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in cooperation with
The World Bank

XIII Malente Symposium

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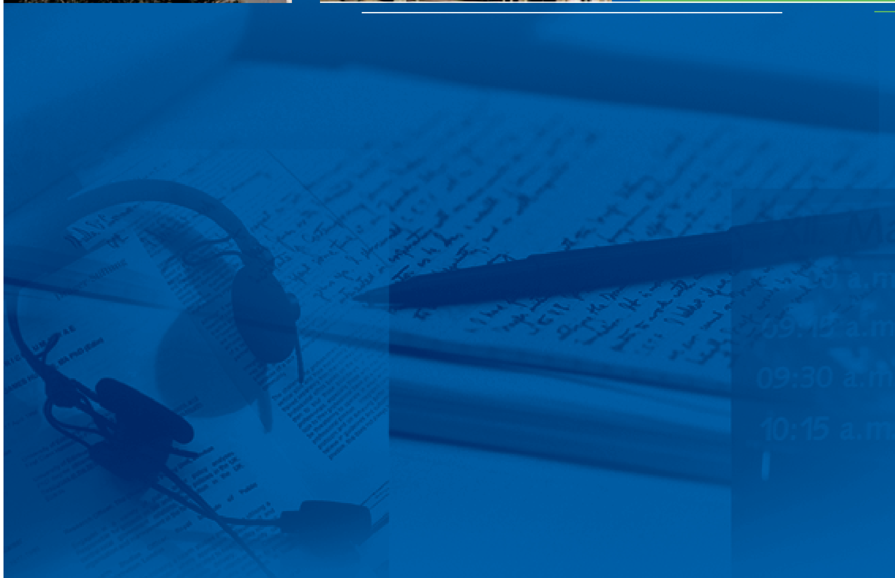

Strategies to Fight Poverty in Middle-Income Countries

June 26-27, 2001
Lübeck Music and Congress Centre

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XIII Malente Symposium

Strategies to Fight Poverty in Middle-Income Countries

On 26 and 27 June 2001 the Dräger Foundation in cooperation with the World Bank organized the XIII Malente Symposium. These symposia – still bearing the name of a small town in North Germany where they were first staged – have taken place at 2-3 year intervals since 1981 and address topical economic and socio-political issues which are discussed – often controversially – by international participants from politics, business and science, from international organizations and NGOs.

This year's topic "Strategies to Fight Poverty in Middle-Income Countries" is not only of particular interest to the international community and to the international organizations like the World Bank, but also to Germany and the European Union. The potential for poverty in the middle-income countries is considerable, some 40 percent of all the world's poor – living on less than 2 US$ per day – live in this group of countries. Moreover, it is not only countries in Latin America, Asia, the Middle East or North Africa which belong to this group, but also Europe's direct East European neighbours, in other words the EU accession candidates as well as Russia.
It was the aim of the conference to analyze causes of poverty in this particular group of countries and to discuss possible solutions. Some 65 high-ranking participants from 18 countries discussed these issues for two days, many of them came from the countries concerned. Almost 100 interested observers followed the discourse.

The opening speech, given by Saskia Sassen, Professor of Sociology at the University of Chicago, focused on causes, dimensions, and special features of poverty in middle-income countries, among others she addressed the problems which globalization has raised for poor people in these countries. The following sessions dealt with ways and means for poverty reduction on national and international levels. Among the speakers who presented the perspectives of countries concerned were Josefina Vázquez Mota, Mexican Minister for Social Development, Pavel Mertlik, former Czech Minister of Finance, and Boris Nemtsov, member of the Russian Duma and Chairman of the faction "Union of Right Forces".

In his concluding speech, Johannes Linn, Vice President of the World Bank for Europe and Central Asia, took up specific issues raised during the two conference days. In particular, he focused on a number of dichotomies, or dialectics in perception, which were revealed in the discussions about the best ways to fight poverty in middle-income countries.

In spite of at times quite controversial discussions, there was widespread agreement among the participants that poverty is "the ultimate systemic threat" to the global community, as Michel Camdessus put it. Thus, poverty has been more and more recognized as a serious global problem and as a major international task, although the primary responsibility for poverty reduction will lie with the middle-income countries themselves.

Speeches and discussions showed that there is no panacea for poverty reduction in these countries – too heterogeneous are the countries and are the causes of poverty. What was agreed upon, however, was the necessity of a "dual strategy": On the macroeconomic level, middle-income countries should set up the prerequisites for growth by good governance and broad educational programs while on the micro level they should fight poverty by the support of local resources. One of the most striking challenges of poverty reduction remains the issue of suitable tools which will lead to a measurable success. As Dieter Feddersen said in his farewell remarks, poverty reduction will require the combination of political will, of economic knowledge, of educational and technological skills, and of social sensitivity.

While this report – with the exception of Johannes Linn's closing speech – will only summarize highlights and conclusions of speeches and ensuing discussions, full versions of the papers presented at the Symposium can be looked up at the home page of the Dräger Foundation at

www.draeger-stiftung.de or at the attached CD-Rom.

Welcoming Address

Ladies and gentlemen,

It is my pleasure to welcome you, on behalf of the Dräger Foundation and my fellow board member Dr. Christian Dräger, to the XIII Malente Symposium. I cordially welcome you also in the name of the World Bank, who supported us in the planning and organization of this Symposium.

This year's Symposium deals with a very pressing problem. Our topic is the battle against poverty in middle-income countries. According to the definition of the World Bank, this group of countries includes a large number of highly heterogeneous countries in all parts of the world – in Latin America, Asia and Africa, but also in Europe or, more precisely, in Eastern Europe. A distinction is made between "lower middle-income countries" and "upper middle-income countries". The first group includes, among others, China, Russia, Turkey, Morocco, Romania, Bulgaria, Lithuania and Latvia; the second group includes for instance the East European countries which have applied for membership of the European Union in the first expansion talks, as well as Argentina, Mexico, South Africa and others.

The number of poor people living in middle-income countries varies, depending on which definition is taken. If an average income of less than 2 US$ a day is taken as a basis, then about 40% of all poor people worldwide are living in middle-income countries. They have less than the equivalent of 5 DM a day to live on - this is abject poverty which must be even harder to bear in those countries where large differences in income have long existed or are now emerging, for instance in the former socialist countries after their transformation. Another factor is that, especially in times of increasing economic problems with diminishing growth and higher unemployment worldwide, inequality and poverty will be felt even more acutely by the poor of this world than in times of high growth.

At this Symposium we will, however, not focus so much on how income inequalities can be removed, but on strategies to combat poverty. It is true that the link between poverty and inequality is rather more pronounced in middle-income countries than in very poor countries where poverty is even more predominant; however, it applies also to middle-income countries: The battle against poverty has priority. Let me cite from an article in the Economist of 14 June 2001 which deals with the question "Does inequality matter?" where it says: "Helping the poor, the truly poor, is a much worthier goal than merely narrowing inequalities. If the rich get poorer thanks to high taxation, some people may feel pleased, but few are better off. If the poor get richer, however, the whole economy will benefit."

Reduction of poverty is the ultimate goal of the World Bank and also requires joint efforts by governments, the private economy sector and other international organizations. There can be no doubt that the strategies to be developed and the solutions to be found for middle-income countries must be different from those for very poor countries with high debts, which as a rule do not have access to international capital markets.

"MICs", however, also need help from the international community in their battle against poverty, which is certainly also in the interests of the countries providing such help. Ultimately, not only will the national economies concerned benefit from a reduction of poverty in their countries, but also the global economy. This was already known to economists and philosophers of the 18th century, such as Adam Smith and David Hume. The British philosopher and historian Hume wrote in 1742, when poverty was still more prevalent in Western Europe than today, at the end of his essay "Of the Jealousy of Trade": I shall therefore venture to acknowledge, that, not only as a man, but as a British subject, I pray for the flourishing commerce in Germany, Spain, Italy, and even in France. I am at least certain, that Great Britain, and all those nations, would flourish more, did their sovereigns and ministers adopt such enlarged and benevolent sentiments towards each other.

We should keep this in mind in these times of declining economic growth and rising unemployment, when even the rich countries are increasingly tempted to protect their product and labor markets against undesired competition from abroad.

We have gathered here in order to exchange our thoughts on this and other issues in the next two days. We are delighted that the participants and observers of this Symposium have traveled from nearly all parts of the world in order to propose and discuss ideas and approaches to solutions.
I welcome all of you cordially to the XIII Malente Symposium of the Dräger Foundation.

Before the next speaker takes the floor, please let me express my heartfelt thanks to the members of our Steering Committee: Claudia von Monbart of the Paris office of the World Bank, Professor Dr. Hans-Joachim von Braun of the Center for Development Research in Bonn and Professor Dr. Rudolf Dolzer of the Institute for International Law of Bonn University, who made valuable suggestions in determining the focus of this Symposium.

We also thank DaimlerChrysler AG, the Gottfried Daimler- and Karl Benz Foundation and OCÉ-Deutschland GmbH for their generous support of the Malente Symposium. Finally, I am very pleased to announce that three artists from Hamburg, Beatrice Dettmann, Karin Ohlsen and Angela Preusz, are exhibiting their paintings at this conference. The three artists will be present during the next two days.

Ladies and gentlemen, the Symposium is hereby opened. I am confident that the Symposium will be successful and look forward to two rewarding days.

Dieter Feddersen
Member of the Board
Dräger Foundation

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Why Poverty Matters - Dimensions of Poverty in Middle-Income Countries

In her analysis of poverty in middle-income countries, Saskia Sassen, Ralph Lewis Professor of Sociology at the University of Chicago, addressed three main issues: the issue of inequality and poverty, the issue of globalization and poverty, and the issue of democratic deficits and poverty.

For Sassen the sheer scale of poverty in middle-income countries – the MICs – gives evidence to the fact that the outcome of economic growth includes greater inequality, employment-based poverty and social polarization. Today the debate is no longer centered on whether or not there is a growth of income inequality, but on the question as to why there is inequality in earnings as an outcome of growth. Is it the result of technology or is it due to the decline of institutional intermediaries that fulfil redistributive functions, asks Sassen.

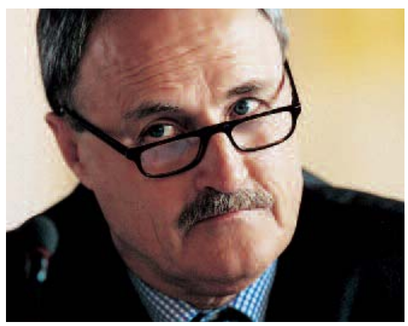
Poverty and inequality are even more intractable in middle-income countries, because there is a visual, social and political experience of a growth in prosperity, though only for part of the population. Sassen sees two types of poverty today: while older forms of poverty were linked to the impossibility of holding a job because of health conditions or family obligations, or were simply linked to the fact that there were no jobs, new forms of poverty are more and more employment-centered. This kind of poverty is very often incorporated in jobs which were previously reasonably paid lower-middle-income jobs, but do not allow a decent living today, or is increasingly associated with "some of the new, very dynamic sectors of the economy".

Sassen does not want to leave the reduction of poverty and inequality to the market alone. "If we leave it to the market, the untamed, unregulated market, we will get more poverty and, probably, more inequality", she says and propagates the strengthening of extra-market institutions which should foster economic growth, the distribution of that growth as well as the functioning of the market itself, which would also mean the elimination of privileges and the fight against corruption.

Turning to her second issue of "poverty and globalization", Sassen mainly referred to potential negative impacts of global capital inflows and outflows on wealth and prosperity in middle-income and poor countries. Trade deficits and the inability to pay for critical inputs (energy, intermediate capital goods) in their own currencies in global markets are the main reasons for the "debt trap" which even middle-income countries can hardly avoid. For Sassen, the fact that poor countries have to pay in very expensive foreign courrencies and then be subject to growing devaluation of their own currencies is a "built-in formula for disaster". Debt remission alone cannot be the answer, she says. "What is necessary is not a lender of last resort to bail out rich investors but a lender of first resort to help middle-income countries pay for much-needed, development-linked imports in their own currencies – in the expectation that this would facilitate investing for development rather than paying debt service and would in turn begin to stabilize their currencies." However, since these currencies - even if viable - are mostly not accepted by private lenders, govern-

into the global economic system, hence their malfunctioning has perceptible repercussions on the larger system.

Finally, on poverty and democratic deficits in international institutions as well as in the countries concerned, Sassen emphasized two issues: while institutions like NAFTA, WTO, and other more specialized ones, are "de facto guided by technocrats who mean the best", by powerful elites who believe to know what is best, or – at worst – by self-interested parties, there is also not enough participation from the broad range of consti-



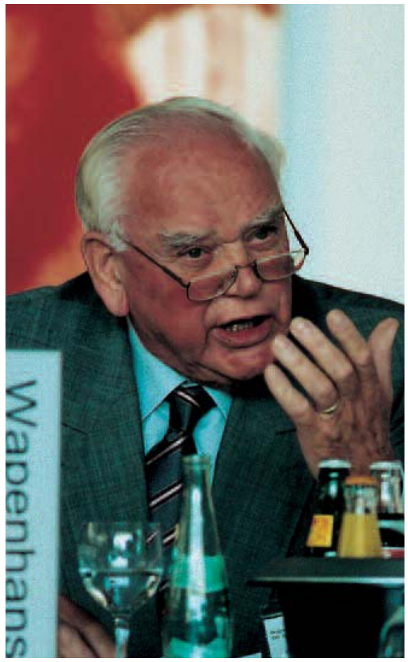
Moderator: Stefan Baron

ments as well as the international monetary organizations should take the lead.

Sassen also explains why the leadership in rich countries should do this. For at least two utilitarian reasons, she argues: the issue is not just about indebted firms, but about a large number of countries which are in danger of failing. These failures will eventually entrap rich countries indirectly, via the explosion of illegal trafficking in people, in drugs, and in arms, via the re-emergence of diseases we had thought under control, and via the further devastation of our increasingly fragile eco-system. Secondly, the middle-income countries have become more and more integrated

tuencies in the countries concerned, i.e. not enough insights from a whole variety of organizations and individuals, households, communities, small companies, farmers, etc. who are all struggling. Nevertheless, although she does not agree with the way the international community and the international organizations try to fight poverty, Sassen wants to keep a strong supranational institutional order in charge of international trade issues rather than leaving this to private regulatory mechanisms.

Rolf Langhammer



Willi Wapenhans

Zdenek Drábek

In the ensuing discussion, Rolf Langhammer raised the question of what is specific about poverty in middle-income countries in contrast to low-income countries and suggested that it has to do with volatility. While middle-income countries have experienced good times of accelerated growth, accompanied by an increase in inequality, but probably also by a decrease in poverty because of a trickling down of wealth, they have also experienced bad times of sluggish growth, declining inequality and increasing poverty. Thus less volatility and more stability in these countries would be the answer, i.e. not only monetary stability but also political and institutional stability. Langhammer questioned Sassen's proposal of a lender of first resort. Besides the problem that such a lender would face the same budgetary constraints as a lender of last resort, in addition he would be confronted with a lack of power to implement and enforce reforms in these countries. Of course it is important to make local currencies attractive by hardening them, Langhammer says, but non-market solutions are "not overly attractive given the reluctance of international institutions to provide funds for such an approach".

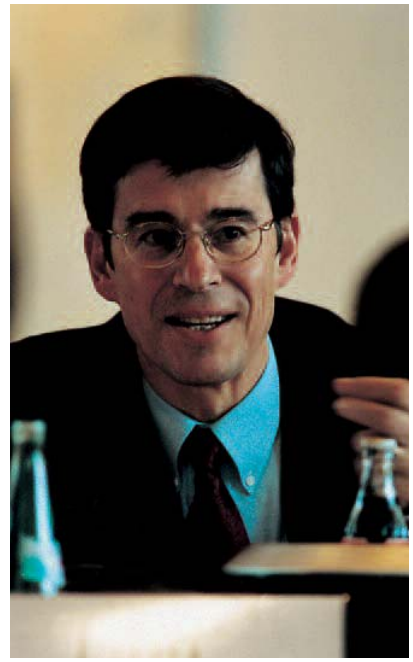
Hans-Gert Braun argued against Sassen's recommendation to allow emerging markets to repay convertible currency loans in local currencies. These countries should rather use these credits for purposes which would earn foreign exchange in order to be able to repay the debt. Many countries find themselves in debt traps because loans have been invested in projects which do not allow debt service, especially not in foreign currencies.

Since the first declaration of the World Bank on poverty reduction in 1973 in Nairobi, "those of us who work in the trenches have looked for solutions, have searched for solutions, and today we have to admit that we do not have the recipe", Willi Wapenhans said. He also stressed that there are not only distinct differences between poverty in middle-income and poverty in low-income countries, but also within the middle-income countries. In the East European transition countries in particular, the dramatic increases in poverty have had very different causes and profiles, very different from the categories of poverty about which we normally think. In order to fight these different forms of poverty, Wapenhans would welcome a profile or anatomy of poverty, as well as research into the consequences of structural changes which would help better and more fitting solutions to be found.

Sassen's correlation of economic growth and inequality was the subject of fairly controversial discussion. Don't start the debate with the wrong question, said Joachim von Braun and stressed that statistically GINI-coefficient, per capita income and expenditure growth rates are not correlated. Inequality is rooted in crises, stagnation, or lost power struggles rather than in economic growth, which he considers a precondition for poverty reduction.

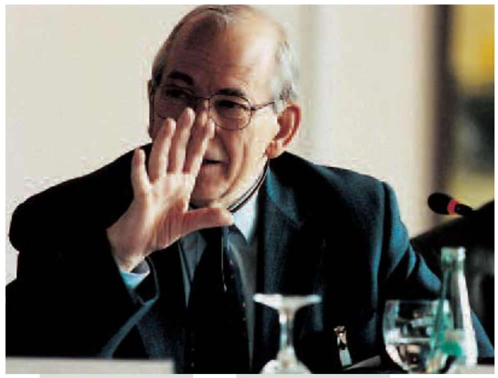
This view was strongly supported by Zdenek Drabek from the WTO who also sees rapid economic growth as a critical necessary condition for the improvement of living standards, and who quoted the examples of China and Indonesia before the financial crisis in Asia. In her answer, Sassen accepted the fact that growth can indeed add to the income of the lower segment of a country's people, but the question remains still open about how much this growth is adding to the top. Growing inequality "tears at the social fabric" of society, she says.

Sassen's issue of poverty, democratic deficit and accountability was taken up by Johannes Linn . He agreed that Sassen's point about lack of knowledge, lack of sufficient information as to what the poor really want, and neglect by technocratic elites, is an important one. Nevertheless, the World Bank, EBRD and others increasingly consider themselves as client-driven organizations with a strong participatory approach rather than aid organizations with a top-down hierarchy. In this connection, Linn mentioned "an interesting tension" between the elected government representatives on the board of the World Bank "who are responsible for supervising and keeping accountable us technicians on the one hand, and the NGOs, civil society, on the other hand" to whom the World Bank reaches out more now. There is a growing unease among members of the board of directors about the Bank being more and more accountable to many groups outside the institution.



Johannes Linn

Poverty Reduction: An International Task?



Talking about poverty reduction does not mean talking about an impossible task, says Michel Camdessus. What we need is a new partnership, a "globalized solidarity".

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For Michel Camdessus, former Managing Director of the International Monetary Fund, the answer is obvious: yes. Yes, because poverty to him is "the ultimate systemic threat" to the international community. Looking at the global dimension and the magnitude of poverty, however, he considers that one of the most disappointing developments of the last 20 years is that the rich industrial countries have not been able to match the efforts of the poor countries with an appropriate international contribution. The frequently widening gaps between rich and poor within countries, and the gulf between the most affluent and the most impoverished nations are morally unacceptable, economically wasteful, and socially potentially explosive, Camdessus says.

However, although the reduction of poverty must therefore be a major international task, the primary responsibility remains with the poor countries themselves. "Success lies in national 'ownership' of the policies, through a participatory approach that engages civil society", Camdessus stressed, making it clear that each country should set its policies according to its culture, recent history and own circumstances. When and where the countries concerned do everything they can on their own, international support should be made significantly stronger and more efficient than has been the case so far. Michel Camdessus agreed with Willi Wapenhans that there are no magic formulas available, but also emphasized strongly that public opinion has to be convinced "not only of the importance of this international task but also that solidarity is the best possible approach to addressing it".

Country-driven strategies with special regard to good governance, domestic resource mobilization and attraction of foreign capital – particularly important for middle-income countries, as Michel Camdessus said - should make poverty alleviation the centerpiece of economic policy. Major components of these strategies are:

- democratic structures,
- sound monetary and macroeconomic policies that encourage domestic savings and investments in both physical and human capital,
- the promotion of the free market and an outward orientation of economic policies,
- the introduction of a web of laws, regulations, standards, and codes that give rise to transparency and accountability and support the functioning of buoyant markets,
- last but not least, the organization of a well-targeted social policy with special emphasis on education and health care.

International support should be given not only by improving access to the markets of the industrial countries and providing international private and public finance, but also through a more decisive involvement in peace keeping, since "war is the mother of all poverty", said Michel Camdessus, quoting Andrea Riccardi. He urges developed countries to give unambiguous support to multilateral institutions such as the World Bank and the IMF in particular, and to give a major boost to technical assistance for capacity building, starting by putting in place a competent and corruption-free administration and promoting a strong local private sector. At the same time, industrial countries need to optimize those of their own policies which influence global growth and have to work to develop a global financial architecture that will prevent future financial crises.

In the discussion, Else Øyen criticizes that policies for poverty reduction as recommended by international organizations are aimed exlusively at poor countries, rather than at poor people. Such policies are creating small middle classes and small but powerful upper class elites, but are leaving out a lot of people. The new elites are not much interested in poverty reduction or in sharing their newly gained political power, land or water resources, or public goods, she adds. Thus, "models of harmony" will not solve the problem.

Christian Dräger

Else Øyen

Raimundo Florin

The German Perspective

Ian McKendry

At the beginning of the new millennium the fight against poverty has reached an importance hitherto unknown in the international community. Our job now is to turn this new alertness into concrete action, says Michael Hofmann.

Michael Hofmann, Director General of the German Federal Ministry for Economic Co-operation and Development, presented the German perspective and political approach to poverty reduction in middle-income countries. The fact that so many people still live in poverty, in the bigger MICs in particular, shows that they so far have been unable to make use of their economic potential. Poor living conditions in these countries are due to the insufficient orientation towards sustainable development on the part of the political and economic elite rather than to unfavorable geographic conditions, climate or lacking natural resources, Hofmann says. He agrees with previous speakers that the effects of international cooperation – as, for example, laid down in the World Bank's Country Assistance Strategies – should not be overestimated. These strategies can only be successful, if the government politics of the countries concerned follow the same direction.

Hofmann introduced the Program for Action 2015, adopted by the German government in April 2001, as the German contribution to a 50 % reduction in worldwide poverty, aiming at low-income as well as at middle-income countries. In the case of the MICs, Michael Hofmann also stressed the importance of good governance, of an active participation of the poor in economic development, of improved access to markets, knowledge and technologies, of pursuing environmentally sustainable development, and of cooperation with the private sector. In particular free access to European, North American and

Richard Kohl

Japanese markets is of paramount importance to developing countries, since in total they lose as much money through the import taxes of industrial countries as they gain through public development assistance, he criticizes. Severe budgetary constraints in emerging markets in concert with low public financial aid relative to their GDP, make Public Private Partnerships an indispensable option to this group of countries. Because private partners have an own interest in the projects, they invest their own resources (capital, human capital, and know-how) and continue their commitment even after the Ministry has ended its support, thereby generally making this form of economic cooperation cost-efficient, effective and sustainable. These opportunities presented by the joint action of all parties involved should not be wasted, Hofmann stressed. Most participants agreed about the necessity of finding innovative ways and means of financing which go beyond national budgets, although there should be no illusion "that we can offset what we lose from the public side with what we gain from the private side", warned Hofmann.

Taking up the issue of open markets and free trade, Richard Kohl from the OECD objected that opening up western markets to developing countries alone will not eliminate trade discriminations as long as state subsidies keep protecting those markets – as is the case in agriculture and other sectors. "These internal conflicts between the desire to have good development policy and at the same time to protect the legitimate interests of the stakeholders in their own societies" need to be solved by policymakers and economic stakeholders from the north and from the south, says Kohl.

Rudolf Dolzer

Moderator: Ruth Kagia

Good Governance

A review of the success and failure of previous approaches to poverty eradication had revealed that neither the financing of individual development projects nor the design of broader suitable development policies were in themselves able to guarantee good results and progress, said Rudolf Dolzer, Director of the Institute for International Law at the University of Bonn. Instead, "it had become apparent that good governance must be seen as a precondition in the absence of which development efforts will fail and aid from the outside may turn out to be counterproductive". Although insistence by donors on good governance as a precondition for aid programs has in part led to complaints by recipient countries concerning unacceptable and arrogant interventions into domestic affairs, there is no other way to achieve sound and sustainable economic development.

According to Dolzer, good governance calls for a number of basic requirements:

- appropriate macroeconomic and fiscal policies,
- a transparent and efficient legal system,
- the rule of law with an independent judiciary,
- the building of efficient, accountable and transparent institutions able to assume public responsibilities,
- a decision-making process which allows participation of all segments of the population, i.e. a capable and critical civil society.

It is true, of course, that good governance is not an issue of exclusive relevance for middle-income countries, but rather a general one for all countries. However, good governance cannot yet be taken for granted in many middle-income countries. Furthermore, good governance is of particular importance to emerging market economies to the extent that global financial markets 'punish' bad governance, i.e. international capital avoids countries with non-transparent and unaccountable structures. It is important to realize that good governance in the public sector also depends crucially upon the building of a strong private sector and the gradual establishment of a middle class, says Dolzer. Only free markets and a functioning business sector – including a viable banking sector which is also accessible to the poor – will attract the necessary foreign capital. The dramatic differences in foreign investment into major countries such as China, India or Brazil and the fact that just a dozen developing countries have absorbed about 80 % of foreign investment in the past decade underline the importance of good governance.

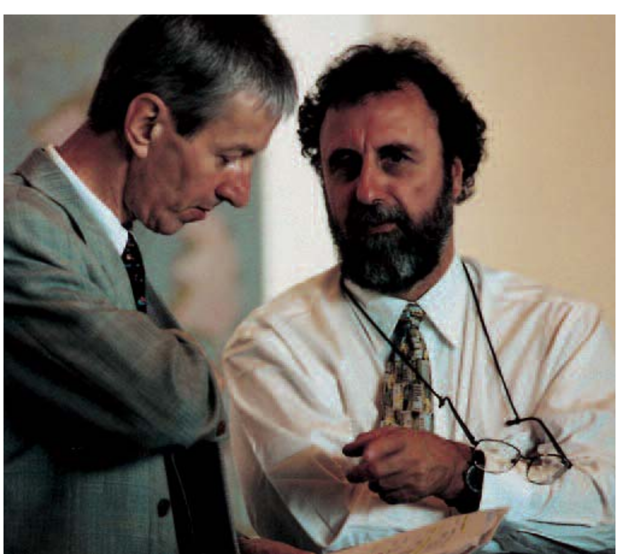
Globalization, Technological and Structural Change

Are globalization and technological and structural changes the reasons behind increasing inequality and poverty in middle-income countries, asks Robert T. Watson, Chief Scientist and Director for Environmentally and Socially Sustainable Development (ESSD) at the World Bank. Is in particular the mastery of advanced technology a way towards economic growth, and if so, does it affect income distribution within or between countries? As regards globalization, Watson argues that neither trade nor growth contributes to inequality. "Dollar for dollar, growth is good for the poor", as a World Bank analysis of the relationship between overall GDP growth and income in the bottom quintile of 80 developing countries has shown. Furthermore, a more micro level analysis suggests that those developing countries that are 'globalizers', i.e. that have lowered tariffs and increased their ratio of trade to GDP, have done incredibly well. In comparison to the rich industrial countries which grew by 2.2 % p.a. during the 1990s and the 'non-globalizers' (0.5 % p.a.), this group of countries could achieve an annual growth rate of some 5 %.

As regards technology, Watson stresses that the role of technology is and will remain a critical factor in poverty alleviation and for sustainable development. The most basic needs of society include affordable nutrition, clean water and sanitation, energy for economic growth and poverty alleviation, a healthy environment, and healthy ecological systems. Unfortunately, meeting these demands with existing policies and practices "is leading to environmental degradation on all spatial scales", which in turn makes it more difficult to meet these basic needs. Technologies are part of the solution, Watson says.

Heinz Bühler

Moreover, trade in technology is most likely going to be one of the most important factors in economic growth over the next few decades. Only those emerging markets that embark on their own industrial revolution and use modern technologies will be able to catch up with the more advanced countries, says Watson. However, many of the middle-income countries do not possess the scientific and technical infrastructure they will need to adapt or develop the technologies needed in the open marketplace. Therefore a key challenge is to improve science and technology – in particular new technologies such as information technology, biotechnology or fuel cell technology - in those countries which so far have only limited access to knowledge. This improvement must cover both the human and the institutional capacity. For Watson, one key to success will therefore be to link science and technology back to primary, secondary and tertiary education and forward to the industrial sector.



Poverty is not simply a question of income, says Robert T. Watson, but embraces issues of opportunity, capability, security and empowerment, and manifests itself in income, health, education and participation.

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One of the big lessons in micro finance is to keep it simple and to keep it local, says Nancy Barry.

The Role of Banking and Financing

In her speech about banking and banking regulations for low-income people in middle-income countries, Nancy Barry, President of Women's World Banking, a global, not-for-profit financial institution, focussed on the economic empowerment of women, meaning the provision of access to credits for the poor through micro finance. Poor people have to build productive income and assets, Barry says. This will allow them to participate in growth and gain the purchasing power to buy education, health and housing and create their own social safety nets.

Micro finance works, and micro finance is sustainable, Barry is convinced. It has proved that poor women in particular are better credit risks than corporate clients. However, loans to this client group involve high transaction costs, so banks engaged in micro finance have been innovating to cut transaction costs and build profitable operations. The fact that micro finance does well in good times, and does much better than corporate finance in bad times, certainly adds to profitability. Barry thus urges that micro enterprise and micro finance should not be viewed as a "small-scale poverty alleviation activity that a few little NGOs do", but that "it needs to be treated as the base and backbone of economies and financial systems". Today, some 25 million people have access to financial services who did not have access 15 or 25 years ago, though this still represents only 5 % of the market. How do we meet the challenge, asks Barry. Women's World Banking is focussing on supporting local micro finance institutions, not projects, on building dynamic performance standards by practitioners for practitioners, on savings and domestic resource mobilization, on building assets, not debt. In order to reach the people that need micro finance services, it needs commercial banks, finance companies, cooperatives, credit unions, NGOs, and grassroots groups, and it needs policy makers at country level who establish micro finance friendly policies. In order to achieve bottom-up policy change, you have to use local and global leadership to engage top policy makers as "champions for change".

It is essential, says Nancy Barry in her very concrete recommendations, for central banks and superintendents of banks to take into consideration the special situation of the micro borrowers. Since clients lack conventional collateral, portfolio risks should be assessed on their excellent track record in terms of aggregate repayment, and not on the collateral of individual loans. More and more banks see micro finance as a profitable business opportunity, but, with only 25 out of 500 million low-income entrepreneurs reached so far, there is still a long way to go. There is no single solution to the question of how to run efficient micro finance operations, says Barry, but micro finance has to be treated as an integral part of financial systems. We need to focus on standards, we have to broaden the instruments, focussing less on equity and on hard currency loans and more on capitalization and local currency loans. "Keep it stable, keep it honest, talk about what does not work as well as about what does work, keep learning and innovating, and get connected", Barry urges.

Micro lending in middle-income countries needs more support from the government, especially in the form of a good legal environment and through education and training, said Piotr Szczepanski, thereby building the bridge to the following subject 'Education and Poverty'.

Hans-Gert Braun, Director of the German Investment and Development Society (DEG), wondered whether micro finance is not just another name for development banking which was supposed to finance the poor in the 1970s and 1980s but failed because the banks involved were not able to raise the interest rates or the margins needed to cover the costs of micro finance. Today, the micro credit banks co-financed by his organization normally do micro business plus SME business in order to cover the high average costs of micro financing through the bigger loans for SME business, argued Braun.

Education and Poverty Reduction

In his presentation on 'Changing Skill Demand, Globalization and Inequality in Education', Richard Kohl of the OECD Development Center states that it has long been known that there is a set of policies that, if implemented, would reduce poverty and inequality. He refers first to the need to equalize the distribution of productive assets, particularly human capital – which requires above all appropriate education and training policies. Kohl focuses not so much on the quality of university education as on the promotion of a solid primary, secondary and tertiary education. He believes this to be crucial to growth in emerging markets, as it lays the human capital foundation which favors productive adaptation and the rapid spread of new technologies. Secondly, Kohl refers to the necessity of labor market reform "which weakens the power of insiders but preserves and even strengthens social protection and the social safety net, contrary to much recent policy." Since globalization and the greater openness to world market forces add considerable pressure to poorer countries in particular, a stronger domestic social welfare state is required in order to protect citizens and help them adapt, argues Kohl.

The real challenge, according to Kohl, lies in creating a political framework which will allow the right policies to be implemented. He proposes an inclusive, consultative approach to politics to generate inclusive, and therefore equalizing, policies: "If we focus on creating a participatory democracy, on including stakeholders and civil society in the process, the policies will come of their own accord". As practical experience and as a

Middle-income countries need education and training policies that match the supply of skills with demand, says Richard Kohl.

model for the successful implementation of such policies, Kohl points to the Northern European social democracies which present a viable alternative to "the confrontational politics of corporatist European countries like France and the technocratic, apolitical Anglo-American approach". It should therefore be the task of these Northern European social democracies to share their experience and give technical assistance with the building of participatory, inclusive, consultative democracies in middle-income countries while respecting their societies and cultures. Since globalization has created a shift in the way most middle-income countries are integrated into the world economy – a shift from natural resource exports to the export of manufactured goods and to increasing foreign investment – and since this shift has changed the demand for skills, i. e. skilled labor, the consensus approach should be extended beyond the nation state level to the global level, Kohl urges.

Weifang Min

There are many stories about globalization, education, skill supply and demand, and inequality concerning middle-income countries in Central Europe, South-East Asia and in particular Latin America – success stories as well as failures. To the question, however, as to what the circumstances are under which globalization and the pressure it creates – specifically as regards the demand for skilled labor – lead to more inequality, Richard Kohl's answer is unequivocal: Inequality rose in those cases where the supply of secondary and tertiary education did not match the increased requirements of the labor markets. In all countries where there was a substantial increase in the supply of secondary and, subsequently, tertiary education, i. e. where education kept up with globalization, inequality fell in spite of opened-up markets and increasing global competition.

Participants agreed that new policies as well as more and better links between jobs and education policies are needed, in particular if one regards the many unemployed people with masters degrees and indeed Ph.D. diplomas in countries like Poland, the Czech Republic or Russia, where people seem to progress from one training program to the next, yet remain constantly out of work.

In his moving dinner speech, Edward G. Cross, Secretary for Economic Affairs of the Movement for Democratic Change in Harare, Zimbabwe, one of the world's very poor countries, also touched on the issue of education. He asks why countries like Zimbabwe, where 50 % of all adult women are HIV positive, or Botswana, where one third of the adult population is HIV positive, or South Africa are the main AIDS centers of the world, losing three to four percent of their population to AIDS each year. The answer, he explains, lies in the fact that women enjoy neither status nor education in these countries. The

Poor people do not need sympathy or charity, but opportunity, says Edward G. Cross. And this demands a decent education as a bridge to the new world.

education of female children, therefore, is the key and the only way out of disease and poverty.

However, warns Cross, you cannot solve the problems of a country like Zimbabwe, where good governance is an alien concept, by working on a bilateral basis with a government infected by perpetual corruption. Instead, civil society and non-governmental institutions like trade unions should be strengthened and partnered by western aid organizations.

The Digital Divide

While Richard Kohl had focused on the role of basic education for poverty alleviation, Weifang Min, Executive Vice President of Beijing University, discussed in his presentation the impact of the digital divide on poverty in middle-income countries and stressed the importance of higher education, in particular the role universities play in development and overcoming poverty. The rapid advancement of science and technology, especially the revolution of information and communications technology (ICT), has led the world into a knowledge-based system, he said: ICT has dramatically changed the way we think, learn and work, it has changed what and how we produce, and has become the driving force for higher productivity and economic growth. In Min's view, the problem is not only that these new technologies are not equally available to all countries and individuals and that variable accessibility to ICT results in a digital divide which excludes the ICT have-nots from knowledge innovation and utilization, but also that this divide has been widening over the last couple of years. For example, the number of PCs per 100,000 inhabitants is some 50,000 in the United States, while in China the figure is just 880. While in 1998 North America was 80 times ahead of Asia in terms of Internet hosts per 1,000 inhabitants, two years later the gap had widened to 86 times.

Dramatic digital disparities can also be observed within the middle-income countries, particularly in a comparison of rural and urban areas, where the digital divide translates into an economic divide, says Min. Those who have access to ICT usually enjoy a comparative advantage in employment and income as compared to the ICT have-nots. Although the digital divide is more closely related to inequality than to absolute poverty, there is a correlation with poverty in some middle-income countries. In order for these countries "to turn the threat of digital divide into digital opportunity and leapfrog into the new development process of the world economy", education development, especially university development, is of strategic importance for economic development and to overcome poverty, he argues. Many development achievements in low and middle-income countries have shown that ICTs present the disadvantaged with particular opportunities to help themselves, says Min, quoting from a World Bank report.

Since the development of an ICT-based knowledge economy would not only call for high skill levels, but, more importantly, also for the capacity to better integrate information generation, processing, dissemination and application, universities as knowledge-based institutions would have a more significant role to play in building this capacity. Universities, through teaching and research and by enhancing their links with industries, can accelerate technological innovation and application and can bridge the digital divide – Chinese universities, including Beijing University, have already been proving this, says Min. In tandem with appropriate and well-designed poverty reduction programs, universities could become powerful engines for growth and development, he concludes – in his view this approach appears to be a promising way out of poverty.

Views from Countries and Regions concerned

In Danuta Hübner's view, poverty not only has an average income dimension – there is also the challenge of how to measure poverty. It should not be forgotten that growth cannot be regarded as a gain if it is accompanied by damage to the environment, if it excludes women or if it shifts families from very poor rural communities to crime-ridden slums.

Boris Nemtsov painted a candid and honest picture of the Russian economy: One of the big problems in Russia is that the role played by small and medium-sized enterprises in creating a thriving economy is not yet understood.

Pavel Mertlik, former Czech Minister of Finance, warns that a vast social strata in Central East Europe is in a fragile situation on the verge of poverty.

From her Eastern European perspective, Danuta Hübner, Executive Secretary of the UN Commission for Europe in Geneva, believes that it will take a long time and a sustained effort to bring poverty in Eastern Europe down to sustainable levels. However, she also stresses that Eastern Europe is by no means a homogeneous group of countries "also with regard to poverty levels, dynamics and hopes". Generally, one can say that those countries which are most advanced in institutional and structural reforms are least affected by poverty, yet in countries in transition the widening inequality coincides with the democratic reform process. At a national level, the proportion of people living on less than $2 a day varies from 5 percent in Belarus, Bulgaria, Estonia and Hungary to almost 70 percent in some of the former Soviet republics further east. Unemployment is of course a major factor of poverty, reaching 40 percent in some transition countries. Since wages in many countries are extremely low, however, poverty also poses an acute problem for many of those in work.

Poverty in Eastern Europe differs in many respects from poverty in other regions of the world, says Hübner, in that its present extreme form is a recent and sudden phenomenon. Although the former socialist policies had not achieved affluence, destitution was largely avoided, with a minimum subsistence level guaranteed for the vast majority through widespread state benefits in tandem with massive distortions of the economy. The collapse of the established order in Eastern Europe, the huge decline in production, mass unemployment, lack of regular income, and rapid erosion of basic social services came abruptly and – for the population – without warning.

Whereas people in countries where poverty is endemic and prolonged develop mechanisms for survival, people in the transition countries were given no time to adjust materially or psychologically. What made things worse for most people was the fact that, while the majority of people became poorer, a small but very wealthy class of the "new rich" evolved who were able to take advantage of the unprecedented re-distribution of public assets. Due to the absence of competition in the early transition years, this new elite has unfortunately not become the initiator of a broader prosperity, Hübner reports. Instead, poverty is on the rise and "runs the risk of becoming chronic rather than remaining an acute transition issue", at least in those countries which are still suffering from delayed or slow output growth as is the case in most CIS countries. Formal institutions in some of the transition countries, as well as some of the government policies linked to reforms, appear to reinforce the impoverishment trend, says Hübner: administrative procedures which give rise to corruption, and tight budgets which do not allow any compensation for price increases.

In her analysis, another distinct characteristic of poverty in economies in transition is that most of the new poor are people with skills and education. "Human capital, the only inherited wealth in most countries in transition, is dissipating at an alarming rate", she warns. This fear is shared by Boris Nemtsov, Member of the Russian Duma, who states that the new poor in Russia are people with an excellent education who in other countries form a broad and stable middle class, e.g. state employees, school and university teachers, doctors and hospital personnel.

With unemployment and income poverty persisting in some of the transition countries, the trend of regressive adjustment of human capital will accelerate, and the deterioration of public services, especially health care and education, will continue. At present, almost 64 million young people aged 15 - 24 in the countries in transition are neither in school nor employed, Hübner complains.

Willy Wapenhans:
How can we "re-tool" the very large highly skilled and educated, yet dormant human capital in transition countries?

In order to find ways out of poverty in these countries, Hübner expresses agreement with previous speakers in stressing the importance of creating an environment for job-generating growth and investment. Policy measures should aim to improve the access of the population at large to financial and other resources, support the creation and development of small- and medium-sized enterprises, encourage micro financing and provide public services to start-ups. We need to keep these issues permanently high on the agendas in Europe, we need to share lessons and best practices, and we need to get the right strategies, policies and institutions in place, she urges. There are many examples in Eastern Europe – in particular in Central Eastern Europe – of successful macroeconomic policies that have encouraged integration into the global economy, of the successful development of a strong private sector and the creation of jobs, of improved government and of sound financial policies, of dramatically reduced poverty – why not transfer these experiences to those countries in the region which are still lagging behind, Hübner asks.

Pavel Mertlik, former Czech Minister of Finance, agrees that in most of the Central European countries, for instance in Hungary, Poland, the Czech Republic or Slovakia, the number of people who actually live on the subsistence level is relatively low. However, there is a large group which is dangerously close to this level, e.g. in the Czech Republic some 40 percent of the population are permanently at risk of falling into the "really poor" category. In Mertlik's opinion, the fact that this vast social strata is in such a fragile situation on the verge of poverty is Central Europe's most pressing social problem. Besides pro-investment and pro-growth policies, he like previous speakers stresses the importance of good governance, but asks at the same time how good government

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practices should be established and implemented in countries where corruption is a widespread social phenomenon. Where you have corruption among those who are expected to lead the necessary turn for the better, i.e. judges, politicians and decision-makers, you have a problem, Mertlik says. It is difficult to determine and lay down rules and routines for the implementation of good governance in societies where powerful interest groups strive for high social status and work against the principles of transparency and accountability. Changes, therefore, can probably be introduced only gradually, supported by the strong pressure of international financial markets and the international community.

From the Russian perspective, too, combating corruption in government and management is one of the foremost tasks in the battle against poverty. Boris Nemtsov points to the fact that very low salaries, when paid even to the country's high-ranking government officials, open the door to bribery. If you want a new generation of politicians and decision-makers who are unsusceptible to corruption, you have to remunerate them sufficiently, he says.

His second point in regard to poverty alleviation concerns the elimination of the country's grey and black economy, which amounts to some 40 percent of GDP and is responsible for the small national budget. Nemtsov is convinced that the only way to reduce the level of the grey economy is through tax reductions. He believes Russia to be on the right track in this respect, pointing to the very low flat-rate personal income tax of 13 percent which, since its introduction, has already raised Russian income tax collection by 70 percent. From January 2002, Russia will introduce one of the world's lowest corporate profit taxes at 20 - 24 percent, in the hope that this measure will further improve the budgetary situation and the government's ability to establish a social safety net for vulnerable groups among the population. Without this kind of substantial improvement it is unthinkable that Russia will be able

Reports in the media say that the level of capital flight out of Russia is still as much as 2 billion dollars each month, participants claimed, asking how this capital flight could be stopped in order to improve Russia's budgetary situation. Only by improving the environment for investment, was Nemtsov's answer. The tax revolution coupled with our willingness to improve the rule of law in Russia could make Russia a European Hong Kong in a few years time, he says.

If we want to avoid long-term poverty, intergenerational poverty and major regional disparities in Poland, we need to focus on rural rather than on urban areas, says Michal Boni. Evaluation studies carried out in Poland have shown that access of the poorest children in remote villages to primary education is worse than in the CIS countries.

Very different strategies are needed to address poverty in different countries, states Joachim von Braun. While in China this is primarily a task for government due to weak markets and the lack of civil society, in Russia it may well be the private sector that will take the lead, and in Mexico or Brazil it may be more a task for civil society.

The German reunification experience is a fundamental lesson in the struggle to break through the wall of poverty in Mexico. The similarities are greater and deeper than one might think, believes Josefina Vázquez Mota.

to repay its outstanding debts out of its federal budget – the debt service due in 2003 will reach 19 billion dollars, equivalent to 50 percent of the current budget – and at the same time reduce poverty, Nemtsov says.

With the focus now on poverty alleviation in a country on the other side of the Atlantic, Josefina Vázquez Mota, Mexican Minister for Social Development, started by making it clear that Mexico is also a country in transition. Under its new government, Mexico is on the path from an authoritarian, centralized state towards a participatory democracy offering development opportunities for all Mexicans. However, contrary to the more recent and sudden impoverishment in Eastern European countries, Mexican poverty is deeply rooted, Vázquez Mota says. Poverty in Mexico is an ethnic and a gender problem – four out of five indigent persons are Indian and, to the most part, female. While 10 percent of the poorest population earn just 1.1 percent of the national income, the 10 richest percent receive almost 40 percent; though poverty in Mexico expresses itself not only in unequal income distribution but also in unequal regional development and disparities in socio-cultural levels across the country.

In the past, public policies focused on the effects rather than on the causes of poverty, while today the Mexican government pursues long-term strategies to eradicate poverty, stresses Vázquez Mota. She agrees completely with Michel Camdessus that it is the poor themselves who have the most important part to play in solving their problems, yet the government must create the framework necessary to satisfy the most frequent demands of the poor: job opportunities and education. "Micro-regional development" with preferential treatment of Indian communities is one of the Mexican government's foremost strategies. Its purpose is to help the most marginalized municipalities of the country to catch up with and become integrated into overall economic development. Community Learning Centers equipped with the latest technologies and academic contents provided by several universities will be set up in the poorest communities to improve the schooling level of children, youngsters and adults.

Vázquez Mota listed four action lines which are promoted by the Mexican government alongside this development strategy:

– Investment in human capital, i.e. education, health and food programs;
– Income generation for the general population, i.e. credit support for productive projects; micro financing with special regard to women;
– Physical infrastructure development, i.e. the provision of energy, drinking water and communication technologies;
– Realization of genuine federalism, i.e. the involvement of communities in decision-making processes through Community Advisory Councils acting as interlocutors with government agencies.

In Vázquez Mota's view, the German reunification experience is an example of how to respond to the high expectations of a large sector of the population who for many years – maybe centuries – lead a life in misery without much hope of change; how to persuade those who would obtain more through their own personal effort to "share more than hope with those who have nothing"; "how to equalize the pressing needs of those who have nothing with the patience of those who think they have earned the right to tranquility"; and how to benefit from the advantages of globalization and at the same time protect the vulnerable from its risks. The answers to such questions require imagination, concludes Vázquez Mota, and solutions have to be found with the participation of the Mexican population – Mexican civil society – and the international community.

Closing Statement : Attacking Poverty in Middle-Income Countries: Tensions and Strategies

Dear Moderator, Distinguished Guests,

In listening to our discussion, I was struck by a number of dichotomies, or dialectics in perception, which we were struggling with. Many of these reflect real tensions and tradeoffs as we deal with the question of whether and how to combat poverty in MICs. What I will do now is to take each of these eleven dichotomies and give you my personal view on where the discussion has taken me in dealing with real and perceived tensions and tradeoffs.

■ **Middle-Income versus Low-Income Countries – why bother about the MICs, when they can help themselves?**

Among us there was not much debate about this issue, since we all seemed to agree that it was important for the international community to assist the MICs in fighting poverty. However, since there is a lively debate in many other fora about this topic (with Professor Meltzer as the chief protagonist of the view that MICs can largely help themselves), let me state my position on this important debate.

One can readily agree that Middle-Income Countries (MICs) and Low Income Countries (LICs) are different:

– MICs are more diversified and integrated with the world economy and hence have a better growth potential. But also, as was repeatedly mentioned during this Symposium, because of their greater integration into the world economy, MICs are subject to greater volatility and hence the risk of rapid increases in poverty, and therefore require special attention to sound macro economic and financial sector policies.

– MICs have greater physical, financial and human resources for social and anti-poverty programs. For example, Mexico's cash program in support of female heads of households to help them keep their children in school, participate in basic health programs, take nutritional supplements and breast feed requires 0.2% of Mexico's GNP and reaches 10% of the Mexican population. It has achieved a measurable poverty reduction impact. Similar programs are under preparation in other MICs (e.g., now in Turkey in response to its economic crisis). Such programs would be more difficult to implement in LICs, since the cost of these programs, albeit carefully limited, would make up a much larger share of the GNP in LICs and hence stretch their resource base unduly.

– MICs have a greater institutional and administrative capacity for growth and anti-poverty programs.

Despite these differences, poverty is still a major issue in MICs. For example, in terms of income poverty, 28 % of Thailand's population live on less than $ 2 a day, 20-25 % for Russia, 18 % for Turkey and Mexico, and 17 % for Brazil. In terms of other dimenions of poverty (lack of opportunity, empowerment, security), the situation is also serious in many MICs: in Latin America only 60% of the population is enrolled in secondary education, and one in ten adults is illiterate; the infant mortality in MICs is five times the OECD average; there is high unemployment, and wide-spread social exclusion and a sense of powerlessness and vulnerability. Therefore, despite their stronger capacity and access to markets, poverty and social challenges are still overwhelming issues in many MICs, and they deserve external assistance to deal with these challenges.

In addition, the performance of MICs has important implications for the rest of the World.

- For the LICs, the "contagion" or "neighborhood effects" of economic crises in large MICs are well known. For example, East Asia's and Russia's financial crises of 1997-99 had major negative impacts on the neighboring LICs in South East Asia, and in the CIS. The economic performance of South Africa and Nigeria is of major significance for the overall performance of Africa. Similarly, how well or badly MICs deal with major environmental and health problems can have substantial spill-over effects on their poorer neighbors (e.g., the Aral and Caspian Seas environmental issues or the Aids/tuberculosis/malaria epidemics around the world).

- For the High Income Countries (HICs), financial stability in MICs (e.g., East Asia crisis), migration pressures (e.g., Mexico for the US, Central and Eastern Europe, North Africa for the EU), environmental protection (e.g., of the Baltic Sea and of atomic plants and waste in Central and Eastern Europe for the EU), and communicable diseases, crimes and drugs are issues that transcend the boundaries of MICs with direct impacts in the HICs concerned.

- In sum, the distinction between MICs and LICs is useful, since they are clearly different in the challenges they face, but we would be mistaken, if we were therefore to conclude that poverty in MICs was not of concern to the international community. The notion that we should leave the MICs to solve their own problems and rely on financial markets to assure that adequate resources are channeled into priority areas, is patently unrealistic. We don't let that happen within the EU (where poverty and risks, and differences among countries are much less severe), why should we do so for the rest of the world?

■ Income poverty versus more inclusive poverty measures – which are more useful and relevant?

It is widely recognized and accepted that more inclusive measures of poverty which go beyond simple measures of income are more useful, even though economic analysts, for reasons of convenience or laziness, still frequently run regressions on income poverty measures only.

- The World Bank's World Development Report 2000/2001 delved into many of the dimensions of the broader poverty concept, since they are important not only for the analysis of poverty, but even more so for the design of solutions and measurement of progress over time. The International Development Goals, which have been adopted by the UN member countries as well as most international institutions as the benchmarks for targeting and measuring progress in world-wide poverty reduction are an excellent example of how widely the broader concept of poverty is now accepted.

■ Poverty versus equity – do we need to worry about both?

Again we have a useful distinction here, since poverty and inequity in income distribution represent different aspects of the problem of human deprivation. But too much can be made of the need to battle inequality.

In particular, the question whether growth is bad for poverty reduction because it is seen to be associated with increased income inequality, can be

You've got to focus on the economic empowerment of women if you want to reduce poverty, says Nancy Barry. Women are not passive beneficiaries of social services, but are the farmers, the transporters, the traders, the informal sector industrialists, and they need access to education and to credits.

answered with a clear "no". On the contrary, growth is clearly necessary for sustainable poverty reduction. But some forms of growth are more effective in contributing to poverty reduction, particularly in enhancing the growth of assets and incomes of the poor. Policy measures and institutional reforms that help make that happen should be supported (e.g., broad-based rural development as stressed by Klemens van de Sand; legal reform which gives the poor clear titles to their assets, incl. clear land titles for women; access to credit, including micro credit, as propagated by Nancy Berry; access to education and health services).

Measures designed to reduce inequality purely for equity's sake may have negative consequences; for example, high marginal tax rates and expropriation of assets will reduce incentives for entrepreneurship and investment. It's better to design pro-poor policies than to pursue those that are deliberately anti-rich. But closing loopholes and special favors for the rich in taxation and regulation, combating corruption and state capture by the well-off (as stressed by Peter Eigen) are of course appropriate pro-poor policies.

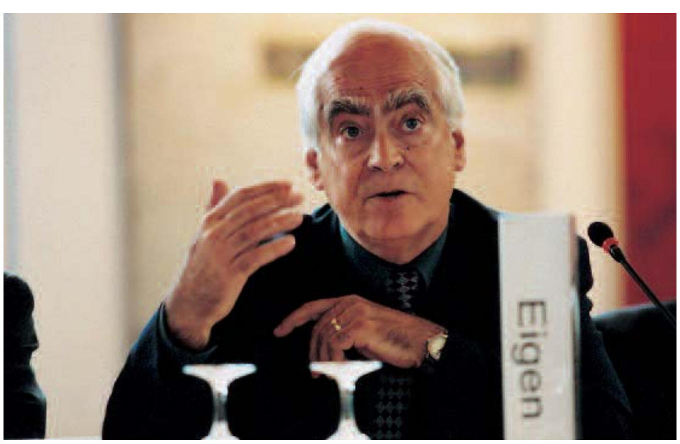
In sum, it's important to watch out for increases in inequality which undermine growth and poverty reduction, disempower the poor and are based on biased policies or corrupt practices. But this should not let one lose sight or the principal goal – to fight poverty.

■ **Policies for poor countries or policies for the poor?**

This dichotomy, which was raised by Else Øyen, is a useful reminder that policies that help poor countries do not necessarily help the poor, and that the poor in better-off countries also need to be supported. But in practice, we look at both: we look at policies that help poor countries (including MICs) grow and at policies that help the poor in these countries.

Professor Øyen's point is also a useful reminder that we need to focus on the winners and losers of reforms, and at their unintended consequences, and that we need to deal with the social impact of restructuring (e.g., coal sector reforms in Russia, where the World Bank supported a major program of social safety nets for the coal miners and mining communities as the coal sector was downsized).

Peter Eigen believes that corruption is one of the major reasons for poverty also in emerging markets. Therefore, systematic bribery of local elites by western exporters should not be a fairly normal process of export promotion.



Most of the poor live in rural areas - also in middle-income countries – which are more vulnerable to crises, says Klemens van de Sand. In particular, missing infrastructure very often keeps the rural poor from where the production is.

Michael Hofmann suggests one more dichotomy, that between urgency and complacency or between the suffering of the poor and the spoiling of the elites, and pours some water into the Mexican wine. Latin America is the only continent in the world where, when you have one percent growth, there is a less than one percent reduction in poverty, he says, whereas in Asia one percent growth produces a three percent reduction in poverty. In other words, he continues, Latin America is a continent with a blatant form of inequality.

This is also a useful reminder that we need to deal with the social fall-out of financial and economic crises (as for example at this point in Turkey) and to protect social spending in periods of fiscal stringency.

In sum, we (need to) worry not only about policies that help poor countries grow, but also about policies and programs that help poor people, poor communities, and poor regions.

■ The rural versus the urban poor – which matter more?

We certainly mustn't forget the rural poor, as Klemens van de Sand has stressed. But not in every MIC is the number of the rural poor greater than the number of the urban poor, and with advancing urbanization the share of the poor living in urban areas will continue to grow. So rural poverty is not the only, or even the main problem, in the MICs.

A good poverty reduction strategy looks at both urban and rural poor. More generally, a good poverty reduction strategy considers the multi-dimensionality of poverty, including its spatial dimension, gender, age (children, old-age), as well as ethnic (e.g., the Roma in Central and Eastern Europe). The key is to start with a good assessment of poverty in all its key dimensions, and then to design policies and programs that address the most important in a particular country and monitor progress against established benchmarks.

■ Should one focus on science and technology or on traditional policy reform and capacity building?

It is certainly useful to think through how advances in science, technology and especially in information technology (IT) affect growth, as well as opportunity, empowerment and security for the poor in the MICs.
IT can help empower people, including the poor. For example, Estonia has a program of digital connection of schools and homes; Thailand has a program of providing internet access to rural communities, with support from the World Bank; many countries are now experimenting with the development of distance learning – all of these are innovations that help people learn, gain access to information, express their opinions and be heard. Helping the poor benefit from these innovations is an important, and by no means impossible challenge.

Nonetheless, the better the environment within which science, technology and IT is placed, the more effective will it be. Hence, the continued importance of capacity building, good policies, incentives and institutions.

So far we have considered economic and social dimensions of poverty reduction. Let us now turn to issues of political economy and governance. These are at times neglected by the economists, but I am very happy they featured prominently during our discussions at this Symposium.

■ Does poverty reduction involve harmony or conflict?

Else Øyen stressed that poverty reduction involves conflict, while she often sees analysis and approaches mistakenly based on the assumption of harmony. In my view, we need to think about poverty reduction as involving both harmony and conflict.

It would be naïve to think that decisions about the distribution of resources would not involve potential conflict (as any debate about budget allocation naturally tends to do, whether in national budget discussions, in family feuds about inheritances, etc.). The key question is whether the legal, judicial and political framework and culture are such as to permit a process of predictable, peaceful and fair resolution of the conflict.

At the same time, it is important to look for win-win solutions and to appeal to the enlightened self-interest and altruism in people. By looking at who are the winners and the losers of policies, looking to make sure that the winners are aware of their gains and support the change, while also helping the losers adjust to their short-term losses and turn them into long-term gains – these are the good ways to develop good anti-poverty strategies and to build coalitions for poverty reductions that can be sustained.

■ **What's better: top-down decision making or bottom-up?**
Both are needed. Leadership, vision and good management are essential. But bottom-up initiative, empowerment, delegation, consultation and ownership of policies and change at the community level are also necessary for successful and sustained change.

Paternalistic approaches to poverty reduction clearly haven't worked. What works is to help people help themselves. Giving people a voice is clearly a winner (as for example a program in Ukraine which the World Bank is supporting in working with a local NGO to give people a voice on social and municipal service provision).

■ **Who does a better job in poverty reduction: government or civil society?**
We need both, effective government and effective civil society, as was well demonstrated by Peter Eigen who cited of the work of Transparency International, and by Nancy Berry's explanation of the work of the Women's World Bank.

MICs clearly need better government and public administration as well as legal and judicial reform are key in this regard. At the same time, MICs need stronger, more effective civil society institutions, including active, transparent and accountable NGOs operating in a legal and regulatory environment which supports, rather than hinders their work.

■ **Who is more effective in working for poverty reduction: technocracies and elites, or people in the street?**
There's a saying: "The poor will always be with us." Whether this is true or not, certainly technocratic elites will always be with us. In other words, there is little point in trying to keep out elites, also in the context of poverty reduction.

What is important is to ensure that technocracies and elites, like leaders and governments, are guided by four key principles in relating the people they serve:

- Listening – they need to listen to the people
- Transparency – they need to share information
- Delegation – they need to foster participation and empowerment by delegating, along the principle of subsidiarity, to the lowest possible level
- Accountability – they need to account for their actions and be held accountable.

These principles apply to any elite and leadership – whether an elite in government or an elite of civil society. The principle of accountability, as we discussed, is perhaps the most difficult, since it raises the question to whom a public or civil agent is accountable. This raises the whole gamut of questions surrounding what are appropriate principles of democratic governance, which deserve a whole conference of their own.

■ **And finally, which model of social and political organization is preferable: the "European social market" model or the "Anglo-American liberal market" model?**
Richard Kohl provided a very good political and economic analysis of the pros and cons of these two different models, with a synthesis that seemed to point to a preference for a third, intermediate type of model, the "North-West European market" model, following roughly the current Dutch approach.

However, we need to be cautious on two points when comparing models:

- Yesterday's great miracles have tended to be today's duds. Thirty years ago the German Miracle, and fifteen years ago the Japanese model were hailed as the great success stories. Ten years ago the East Asian miracle was praised as exemplary. A year ago the Dutch model looked great, as did the US "new economy", the older ones look deeply flawed now, and the more recent ones have started to fade. Clearly each model has its time and place, each needs to adapt and change over time if a country is to remain successful.

- Many MICs are today far removed from both European or Anglo-American market models, and indeed from any sound market model, since they miss many of the essential ingredients of an effective market economy. While it helps to know where one is ultimately heading in introducing reforms and building institutions, the search for an ideal model shouldn't get in the way of building the essential elements of any market economy, i.e., good government and governance, a sound legal and judicial system, freedom of entry and exit for firms, labor market flexibility, macroeconomic stability and the provision of effective social services and safety nets.

Matthias Bauer

Dr. Ernst U. Weizsäcker

Conclusion
Where does this long, but certainly not exclusive list of dichotomies and tensions leave us in considering the challenge of poverty reduction in MICs? A few "slogans" can perhaps best serve to summarize my views on where we have come out:

1. MICs matter and poverty in MICs matter. MICs need the attention and support of the international community.

2. The broad, inclusive concept of poverty is the right one.

3. Look at both poverty and equity, but don't lose sight of the big goal: poverty reduction.

4. Look both at policies for poor countries and at policies for the poor.

5. Analyze poverty comprehensively and deal with it wherever it is – looking at poor women and children and their education is as good as any place to start.

6. Make sure that MICs and the poor in MICs don't loose the opportunity to benefit from science, technology and IT, but generally this requires that good incentives and institutional capacity are put in place.

7. Create or strengthen political mechanisms that foster win-win solutions and give the poor a voice.

8. Find the right balance (a) between top down and bottom up, (b) between government and civil society, and (c) between technocratic elites and the people in the street – good listening, transparency, delegation, and accountability will make it happen.

9. Look for the right market model for your country, but don't let this get in the way of pragmatic solutions to real problems.

We in the World Bank are happy to work for poverty reduction world wide, including in the MICs, and in close cooperation with our many partiners, including those represented by many of you here at this Symposium.

Johannes Linn
Vice President, Europe
and Central Asia
The World Bank

Tuesday, June 26

Session 1
Moderator: Stefan Baron
Editor in Chief, "WirtschaftsWoche", Düsseldorf/Germany

09:15 am
Welcome
Dieter H. Feddersen
Member of the Board, Dräger Foundation, Lübeck/Germany

09:20 am
Opening Speech
Saskia Sassen
Ralph Lewis Professor of Sociology, The University of Chicago, IL/USA
Why Poverty Matters – Dimensions of Poverty in Middle-Income Countries and Impacts on Sustainable Development

09:50 am
Michel Camdessus
Former Managing Director, International Monetary Fund, Paris/France
Global Poverty Reduction: An International Task?

10:10 am
Discussion

11:00 am
Coffee Break

11:30 am
Michael Hofmann
Director General, Global and Sectoral Tasks, European and Multilateral Development Co-operation, Federal Ministry for Economic Cooperation and Development, Berlin/Germany
The German Perspective

11:50 am
Rudolf Dolzer
Director, Institute for International Law, University of Bonn/Germany
Good Governance: Ways out of Poverty for Middle-Income Countries – Public and Private Dimensions

12:10 pm
Discussion

01:00 pm
Lunch

Session 2
Moderator: Ruth Kagia
Director, Education, Human Development Network, The World Bank, Washington, D.C./USA

02:20 pm
Robert Watson
Chief Scientist and Director, ESSD, The World Bank, Washington, D.C./USA
Globalization, Technological and Structural Change – Reasons for Increasing Inequality and Poverty in Middle-Income Countries?

02:40 pm
Nancy Barry
President, Women's World Banking, New York, N.Y./USA
The Role of Banking and Banking Supervision in Middle-Income Countries

03:00 pm
Discussion

03:40 pm
Coffee break

04:00 pm
Weifang Min
Executive Vice President, Beijing University, Beijing/China
Education and Poverty in Middle-Income Countries - The Digital Divide

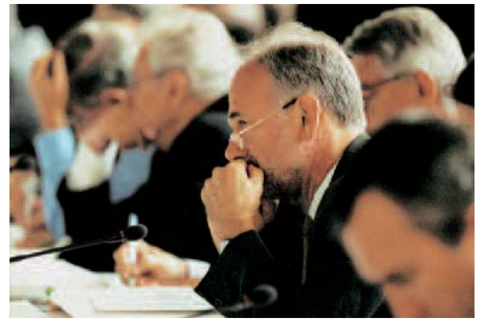
04:20 pm
Richard Kohl
Principal Administrator, International Policies Division, OECD Development Centre, Paris/France
Changing Skill Demand and Inequality in Education: Implications for Poverty and Employment in Middle-Income Countries

04:40 pm - 05:30 pm
Discussion

07:30 pm
Dinner at Restaurant "Schiffergesellschaft"

Dinner Speech
Edward G. Cross
Secretary for Economic Affairs, The Movement for Democratic Change, Harare/Zimbabwe
In the Shadow of Mount Kilimanjaro

Wednesday, June 27



Session 3
Moderator: Dieter Feddersen
Member of the Board, Dräger Foundation, Lübeck/Germany

Views from Regions Concerned:

09:00 am
Danuta Hübner
Executive Secretary,
UN Economic Commission for Europe, Geneva/Switzerland
A View from the ECE

09:20 am
Boris Y. Nemtsov
Chairman of the Parliamentary Group “Union of Right Forces”, State Duma of the Federal Assembly of the Russian Federation, Moscow/Russian Federation
A View from Russia

09:40 am
Pavel Mertlik
Former Minister of Finance of the Czech Republic,
Prague/Czech Republic
A View from Central Eastern Europe

09:50 am
Discussion

11:00 am
Coffee Break

11:30 am
Josefina Vázquez Mota
Minister for Social Development,
Mexico D.F./Mexico
A View from Mexico

12:00 pm
Closing Speech
Johannes F. Linn
Vice President
for Europe and Central Asia,
The World Bank, Washington, D.C./USA
Attacking Poverty in Middle-Income Countries: Tensions and Strategies

12:30 pm
Discussion

01:30 pm
End of Conference and Lunch

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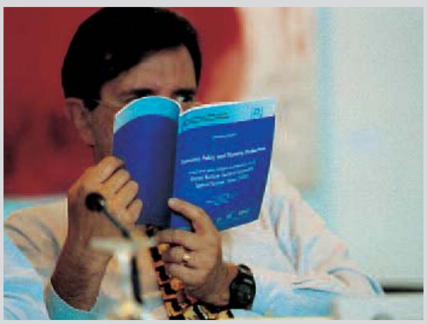

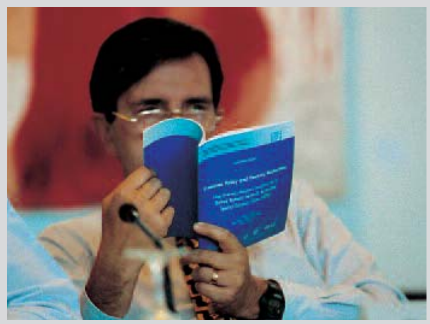

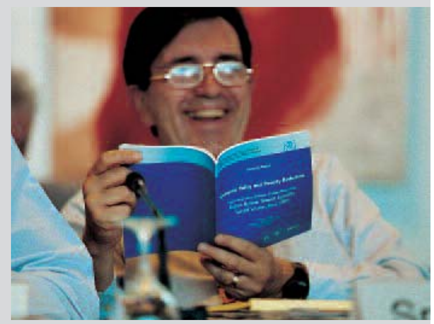

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