A New Compact to Meet the Challenge of Global Poverty - The Third United Nations Conference on the Least Developed Countries

by
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You have just heard the speakers before me outline their concerns about the international community's response to the challenge of poverty reduction; let me say that I share some of those concerns. Many of the benefits of an increasingly interconnected and interdependent global economy have bypassed the least developed countries (LDCs), while some of the risks of financial instability, communicable disease, and environmental degradation have extracted a great price.

This conference comes at a crucial time, presenting an important and significant opportunity for all of us to address what may be the most important challenge of this and the next generation: that of global poverty.

In an interdependent world, we must recognize that fighting poverty is a challenge that affects us all. Never before has there been such broad consensus about what needs to be done to reduce poverty. We have the resources and we have the knowledge.

Now, we must show that we also have the commitment to make globalization work for all. It is time to forge a new compact between rich and poor countries, in which each does their part. It is time to recognize that we sink or swim together.

As things stand, we run the risk of not being able to achieve the International Development Goals (IDGs) adopted at the Millennium Summit, of which poverty reduction is the central one.

I believe everyone here - governments, multilateral institutions, and civil society - has to be part of and play an important role in this compact. I am going to focus on a few themes that I believe are critical to making this compact work: financing development including debt relief, leveraging trade integration, and new and innovative approaches to poverty reduction.

Debt Relief

Let me begin with debt relief, an issue on everyone's minds. Today, 22 countries have begun receiving debt relief under the Heavily Indebted
Poor Country Initiative (HIPC), 16 of them LDCs for a total of $34 billion. Another 19 are eligible for debt relief, 15 of them LDCs. The total external debt of these countries will be reduced by two-thirds, to levels below the average for all developing countries.

After HIPC debt relief, these countries will spend about 2 percent of GDP on debt servicing, well below the level in other developing countries compared to about 7 percent on social expenditures. Debt relief is boosting critical social spending, with considerable investment in health and education.

In coordination with the IMF and with our development partners, total bilateral contributions and pledges to the HIPC Trust Fund stand at approximately $2.5 billion. And governing bodies of all the other multilateral development banks have confirmed their participation in the Initiative. At the Bank, our attention is now focused on those countries affected by conflict, and how we can assist them complete their HIPC program.

Make no mistake, debt relief is very important to LDCs—the heavy debt burden many LDCs faced before HIPC certainly hampered their development. But debt relief by itself cannot be effective without sustained aid flows. Breaking out of the debt trap and moving towards sustainable growth is not a one-off result.

Increasing Finance for Development

Current levels of aid, at 0.22 percent of annual GDP, fall far below the 0.7 percent target OECD countries pledged to meet. It is ironic that when African leaders are putting the right policies in place and showing results, overseas aid to Africa has fallen from $34 per person in 1990 to $18 per person in 1998.

It is time for developed country governments and major donors to put an end to this tragic decline in assistance. Development assistance is not a handout, but an investment in global peace and prosperity, health and security. It is time that rich countries recognized it as such; that recognition could turn the tide toward achieving the international development goals.

If the aid target of 0.7 percent of GDP, it would make a difference if $100 billion a year. It could make a profound difference in the number of people who die each year of preventable or treatable diseases. It is the right thing to do, for LDCs, for donor countries and for the world. Some advanced countries have met their ODA commitments of 0.7 percent of GDP; the rest must now step up and meet theirs.

LDC governments also have to take a number of actions to attract more resources. Pursing sound domestic policies is critical. They have to put in place well-functioning legal and judicial frameworks, and strong financial systems. Building national consensus for development programs is important, and will involve a consultation process with the population in general, and with civil society and the private sector.
Good governance and fighting corruption is key to making aid effective, and convincing donors that any additional resources will be used effectively. LDC countries must address these issues. Where political leaders are committed to reform, and capable civil servants and community groups can implement change, aid increases public confidence in the reform process and attracts greater private investment in national economies.

There is evidence that this works. Eleven LDCs that undertook balanced and carefully sequenced reforms during the 1990s enjoyed per capita growth rates of 3 percent or more, while 20 other LDCs without such policies regressed by as much as 7.6 percent a year. The role of the private sector cannot be overstated in terms of its ability to create jobs and impact poverty reduction; and the role of foreign direct investment can be important, as a report prepared by UNCTAD has shown. We are pleased to support the efforts of UNCTAD in its work on FDI in the LDCs.

Poor governance, weak institutions and conflict still plague some LDCs, hampering their ability to attract and effectively use development resources. These countries can certainly benefit from advice and technical assistance, but ultimately it is up to them to reform institutions, implement regulation, and fight corruption. The costs of not acting—both human and economic—rise every day.

The Challenges of HIV/AIDS and Conflict

If any further proof was needed of what poverty can do, just look at the effects of HIV/AIDS. It has destroyed irreplaceable human capital, and the costs associated with the disease have put phenomenal strains on development; the human costs are almost incalculable. Nearly 58 million people have been infected with HIV/AIDS and almost 22 million have died, three quarters of them in Africa.

Global attention and support has grown and now stands at its highest level since the start of the epidemic. My friend Kofi Annan has shown extraordinary leadership in focusing global attention on this. UNAIDS and several donors recently called for an international trust fund for HIV/AIDS. Last Thursday, President Bush of the United States pledged $200 million to the new AIDS fund.

The Global Alliance for Vaccines and Immunizations (GAVI) and the International AIDS Vaccine Initiative (IAVI) have captured the attention of donors and foundations, and a number of vaccine trials are now underway, thanks in part to this financial support.

The Bank has responded to this pandemic with a massive increase in commitments to combating HIV/AIDS and other communicable diseases, about $900 million this fiscal year, which is three times more that our commitments from the previous year and almost 30 times more than we spent in 1995.

The Banks Multi-Country AIDS Program for Africa makes available $500 million to help countries scale up national prevention, care, support and
treatment programs. But the burdens associated with the disease will mount in the coming years as millions living with HIV today develop AIDS over the next decade.

But all this is barely enough. We must move ahead on creating a global trust fund for communicable diseases. Malaria and tuberculosis have re-emerged as major threats. The death toll from malaria exceeds a million people a year, an indication of the potential costs to the poorest countries. This is clear: the threat has to be met on a global scale.

War and conflict exact a heavy toll on LDCs, mostly in eastern and central Africa, are currently affected and the possibility that other countries may be drawn in to conflict provides a strong incentive for regional interventions.

These conflicts are a major impediment to social and economic development, create huge displacement of populations, and enable the rapid spread of communicable diseases (notably, HIV/AIDS). They pose a special challenge to the international community because of the urgency of speedy and effective action to help break the cycle of violence, low growth, and poverty.

The HIPC Framework, flexibly implemented, can accommodate the special circumstances of post-conflict countries. New approaches are being explored. IDA, for example, is assessing the scope for regional lending through new country-by-country adaptable program loans.

Integrating LDCs into the Global Economy

Our experience over the last fifteen years have shown that those countries that have opened up to trade have made the deepest inroads into poverty. Between 1990 and 1997, trade grew at three times the rate of global GDP, but the share of the LDCs in global trade has remained constant at 4 percent.

We need to address the trade barriers that the LDCs face. A recent Bank study shows that if the US, the European Union, Canada, and Japan gave free access to LDCs, net exports from LDCs would increase by about 11 percent; non-oil exports from sub-Saharan African countries would expand by 14 percent.

It is time for rich countries to get serious on trade as their part of the compact. They spend close to $300 billion on agricultural subsidies, more than five times the official financial flows to all developing countries, and an amount roughly equal to the total GNP for all of sub-Saharan Africa. Even today, developed country tariffs on meat, fruits and vegetables—all primary exports from the developing world—can exceed 100 percent.

True, there has been progress. The European Unions "Everything But Arms" initiative, which grants LDCs duty- and quota-free access for all products except arms, is an important and very laudable step in the right direction. Similar initiatives by Norway and New Zealand are also very welcome measures. In May last year, the US government enacted the
landmark Africa Trade and Development Act of 2000, that reduced or removed trade barriers for a range of articles made in African countries for entry into the United States.

Integrating LDCs into the multilateral trade system benefits all countries, rich and poor. The Bank will step up its analytical work in areas of strategic interest to the poorest countries, including market access, trade in services, and intellectual property rights.

The recently revamped Integrated Framework (IF) is a significant development in the last year. Donors recently agreed to finance IF activities through a $4.5 million pilot trust fund to which the Bank also intends to contribute a $1.5 million grant. In addition, the Bank, working closely with other agencies, will carry out a series of diagnostic "trade integration studies" to analyze trade obstacles and prioritize technical assistance requirements. These studies can become important building blocks for governments as they formulate their poverty reduction strategies.

The Bank will play a catalytic role in increasing trading opportunities for Africa and other poor countries, to boost their capacities to negotiate with the World Trade Organization (WTO) and rich countries. The Bank's analytical and advisory role will support national policies to strengthen market institutions and infrastructure, which has considerable potential for creating large gains from trade.

But more needs to be done. We must build on these efforts, and move further with trade reform. We have to level the field on trade. Let us work to make the next round of multilateral trade talks a Development round. Debt relief—indeed aid in general—without increased market access is a sham.

Approaches to Poverty Reduction

There is no "right" way of doing development, but many different ways. In addressing the global poverty challenge, we must pay attention to the people whom poverty reduction is intended to benefit. Poor people are not liabilities, but assets. We have to invest in them, and empower them. Development must not be done to them, but by them.

The lessons we have learned about what constitutes successful development can be distilled into a number of principles that can guide our work and form the basis of the new approaches to poverty reduction.

First, development must be country owned and driven. We must listen to the Voices of the Poor. As our interviews with 60,000 poor people in 60 countries confirmed, they do not want charity, they want a chance. This understanding is the driving force behind the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs).

Second, we recognize that it is no longer enough to talk to governments alone. Development must embrace all the players: civil society, (including NGOs, foundations, universities and research institutions, and
faith based community groups) the private sector, bilaterals, the other multilaterals, governments themselves, and their parliaments.

Third, donor coordination is critical. Having countries prepare over 2000 reports on the same project to satisfy different donors is a waste both of resources and of capacity. At the Spring Meetings, it was decided that we would all work for effective harmonization of operational policies and procedures to make aid more effective. We now need to move ahead on implementation.

The Poverty Reduction Strategy Paper (PRSP) framework is an opportunity for donors to coordinate assistance on the basis of countries' own priorities. But for it to work, donors need the discipline to stop asking countries to produce an array of strategies and start accepting countries' own national plans; they need to let go.

Our priority should be to help countries develop high quality plans that we can all support. Let me take the opportunity to salute the initiative of the European Commission in using the PRSP as a basis for its own strategies for supporting low-income countries.

Fourth, we need to focus more on outcomes and results. At the recently concluded Spring Meetings, the Bank and the IMF committed themselves to streamlining conditionality and helping to build domestic commitment to reform. The Bank's new instrument, the Poverty Reduction Support Credit (PRSC), will provide programmatic lending with conditions guided by the country-owned poverty reduction strategies.

Finally, global or regional collective action is critical to address development challenges that transcend national borders. Working closely with partners, the Bank is increasingly complementing its national work with support for global and regional public goods. The development of an HIV/AIDS vaccine for the developing world is a prime example, as are the global Medicines for Malaria Venture, and the Global Environment Facility, jointly managed by UNDP and World Bank.

Looking Ahead

The poverty challenge is getting bigger, and harder. In 25 years, global population will go up by 2 billion people, 98 percent of who will be in poor and developing countries. In LDCs, the population has been growing at 2.5 percent in the last decade, compared to the developing country average of 1.7 percent. These trends will add even more urgency and complexity to the issues I have touched on today.

More than a third of the 614 million people living in the LDCs live in less than $1 a day. Reducing by half the number of poor in these countries will require mobilizing substantial resources. None of the IDGs on health and education—namely, a two thirds decline in infant and under-five mortality, a three-fourths decline in maternal mortality, and universal primary education for all by 2015—are likely to be achieved at the global level without a more concerted powerful campaign.
There will be wider inequalities, between countries and within countries. The LDCs of today are the most vulnerable; if they do not achieve significant poverty reduction, the world will become a more unstable, uncertain and perhaps dangerous place. This is not just a security or ethics issue, but a moral one.

In a globalizing world, problems endemic to countries half way across the world have a way of showing up on your doorstep. The spread of communicable diseases and a damaged global environmental commons will affect us all, no matter where we live. A compact between rich and poor countries, to attack poverty where it has the greatest impact, will enable us to face these challenges together.

The time we have at our disposal for concerted action that will make a difference is limited. We have to act now. And the time has never been better for such a campaign. Knowledge about what sustainable development entails has never been better. The budgets of rich countries have never been stronger. Technology has never been more dynamic. Our goals have never been clearer. We must seize this moment.

Let us make this compact, and commit ourselves to it. When we do so, perhaps this third LDC conference will be remembered as the event that turned the tide.