that means building schools, training teachers and providing textbooks for an extra 80 million children in the next 15 years. South Asia, the Middle East and North Africa face a similar challenge.

2.35 These prospects make the need to improve the efficiency of education systems all the more urgent. Today, in South Asia and sub-Saharan Africa, only around two in three pupils reach grade 5. In terms of measuring efficiency, up to a third of school systems’ resources are spent on repeaters and school dropouts. In fact, a quarter of the 96 million pupils who entered school for the first time in 1995 are likely to abandon their schooling before grade 5. Schools have to cater for the needs of the many ordinary and low-achieving pupils in order to become open and accessible to all.

3. Women and girls: education, not discrimination

| Goal: Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005 |

2.36 In many developing countries, girls do not go to school simply because they are girls and must work instead. Sick babies die because their mothers cannot read the prescription on the medicine bottle. Parents often remove their daughters from school at puberty, for fear of unwanted pregnancy, and marry them off early.

2.37 Such is the plight of girls in many developing countries: they continue to be systematically more disadvantaged than boys solely because of discrimination by gender (see Chart II-4). Some 60% of the 110 million children not in school in developing nations are girls. The gender gap continues to be unacceptably wide despite the fact that the education of girls and women is now on the agendas of policy makers in most developing nations and the fact that 44 million more girls now attend primary schools in developing countries than in 1990.

2.38 Education can make a great difference to a girl’s life, not just economically, but also in terms of human development. And as Kofi Annan, Secretary-General of the United Nations has stressed, it is a social development policy that works, with immediate benefits for family planning, nutrition, health, economic productivity as well as social and political participation. The United Nations announced a ten-year Girls’ Education Initiative at the recent World Education Forum in Dakar in April 2000, the objective being to encourage the main countries affected to come up with national action plans by 2001 that promote gender equality and sensitivity in all aspects of education. The initiative aims to help countries release funds for girls’ schooling by assisting them to get the most from development co-operation, policy and education reform. It is hoped that by 2015, all children everywhere - boys and girls alike - will be able to complete primary schooling education; and boys and girls will have equal access to all levels of education.
2.39 Governments are increasingly recognising the importance of striking a balance in meeting the needs of girls' and boys' education. The Egyptian government is integrating a successful concept of girl-friendly community schools - by using female teachers, active learning and child-centred class management - into the formal education system. In Mashan County in China, villages and households that take effective measures to send girls to school are awarded priority for loans or development funds. And a promising initiative in Tanzania aims to help girls speak out about their problems and find solutions to overcome obstacles to their own social and academic development. In other countries, older girls mentor younger girls and coach them out of school hours in mathematics and science.

2.40 But education problems affect boys too. Sometimes boys are pulled out of school and sent to work to boost family income. In Jamaica boys' drop-out rate is higher than girls'. The government is investigating effective measures to reduce this distortion.

2.41 Still, overall there is a gender gap and African and South Asian countries in particular have a long way to go to close it. An average six-year-old girl in South Asia can expect to spend six years in school - three years less than a boy of the same age. Girls based in a rural area are at an even greater disadvantage, since they run three times the risk of dropping out of school than a city boy. Discrimination is reinforced in the classroom, as research shows that both male and female teachers tend to give more attention to boys, a trend now being addressed by gender-sensitive training programmes.

2.42 Traditional beliefs and practices are often at the root of the gender gap, keeping girls at home to supplement family welfare by working and caring for siblings and the household. The weight of these beliefs and a shortage of alternative opportunities to supplement household income and welfare often cause parents to distrust the education system or to feel they have no alternative.

2.43 Studies show that girls with literate mothers are more likely to go to school than girls without. UNESCO underlines the necessity of reaching both girls and their mothers in the same initiative. It is a dual approach which has reaped rewards in rural Mali, where an imaginative community-based campaign,
involving village women in literacy and income generating activities, is beginning to change long-held attitudes towards girls and women.

4. **Helping children survive**

| Goal: Reduce infant and child mortality rates by two-thirds between 1990 and 2015 |

2.44 Today, some 30 million infants in developing countries are not protected by routine vaccination. And some 11 million children under five die each year, mostly of preventable causes. The under-five mortality rate, one of the best single indicators for measuring social progress, fell by a mere 5% during the 1990s. This is hardly progress enough (see Chart II-5).

2.45 Most countries under-invest in their children’s well-being. Governments in developing countries spend, on average, less than 15% of the national budget on basic social services - some $150 billion. Industrialised countries channel, on average, about 11% of their targeted aid - some $4 billion - to these services (see Annex 2 to Chapter V for details). This is not enough. About $100 billion more per year is needed in global spending on basic social services for each and every child to get a good start in life. This may appear as a large sum of money, but it represents only a 0.33% of total world income.

Chart II-5.
2.46 However, although the goal of reducing child mortality requires relatively few resources, it is
certainly not being reached. It is here that the arguments become more complex. It is one thing to invest
more in children, but quite another to achieve the equity and efficiency needed to make the investments
work. It is partly a question of management, but also a matter of dealing with major hurdles, like the spread
of HIV/AIDS, malaria, diarrhoeal diseases and pneumonia, all of which need vaccines to be developed.
When one adds to this the problem of armed conflicts and the crippling debt burden, the issue of reducing
child mortality becomes more than a question of mere budgets.

2.47 There are some relatively simple ways to address these challenges. As has been noted above,
education, particularly of girls, is vital. Moreover, the risks of under-five mortality and child malnutrition
are closely associated with the level of education of the mother: a child is two to three times more likely to
be malnourished or to die before five when its mother is illiterate than when the mother has completed
primary education.

2.48 There is also a relationship between education and HIV/AIDS control. In several African
countries, HIV infection rates are falling rapidly among educated people. Even in the most affected
countries that have seen their under-five mortality rate increase in the 1990s, the risk of premature death
among children whose mother has post-primary education has declined. Put simply, education can provide
some protection against HIV infection and other deadly childhood diseases.

2.49 The widening education and mortality gaps reflect the growing income inequities between the
rich and poor in many countries. Children are a particularly sensitive group that have fallen victim to these
trends. A small increase in the global budget and some imaginative policies in education and other social
areas would considerably reduce premature deaths in developing countries.

5. Maternal mortality: helping mothers live

| Goal: Reduce maternal mortality ratios by three-quarters between 1990 and 2015 |

2.50 More than 500 000 women died during pregnancy and childbirth in 1995 - and many more
millions suffered without treatment. Large as the problem is, resolving it might not be as difficult as many
believe. Pregnancy-related complications account for 514 000 deaths each year, the vast majority of these
in the developing world. For every woman who dies, many more suffer disabilities that can affect them for
the rest of their lives. The neglect that contributes to the deaths of women also compromises the health and
survival of the babies they are carrying and the older children they leave behind.

2.51 Deaths during pregnancy or childbirth are unlike other deaths in developing countries. They
happen essentially to younger women, not because of disease, but during what is – or should be - a normal
process. Human survival depends on childbirth and society therefore must ensure that women are have safe
pregnancies and childbirth.

2.52 As mentioned above, the overwhelming majority of the more than half a million maternal deaths
each year occur in developing countries. In the developed world, the maternal mortality ratio averages
around 21 maternal deaths per 100 000 live births. By contrast, in developing countries the ratio is 20 times
higher, at 440 per 100 000. The risk of maternal death is most acute in sub-Saharan Africa and in parts of
South-East Asia. In some regions, such as eastern and western Africa, the ratio may be as high as 1 000
deaths per 100 000 live births. This means that a woman in Africa faces a one in 16 chance of dying from
pregnancy-related causes. By contrast, for her sister in the developed countries, the risk is one in 2 500.
The discrepancy between these two figures is one of the widest differentials between rich and poor
countries, wider even than the gaps in child mortality.
2.53 Maternal deaths can be prevented in simple and cost-effective ways. Infections, blood loss and unsafe abortion account for the majority of deaths; all these causes are often within the abilities of health workers with midwifery skills to tackle. The management of infection, shock, blood loss and convulsions, and surgical procedures, such as caesarean delivery, do not require high technology equipment or expensive drugs.

2.54 There is a strong association between levels of maternal mortality and the proportion of births that are assisted by a skilled healthcare worker. Indeed, the proportion of births attended by skilled personnel is a key indicator for tracking progress in reducing maternal mortality. Globally, just over half of all deliveries are attended by a skilled birth assistant; for many of the rest, mothers will have the help of relatives or traditional birth attendants; millions deliver entirely alone. Poor mothers are much less likely to have access to a skilled birth attendant than richer ones; they are therefore more likely to die too.

2.55 The development goal is to change all that, by having skilled attendants at 90% of births by 2015 in regions where they are not routinely available. It is a tough challenge, since progress has been relatively modest over the past decade (see Chart II.6), with an average annual increase in care coverage at delivery of under 1% in 1988-1998. Significant improvements in coverage have occurred in some countries, notably Bolivia, Egypt, Indonesia, and Morocco, but in sub-Saharan Africa as a whole, there has been a decline. It is a disturbing trend and it is likely to be caused by barriers to access like the high cost of services and drugs, transport difficulties and costs, and distrust of the services that are provided.

Chart II-6.
When $3 goes a long way

2.56 Reducing maternal mortality is not necessarily dependent on economic development. It would cost only about $3 per person per year in low-income countries to provide the essential services needed to tackle the problem: that would cover a skilled health worker to assist every delivery, access to essential obstetric care for mothers and their infants when complications arise, and family planning information and services so that unwanted pregnancies and unsafe abortions can be avoided.

2.57 No country is so poor that it cannot afford the key interventions needed. Indeed, no country can afford not to put resources and energy into safe pregnancy and childbirth, for as other sections in this chapter show, neglect of women’s needs drives poverty and deprives the next generation of a better future. What is lacking is not the level of national wealth, but the level of commitment to do something. China, Cuba, Iran, Malaysia and Sri Lanka have all been able to achieve and maintain significant reductions in levels of maternal mortality by allocating the resources where they were needed.

2.58 Decision-makers at political, economic, social, religious and household levels - who are mainly men - have to realise that pregnancy and childbirth can and should be made safer. After all, the very fabric of their societies depends on it.

6. Reproductive health: providing knowledge and choices

| Goal: Provide access for all who need reproductive health services by 2015 |

2.59 Gains have been made in recent years in the area of reproductive health services, but with rising numbers of people in poor countries passing through their reproductive ages, the pressure is on to sustain and build upon this progress in the decade ahead. Increased attention is now being paid to the quality and range of services provided, including offering a wider choice of contraceptives, so as to meet the individual needs of women, men and adolescents.

2.60 Reproductive health services provide women, men and adolescents with the knowledge they need to protect their health and that of their families. The services include provision of family planning methods, prenatal and postnatal care, preventing and treating sexually-transmitted diseases, including HIV/AIDS, and discouraging harmful practices against women, such as female genital mutilation. There is growing recognition of the need to integrate such services into primary healthcare and to afford them priority when it comes to reform and decentralisation.

2.61 Take the example of the Islamic Republic of Iran, which in 1989 integrated a national family planning programme into its extensive primary healthcare system. This move not only led to increased access, but also helped to promote greater choice of contraceptive use. And in response to the 1994 Cairo International Conference on Population and Development (ICPD), the scope of the programme was widened to include other components of reproductive health. It proved to be a successful strategy. Between 1989 and 1997 the contraceptive prevalence rate per 1 000 married women aged between 15 and 49 in Iran rose from 49% to 73%.

2.62 Measuring access to reproductive health services is anything but straightforward, since not only do questions like proximity to delivery points, the types of services available and their affordability have to be taken into account, but consideration also has to be given to the extent to which women feel free to utilise the available services.
2.63 Contraception is a case in point. Its use increased in all regions in the 1990s, but Africa lags markedly behind other regions, especially in the poorest African countries (see Chart II-7). Expanding the use of contraception clearly depends on access and information, but gender relations and power balances within couples are also important. Reproductive health depends on the extent to which men discipline their own sexual behaviour and support their partners’ rights and health. Power relationships are often embedded in culture and customs, which is why education plays such a determining role.

Chart II-7.

Adolescent problems

2.64 Another major challenge is to increase access to reproductive health information and services for adolescents. There are currently more than 1.1 billion adolescents aged between 10 and 19, the largest number ever in this age group. Many adolescents lack formal education, work, and beneficial recreation; many live in extreme poverty; and many are not sufficiently aware of the dangers they face, ill equipped to protect themselves and willing to take potentially life-threatening risks.

2.65 Globally more than 14 million adolescent girls give birth each year. A large proportion of those pregnancies are unwanted, and an estimated 4.4 million abortions are sought by adolescent girls each year. Many adolescents also face serious risks of contracting sexually transmitted diseases, including HIV/AIDS. At the end of 1999, 33.6 million men, women and children were living with HIV/AIDS, 95% of them in developing countries. More than half of new HIV infections occur among 15 to 24 year olds. Effective national programmes, together with massive international support, can help attack the pandemic at its root, offering hope to millions.

2.66 This is the thinking behind the ICPD plus 5 goal, which aims to ensure that by 2005 at least 90% of young men and women aged 15 to 24 will have access to the information, education and services they need to reduce their vulnerability to HIV infection. The aim is to cut the HIV infection rates in persons aged 15 to 24 globally, and by 25% in the most affected countries. Reducing levels of HIV/AIDS requires not only expanded access to quality reproductive health services, but also major changes in intimate
aspects of human relationships and behaviour, in values and norms, and so on. That means education, via formal and informal programmes and media campaigns. But changes in behaviour also require support from political, religious and community leaders, who have to acknowledge the seriousness of the problem. This may be one of the biggest challenges of all.

7. Making development sustainable

| Goal: | Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015 |

2.67 In developing countries, activities based on natural resources, such as agriculture, forestry and fisheries, still contribute more to the economy than industry or services. And since many of the world's poor depend directly on these activities for a living, environmental degradation disadvantages the poor disproportionately. The poor in these countries are exposed to air and water pollution and are highly vulnerable to desertification and to land becoming infertile, as well as disasters such as floods and landslides. Better environmental management can directly improve their lives, increase their productivity and build momentum towards sustainable development.

2.68 Maintaining the integrity of key environmental resources is a precondition for improving the immediate welfare and safeguarding the long-term economic opportunities of the poor. This includes reconciling the needs of different users and preventing competing claims over increasingly scarce resources from degenerating into violent conflicts.

2.69 At the Rio Conference on Environment and Development (UNCED) in 1992, governments committed themselves to formulating and implementing national strategies for sustainable development. Five years later, at a UN General Assembly special session, a growing feeling of urgency led governments to set a target date of 2002 for the introduction of such strategies in all countries. The OECD’s strategy for development co-operation, Shaping the 21st Century: The Contribution of Development Co-operation, commits donor countries to supporting developing countries meet this target.

2.70 There is no single sustainable development strategy. Each country must formulate its own approaches, in line with its social and economic priorities, its cultural values, institutions and political structures. Moreover, the wide range of environmental challenges faced by different countries, depending on their respective geographical, ecological and climatic features, makes country-specific approaches indispensable.

2.71 Introducing a sustainable development strategy need not necessarily imply establishing new processes, new plans or new institutions. While a country may have policies and institutional mechanisms conducive to sustainable development, such as to ensure that industrial development plans take account of the long-term consequences on, for example, air and water resources, it may not necessarily have a formal sustainable development strategy. Conversely, a country may have a formal sustainable development strategy which is not implemented. Assessing whether a country has or is developing the basic “building blocks” of a sustainable development strategy is not straightforward. Does the country have the capacity to identify key development constraints and opportunities, to mobilise private and public players around shared goals, and to integrate sustainability into its development policies?

2.72 To answer such questions, the DAC is elaborating good practices for donors to help developing countries formulate and implement sustainable development strategies. Partnerships are central to the building of such strategies and the work of the DAC is being carried out in consultation with civil society and the private sector.
2.73 One country to demonstrate this is the Philippines, which established a council for sustainable development after the 1992 Rio Summit. The rallying point for government, civil society and private business was the phasing-out of leaded gasoline in April 2000. Philippine Agenda 21 is the country’s blueprint for sustainable development. Key businesses have taken initiatives, such as re-using by-products, controlling pollution and including environmental provisions in collective bargaining agreements with labour unions.

Local and global monitoring

2.74 Many environmental problems, such as climate change and deforestation, have clear global dimensions. But, in general, the impact of environmental damage is felt at the local, national or regional level. Water shortages and contamination, soil erosion or forest, mangrove or coral reef degradation harm first and foremost the local communities which are directly exposed. Most indicators of environmental conditions are primarily relevant at the local level: for example, the severity of air pollution is highly variable in the different areas of a single city, and even more so in an entire country. Developing a capacity to monitor environmental conditions and the impact of degradation on people’s lives therefore plays an important role in defining a country’s sustainable development strategies.

Chart II-8.

2.75 Yet there are universal indicators of human development which a good development strategy can use. Access to safe water is one of these. Almost 20% of the world’s population depends on unimproved water supplies to meet their daily needs (see Chart II-8). Urban populations are better served than rural, but even piped water from municipal supplies may be contaminated by disease-bearing organisms and industrial pollutants. Those without access to safe water supplies must struggle daily to meet their needs and face the constant danger of water-borne disease.
2.76 Another issue of global concern is deforestation. Without human interference, large parts of the world would be covered with forests. Through unsustainable harvesting and degradation, the world has lost millions of acres of forests and with them the economically important wood and non-wood products they supply. In the early 1990s about 17 million hectares of tropical forest - four times the size of Switzerland - were cleared annually. If this rate of deforestation continues, 5-10% of tropical forest species will face extinction in the next 30 years. The impacts go beyond this, to soil erosion and the disruption of hydrological systems, as well as climate patterns. Deforestation also directly undermines the livelihoods of forest-dwellers, often indigenous tribes who are among the most marginalised and vulnerable of the world’s population.

2.77 Energy use (and abuse) and its atmospheric effects is another global challenge. It requires adjustments mainly by developed countries in order to allow for faster growth in developing countries without further damaging the atmosphere. The objective of the United Nations Framework Convention on Climate Change is to achieve the stabilisation in the total stock of carbon dioxide (and other greenhouse gases) in the atmosphere, before it reaches a level that could result in disruption in the global climate. The move towards climate-friendly economic development will hinge on the extent to which economic growth and energy use can be delinked.

2.78 High-income countries make more efficient use of energy and may have cleaner technology, but they produce larger total emissions. As poor countries develop, they can also become more energy-efficient, producing more goods and services from the same quantity of energy. But total energy savings from efficiency gains will be more than offset by growth in total consumption. And if poor countries simply follow the model of the high-income countries today, their total energy use will continue to grow, and with it their emissions of greenhouse gases (see Chart II-9).

Chart II-9.

2.79 Fortunately, policies to reduce global greenhouse gases, such as improving energy efficiency in transport or industry, overlap with those to reduce local pollution. This applies both to rich countries - the biggest emitters of carbon dioxide - and to developing countries. Long-term solutions to the climate change problem will depend on a radical transformation of energy consumption patterns in both developed and developing countries, away from dependence on fossil fuels. The shift will require political commitment and global co-operation, as well as institutional, technical and social innovation.
II. What it will take to achieve the goals

2.80 Malaysia, Morocco and the Republic of Korea form a select group of countries that halved the proportion of their people living in poverty in less than a generation. The Indian states of Haryana, Kerala and Punjab have achieved the same type of progress. Another dozen countries - including Botswana and Mauritius - reduced poverty by a quarter or more. Their experiences are well-documented and other countries can learn much from them. After all, if they have done it, others can do it too. The question is how?

2.81 Stronger voices and choices for the poor; economic stability and growth that favour the poor; basic social services for all; open access to trade and technology; and sufficient development resources, used well. These are the five sets of policy recommendations to reduce extreme poverty which are put forward in A Better World for All.

Voices and choices

2.82 Empowering poor people is the starting point of the proposed strategy. That means opening political space for poor people to organise. It also means providing opportunities for women and minorities, by encouraging them to participate as fully as possible in the political process and its institutions. Democratisation (see Chart II-10) has to go beyond elections. It has to promote an independent judiciary, an open civil society and a free media, all of which can make governments accountable for their promises and actions.

2.83 Empowering people requires a commitment to respect fundamental human rights and the rule of law. One important way of showing that commitment is for countries to adopt treaties: today, half the world’s countries have ratified all six human rights conventions, such as the Convention on the Elimination of Discrimination Against Women (CEDAW) and the Convention on the Rights of the Child (CRC). This is up from a tenth of countries just ten years ago.

Chart II-10.

More countries are becoming democratic
Proportion of countries with democratic governments (%)
Democratisation also demands overcoming corruption. Honest and responsive government fosters - indeed embodies - human development. Empowering people, maximising the resources for development and reducing poverty go hand in hand with building sound, effective institutions, expanding administrative capacity, encouraging local participation and improving the business environment.

**Pro-poor growth**

Economic growth is not a guarantee of poverty reduction, although it is clearly essential for sustaining poverty reduction in the long term. What is needed is pro-poor growth, which means generating better income-earning opportunities for poor people, helping them unleash their productive potential and allowing them to meet at least their families’ basic needs. It means stimulating activity in small, even informal, businesses, both urban and rural. In most cases, it requires measures to improve property rights, bargaining power and access to credit, training and new technology. In short, pro-poor growth should aim to reduce inequities by creating better opportunities for all groups in society, particularly poor women. China and Malaysia are examples of countries that have achieved pro-poor growth. The problem is that many other countries today need substantially faster pro-poor growth, among them the 30 developing countries whose real per capita incomes are lower today than they were 35 years ago.

**Getting the basic social services right**

Providing basic social services is of course essential to any pro-poor growth and long-term development strategy. At the Copenhagen Social Summit in 1995, the world’s leaders suggested as a rough guideline that 20% of budgetary expenditure and 20% of aid flows should be allocated to basic social services. Although the budget allocations to such services have recently increased in many countries, such as the Dominican Republic, Guatemala, Malawi and Namibia, few developing countries or donors meet the guideline. Yet there is an urgent need to invest in education (particularly girls’ education, where the returns are high) and in high-quality and cost-effective services to the poor in healthcare, water, sanitation and other basic services.

One way of contributing to the cost of these services is to build a broad, equitable and fair tax base. On average, taxes actually collected in low-income countries accounted for less than 10% of GDP in 1994-98, compared with some 20% in middle-income countries and over 25% in high-income ones. The issue is one of improving tax collection, rather than increasing taxes.

**Trade, technology and ideas**

Globalisation offers enormous opportunities for development. It provides better ways of tapping the world’s knowledge, technology for delivering products and services, and access to the world’s markets. Several countries have taken advantage of these new opportunities, such as India, which is building a strong reputation for itself in new technologies.

Opportunities have been enhanced by the plummeting cost of telecommunications in the past two decades, while the spread of cellular telephones and the Internet has been a boon, say, to cocoa traders in Ghana who need to track world prices. The transfer of knowledge and ideas is critical to development everywhere and a major challenge is to plug all of civil society and business in developing countries into these promising networks (see Chart II-11). Though this would obviously entail large investments in telecommunications and power supplies, costs are falling, while new (particularly cellular) technology is becoming easier to deploy.
2.90 Having the technology is not enough of course. The high-income countries have a clear responsibility to reduce tariffs and other trade barriers to imports from developing countries, particularly in the food and textiles markets. And richer countries should help poorer ones to build their capacity to trade effectively, such as by helping them to negotiate with trading partners and where possible to reduce their economic dependence on commodities. For countries themselves to benefit from globalisation, they have to lower their tariffs and other trade barriers, especially for sectors which stand a fighting chance of competing on world markets and for which exposure to world competition would bring clear benefits in terms of capital and growth (see Chart II-12). They should streamline their systems for the flow of imports, exports and finance. They also have to do their best to minimise volatility by maintaining consistent fiscal and monetary policies that broadly support pro-poor growth.

Using resources effectively and equitably

2.91 Development costs money. Much comes from the investments by people and much from the investments by government. What has spurred the growth of many East Asian countries is their high savings rates, often more than 30% of gross national product. Many African countries, by contrast, have had total savings rates of only 10–15% of national income, too low to sustain growth fast enough to lift more people from poverty.

2.92 Money must be spent wisely - on projects with long-term development prospects and on basic services for the poor, not on subsidised services for the rich, such as lavish hospitals in town centres. Being able to rely on predictable resources, like tax and customs revenues through a working tax collection system and indeed aid flows, and having the capacities to deliver public services efficiently, will mean a better return on development spending.
2.93 Some regions rely almost entirely on aid for their external finance. Private capital flows can add much to what countries put into their development efforts. But these flows are concentrated in fewer than twenty developing countries, and some types of these flows, such as bonds and bank lending, can be volatile, as witness the Asian crisis of the late 1990s. Countries need to create the conditions that attract longer-term investments from overseas as well as locally (see Box II-5). Countries, like Mozambique and Uganda, are beginning to do just that, by providing a stable political and economic environment and a welcoming and transparent regulatory environment. External aid plays an important part in supporting development, especially in poor countries (see Chart II-13). Only Denmark, the Netherlands, Norway and Sweden have met the target to provide 0.7% of their GNP as aid (see Chapter IV for details). Worse, the inclination to help developing countries declined in the 1990s. In just five years, from 1992 to 1997, OECD aid fell from 0.33% to 0.22% of GNP, a decline that halted in 1998 and 1999. Donors need to provide more aid to poor countries. Accelerated debt relief is also critical if the poverty goals are to be met.

2.94 But donors also have to offer easier access to their markets, including duty-free and quota-free access for poor countries. And they should finance programmes that will benefit many countries at once, such as research on vaccines for tropical diseases. Indeed, reducing human suffering and the number of violent conflicts, sustaining the environment and stemming the spread of such global threats as HIV/AIDS, are all keystones to promoting growth and reducing poverty in the poorest and least developed countries.
Private capital flows can add much to what countries put into their development efforts. But these flows are concentrated in fewer than 20 developing countries. Can private investors do more?

While official sector flows into developing countries only rose from $30 billion to $80 billion over the last 20 years, private sector investment rocketed from $45 billion to peak at $300 billion during the same period. Clearly, developing nations are fertile ground for private investors. But flows tend not to go to many of the world’s neediest countries. While there are opportunities for high returns in developing countries, doing business there is also fraught with risk. Developing nations, with the help of bilateral and multilateral organisations, need to create favourable conditions for private investors if they are to continue attracting long term investments from overseas.

Risk managers weigh the potential gains and risks with business acumen. Is the country economically stable and politically reliable? Is corruption a factor and is there a risk of capital flight? Will finance ministers from the country be prepared to signal early they have difficulty repaying? The answers to these questions are often strong predictors of the success of a deal.

Private sector debt is now four times higher than multilateral and official debt and many loans have to be restructured or refinanced. That means banks must work with the country’s finance minister to find a solution for repayment or partial payment. Latin America has generally dealt efficiently with private banks, keeping communication open during its debt negotiations. Chile was among the first countries to use debt-equity instruments, an initiative that was helped by privatisation. And Mexico succeeded in rescheduling its private debt during the late 1980s and early 1990s. But every country is a specific case. So while Latin American countries came forward early, and actively participated in creating a process for debt repayment, relationships with some African countries were not as straightforward. There are a few exemplary countries, but rather than talk about a repayment problem, there was often silence.

Along with working closely with banks to renegotiate the terms of their loans, countries in Latin America have made great strides toward creating more transparency in their banking systems. That Argentina, Brazil, and Chile are now borrowing at cheaper rates than a decade ago is partly proof of this strategy’s success, although low world interest rates are also a factor. Asia’s banking crisis a few years ago explains why transparency is so critical to private investors. The system was not transparent or friendly to foreign investors and so many private investors were taken unaware when the banking system began spinning into crisis.

Countries with no stock market, or an unstable one, pose different problems. Fund managers have to take an active role in the management of a company when necessary, buying enough of the company to have several seats on the board, where they can try to effect change. An example is African Lakes, which several years ago had negligible capital and was trading in “old economy” industries like plantations, motor sales and mining. Noting a 1-4 year wait for telephone service in Nigeria and a seven year wait in Zimbabwe, external investors saw a massive opportunity in the telephony sector. Today African Lakes is the sub-Sahara’s largest Internet Service Provider (outside of South Africa) and there has been a 1000% increase on the investment. Huge margins for growth like this are the main draw for private investment into developing countries.

“Mobile power”

For poor countries with few resources or those heavily dependent on commodities, information systems and communications may just be the way to a better economy and a more equitable society. Mobile phones are having a powerful influence. They are a real asset in countries where the public telephone network is notoriously inefficient.

Information is clearly a powerful weapon against the corruption and poor governance that plagues so many African countries. Media coverage of developing countries tends to focus on topics like natural disasters, war, and disease; a new business start-up does not make headlines. But in Africa, there are many businessmen and women who are eager to move forward, and countries that are moving in the right direction. This will help African per capita GDP to rise sharply between now and 2015. And when incomes start to grow, people join the formal economy, they open bank accounts, start saving, begin buying consumer goods, and eventually the tax net widens.

But is this optimism well founded? What of the obstacles on the way? One the greatest barriers to private investment in developing economies is inadequate protection for minority shareholders. The private sector asks donors to fund legal and regulatory reforms that would encourage greater transparency of banking systems and greater protection for minority shareholders.

Private and public unite

Another problem to overcome is perceptions, which are at least partly responsible for keeping private investors away from some poorer countries. Improving these perceptions is an area where donors can have great impact. As “catalytic investors”, the major international organisations provide desperately needed capital, and at the same time communicate a perception of confidence in a region, which private investors then follow. They can lay the groundwork for private capital, such as restructuring sectors of economies, or invest in sectors that are important but often the last to attract foreign capital. But as soon as the private sector is prepared to provide capital through internal or external investment, these limited capital resources should be invested in a similar catalytic role elsewhere.
II. Where do we go from here?

2.95 There is a consensus that any strategy aiming at poverty reduction has to be multifaceted. Acknowledgement of this is clear in a Better World for All. It is also clear, to judge by the reaction that the report has drawn, that differing opinions abound on where the priorities for poverty reduction should lie: More growth? Greater equity? Faster globalisation? More trade liberalisation?

2.96 A number of non-governmental organisations have strongly criticised the Better World for All report for not adequately addressing the problems of unfair trade, declining aid, inadequate debt relief and the governance structures of the international financial institutions (see Box II-6). They argued that without profound changes in these areas, a significant reduction in poverty would remain illusory. In their view, the report was one-sided because it dwelt too much on what developing countries must do and not enough on the responsibilities and commitments of the industrialised world, commitments that they believe have not been met.

2.97 In fact, the report avoids finger-pointing. Rather, it highlights the broad policy recommendations which, if adopted, could significantly reduce poverty by 2015. It is everyone’s responsibility to help ensure those goals are achieved. This, as A Better World for All underlines, is why partnerships are so important - between developing countries and high-income countries, governments, civil society and the private sector, and between international organisations like the United Nations, the World Bank, IMF and OECD, institutions that must remain open to discussion and debate on development progress and policies, while ensuring that undertakings are matched with action. Partnerships are not a question of imposing one view over another, but rather taking responsibilities jointly - North and South - to work to achieve the goals that have received unprecedented universal endorsement. It is not an easy challenge, but it is a feasible one. It is our duty to embrace it.
Box II-6. A Better World for Some?

The launch of A Better World for All at Geneva 2000 marked a new stage in the development of closer bonds between the UN, the OECD, the World Bank and the IMF. Predictably, it received both praise and criticism. Praise that the International Development Goals were receiving some much-needed renewed impetus; criticism to be presented once again with the simplistic advocacy of trade liberalisation.

Clearly there is a crisis in development policy and financing. If the OECD countries were in the midst of a protracted recession and decline, the lack of substantive commitments to the development goals would be somewhat easier to understand. But amidst the longest boom in a generation it stands as an indictment of the governments of the developed countries, and a source of shame for their citizens.

This selfishness was highlighted by accusations that the US Congress’ debate on foreign aid was manipulated to deceive the American people into thinking their government is far more generous than is actually the case. Far from giving away ten or fifteen percent of the national budget in foreign aid as most Americans apparently believe, the figure in 1998 was a mere 0.09% of GNP, half what it was in 1992, and the average for the OECD was only 0.24%. As Jeffrey Sachs puts it: “Each year the average American is asked to pay a grand total of $4 in taxes towards helping the world’s poorest people.”

The issue which raised the most ire from civil society groups was the simplistic assertion: “Countries have to lower their tariffs and other trade barriers”, given OECD countries’ own experience of the immense complexities of development and industrialisation policy. France, Germany, the United Kingdom and the United States all developed their domestic industries behind tariff walls and with below market-rate loans. Indeed, tariffs were positively correlated with economic growth for these and six other developed countries between 1875 and 1914. More recently, Japan, Chinese Taipei and South Korea all used measures which were anything but ‘free trade’ to industrialise, many of which are now banned under WTO rules or soon will be.

This is not to suggest that a simplistic policy of blanket infant industry protection is the solution - the bloated and inefficient “infants” which refused to be weaned in so many countries testify to the risks of that path. Encouraging exports is definitely important, but there must be a more highly nuanced approach to each country’s particular situation and stage of development – and a recognition that comparative advantage is dynamic and can be acquired. Rapid trade liberalisation for all developing countries in every sector may condemn countries to low levels of industrialisation and dependence on narrow ranges of commodities for export. Developing countries should have the freedom to decide for themselves how much they will expose their nascent industries to the power of those who have had over a hundred years head start on them.

The current processes of economic integration and liberalisation take little account of the particular needs of developing nations. Merely adding an extra five or ten years to the WTO agreements for developing countries’ compliance, plus inadequate resources for technical assistance will not work. Simply implementing the agreements can cost an entire year’s development budget for many countries, hardly a good use of their resources in the context of the development goals.

It is unreasonable for OECD governments to continue to call for a new trade round while cutting aid budgets, delaying effective debt relief, denying duty and quota free access to all exports from least developed countries, and endlessly stalling and back-loading agreements on tariff reductions in such crucial areas for poor countries as agriculture, textiles and processed goods. OECD country leaders with vision must end this unjust and myopic approach if there is to be any hope of meeting the development goals and achieving a more prosperous and equitable world in the 21st century.

Finally, the steps taken by the OECD and the other international organisations towards greater dialogue with ‘civil society’ are to be applauded, and this process must continue – though not simply with large NGOs, but also with smaller groups and representatives of the poor themselves. The World Bank’s Voices of the Poor project was encouraging, though the findings of this project now need to be incorporated into the day to day work of the institutions. Dialogue with NGOs, while important, is no substitute for encouraging participation by the poor themselves in the decisions affecting their lives.

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