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ADDRESSING GLOBAL POVERTY

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ECONOMIC PERSPECTIVES

Addressing Global Poverty

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The percentage of the world's population living in poverty has declined sharply over the last several decades. Still, as total global population has climbed, the absolute number of poor has remained unchanged at nearly 1,200 million, despite numerous bilateral and multilateral anti-poverty initiatives. The issue facing policy-makers is how to provice assistance in a way that is both cost effective and directly benefits the poor.

A common theme to the articles presented in this journal, "Addressing Global Poverty," is that external assistance will help alleviate poverty only in the context of sound policies — market-oriented mechanisms that encourage private investment, good governance, liberalized trade, and investment in human capital — in the countries receiving aid. Ultimately, the authors argue, poverty reduction must be driven by rising productivity, income gains, and increased economic growth.

The countries most successful in reducing poverty, writes U.S. Secretary of the Treasury Paul O'Neill, are those that have adopted sound economic management, encouraged private investment and open trade, and promoted good governance and rule of law. O'Neill also urges more focused and increased grant lending by the international financial institutions — a theme also addressed by Carnegie Mellon University Professor Adam Lerrick, who contends that a shift to additional grants would not deplete World Bank resources as some critics of the idea have charged.

Food security and alleviating hunger hinge, among other things, on defining property rights for small-scale farmers, on technology, and on providing social safety nets to those most vulnerable to economic reforms, says U.S. Secretary of Agriculture Ann Veneman. Cato Institute economist Ian Vásquez also highlights the property rights issue, as well as the correlation of economic freedom with poverty reduction.

Developing country participation in a new global round of trade negotiations that reduces barriers in both industrial and emerging economies has tremendous potential to reduce living costs in developing countries, discourage corruption, and lead to a better quality of life for the poor, writes U.S. Under Secretary of State Alan Larson. IMF Managing Director Horst Köhler also sees trade as key to poverty reduction and urges increased and better-coordinated technical assistance by the IMF, the World Bank, and other donors to support poverty reduction strategies in Africa.

Andrew Natsios, administrator of the U.S. Agency for International Development, outlines his agency's poverty reduction priorities for the future: agricultural development, support for microenterprise, education of women and girls, and research and treatment of AIDS and other diseases.

The journal also includes contributions from John Sullivan, executive director of the Center for International Private Enterprise, on the importance of good governance and transparency in promoting development; David Satterthwaite of the International Institute for Environment and Development on why it is important to understand the differences between rural and urban poverty; and Georgetown University Professor Susan Martin on how workers' remittances are having a positive impact on developing country economies.

The journal concludes with listings of poverty indicators and workers' remittances in selected countries, additional readings on poverty, key contacts and Internet sites, and a chart showing where and in which sectors development aid is spent.

We hope the expert viewpoints represented in this issue of *Economic Perspectives* help stimulate further discussion on global poverty reduction strategies.

ECONOMIC PERSPECTIVES
An Electronic Journal of the U.S. Department of State

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The Office of International Information Programs of the U.S. Department of State provides products and services that explain U.S. policies, society, and values to foreign audiences. The Office publishes five electronic journals that examine major issues facing the United States and the international community. The journals -- "Economic Perspectives," "Global Issues," "Issues of Democracy," "U.S. Foreign Policy Agenda," and "U.S. Society and Values" -- provide statements of U.S. policy together with analysis, commentary, and background information in their thematic areas.

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❑ COMBATING GLOBAL POVERTY

By Paul O'Neill, U.S. Secretary of the Treasury

"Over the last 50 years, the overall benefits of both bilateral and multilateral aid have been disappointing," says U.S. Secretary of the Treasury Paul O'Neill. The international community can do a better job in combating global poverty, he says, by placing greater attention on helping countries become more productive.

O'Neill also points out that countries that have been successful consistently make wise policy choices in four key areas: encouraging private enterprise through market oriented mechanisms; recognizing the importance of good governance and a competent public administration; opening economies to trade and investment; and building capacity through investment in human capital and the transmission of best practices.

A new way of thinking about development, the cornerstone of any poverty reduction effort, is not only a moral imperative, it is also an economic necessity. As President George W. Bush has said: "A world where some live in comfort and plenty, while half of the human race lives on less than $2 a day, is neither just, nor stable."

During 40 years of traveling and working around the world, I have seen the tragedy of poverty first-hand: children afflicted by disease because they lack basics such as clean water and sanitation, and adults who cannot earn enough to feed their families. All too often, personal struggles are intensified when the surrounding social and political fabric is frayed — poor governance, political instability and conflict, HIV/AIDS and other infectious diseases, and vulnerability to natural disaster all exact their greatest toll on the most vulnerable members of society.

If we are to re-think development, we must first draw on the lessons of experience, culling success from failure while thinking in innovative ways about basic problems. In my mind, a few key principles are the foundation for future success.

FOSTER RISING PRODUCTIVITY TO SPUR GREATER GROWTH

Rising productivity — the amount that each worker produces — has been the driving force behind increases in economic growth and rising per capita income throughout history. An expanding economy, in turn, translates into better jobs, increased wages, and a higher standard of living for all. In a recent paper by John Page at the World Bank Institute, differences in productivity were singled out as the most important reason for the sharp dichotomy between the spectacular economic growth experienced in East Asia over the last 25 years and the sluggish growth of the Middle East and North Africa region (productivity growth there was negative).

What enables people to become more productive? Many things — building human capital and foundational institutions such as legal systems, offering the right incentives to reward hard work, removing government-generated obstacles to business, teaching new skills, and even developing things that many of us take for granted, such as functioning sewer systems and clean water to stave off disease.

Countries that have been successful consistently make wise policy choices in four areas: (1) encouraging private enterprise through market-oriented mechanisms; (2) recognizing the importance of good governance and a competent public administration; (3) opening economies to trade and investment; and (4) building capacity through investments in human capital and the transmission of best practices.

First, market-oriented policies are essential in order to benefit from today's increasingly interconnected global market. Above all, a country must have a sound monetary and fiscal foundation for economic stability. Encouraging competition among private firms is also critical, since innovation is the engine of growth. The widespread adoption of market-oriented mechanisms has generated unprecedented opportunities and important advances in human welfare over the last few decades, offering greater opportunity to more people than ever before. Contrast, for example, the sustained economic growth enjoyed by the United States and our partners in Europe and Japan over the past 50 years with the fate of centrally planned economies such as the former Soviet Union and North Korea.

Second, governments must take responsibility for creating the institutional conditions and incentives required to encourage productivity and individual enterprise. These depend on an entrepreneurial culture in which the rule of law, enforceable contracts, and stable and transparent government administrations exist. Corruption is still far too pervasive and remains an enormous barrier to both domestic and foreign investment, a tax on economic efficiency and social progress that poor countries can least afford.

Third, trade liberalization is essential. A recent paper by David Dollar and Aart Kraay at the World Bank shows that trade has been a major driver of economic growth for the last three decades. In the paper, Dollar and Kraay show that since 1980, per capita incomes of developing countries that have lowered tariffs and increased actual trade volume are closing the gap with richer countries, while "non-globalizers" are falling further and further behind.

Yet liberalization alone is not sufficient. It must be complemented by policies aimed at fostering private sector enterprise in order to generate increased employment and provide the basic infrastructure required by agricultural and other small-scale producers. A particularly strong correlation exists between rural and agricultural growth and poverty reduction. Policies that promote education and training will allow the poor to compete for the type of skilled employment demanded by open markets and will facilitate more rapid adjustment to the inevitable dislocation that accompanies change. Globalization should be embraced as an opportunity, not spurned as a potential threat.

While the international community has recognized the importance of countries of the Organization for Economic Cooperation and Development (OECD) reducing trade barriers to imports from the poorest countries, greater attention must also be given to the need for developing countries to reduce trade barriers among themselves. The average import duty between developing countries is 20 percent higher in agricultural products and three times higher in manufacturing than the barriers that protect the markets of OECD countries, for example.

Fourth, basic social services such as health and education are vital to enabling any population to participate in and contribute to economic activity. The recent history of the United States makes clear how crucial improved education and ready access to capital are. This is particularly true of the farm sector. As farmers learned new techniques and developed new machinery, output per unit of farm labor grew by more than eight times between 1948 and the 1990s. In contrast, agriculture value-added per worker in sub-Saharan Africa is lower now than it was 20 years ago.

EXTERNAL ASSISTANCE

Research has shown that when a country's policy environment encompasses the four elements discussed above, external assistance has a significant and positive impact. Yet over the last 50 years, the overall benefits of both bilateral and multilateral aid have been disappointing. This is particularly true in the poorest countries. This underscores the importance of concentrating assistance in countries committed to sound development policies that encourage increased productivity. Aid must be used wisely as part of efforts that are well targeted, well coordinated, and rigorous in measuring results.

MDB REFORM: THE CORE AGENDA

The World Bank and its regional counterparts have an important role to play in economic development. However, the work of the multilateral development banks (MDBs) has been far too diffuse. These institutions must focus on countries with a sound policy environment and on operations that raise productivity. Let me suggest three priority areas:

First, people need health, knowledge, and skills if they are to become more productive. But in recent years, education has accounted for only 7 percent of total World Bank lending. President Bush has called on all the MDBs to increase the share of funding devoted to education and to tie that support more directly to clear and measurable results. The president has also proposed that the MDBs dramatically increase the share of their funding provided as grants to the poorest and least creditworthy countries.

Second, MDB investments should help boost productivity in borrowers' economies and remove economic constraints that hamper progress. This can be done, for example, by improving infrastructure and the services needed to create vibrant rural economies, by strengthening the regulatory systems necessary to support competitive manufacturing and small and medium enterprises, by providing access to seed capital to start new businesses, and by helping establish the institutions and expertise nations need to benefit from trade.

Third, the MDBs should step up efforts to promote good governance and to assist borrowers in managing and monitoring their public expenditures, improving service delivery, and ensuring accountability for public and donor resources.

It is critical that the MDBs place greater priority on strengthening coordination among themselves and on ensuring that their own internal governance is transparent and above reproach. A more concerted effort should also be made to reduce administrative overload on borrowers by harmonizing donor policies to the highest appropriate standard.

THE HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

The Heavily Indebted Poor Countries (HIPC) initiative provides a unique opportunity to improve the economic prospects of those poorest and most heavily indebted countries that are committed to sound policies. When combined with appropriate economic and social policies, HIPC debt relief can make an important difference. Twenty-three countries are now receiving HIPC relief. However, the ultimate success of HIPC will be measured not by the number of beneficiaries nor the level of debt relief received, but rather by the extent to which such relief contributes to human development and poverty reduction. Its tangible impact will depend on how freed-up resources are used to catalyze policy reforms. As President Bush has said, the United States has been, and will continue to be, a world leader on responsible debt relief.

We have begun to see noteworthy progress. Guinea has been pursuing a remarkable education reform program, with help from USAID and other donors, that has raised primary school enrollment rates in the past decade from 26 percent to a targeted 62 percent in 2001; the education budget will increase 39 percent this year as a result of interim HIPC relief. Tanzania has privatized virtually its entire banking system and strengthened its regulatory regimes. This has led to an increase in the number of banks from 2 to 19 (of which 12 are foreign owned) and sets the stage for greater competition and an increase in credit available to the private sector. Mozambique has abandoned Marxist economics and made a major commitment to private-sector-led growth. Public enterprises now account for less than 20 percent of industrial output, compared to 66 percent in 1990, and economic growth is expected to return to the 10 percent range this year after last year's devastating floods. On January 1, 2000, the eight countries of the West African Economic and Monetary Union eliminated trade barriers among themselves and put in place a common external tariff that is both simpler and much lower than the national systems it replaces.

CONCLUSION

While we do not have all the answers to development, we can and must do a better job by learning from our successes and our failures. We can be encouraged by the opportunities opened up by constantly evolving technology. The challenge we face is helping less developed countries seize those same opportunities.

A healthy global economy requires all countries to perform to their highest potential. A growing and increasingly open world economy provides the best possible foundation for the collaborative international efforts needed to address the serious economic and social challenges facing the poorest countries. ❑

THE U.S. CONTRIBUTION TO GLOBAL AGRICULTURE AND FOOD SECURITY

By Ann M. Veneman, U.S. Secretary of Agriculture

Food security is more than just food production, nutrition, or food aid, says U.S. Secretary of Agriculture Ann Veneman. Alleviating hunger, she says, requires a myriad of programs and policies that open up markets to agricultural trade, eliminate developed country export subsidies, improve infrastructure and transportation systems, define the property rights of small-scale farmers, provide safety nets to the most vulnerable groups, exploit technological advances, particularly in biotechnology, and, in the long run, achieve broad-based economic growth and income generation.

Veneman says the world community is far from achieving hunger reduction goals set in 1996. She says the focus of attention must be not only on sub-Saharan Africa but also on Asia, which has the greatest absolute number of malnourished and undernourished people.

Food security simply means all people having access at all times to sufficient food to meet the dietary needs for a healthy and productive life. It depends on availability and access to food, and on proper food use. Food security is a prerequisite to sustainable, equitable economic development and indeed a critical factor for economic and social stability in every country.

Food security clearly is more than just food production, nutrition, or food aid. Alleviating hunger, a severe manifestation of poverty, depends in the long run on sustainable and broad-based economic growth and income generation. In many poor countries, these depend on a productive, sustainable agricultural sector. To achieve these conditions, countries must invest in rural areas to strengthen agriculture, the food system, and infrastructure, and restore and conserve critical natural resources for agricultural production. This requires both public and private investment — domestic and foreign.

At present, the world is not on track to achieve the 1996 World Food Summit target of reducing the number of hungry people from 800 million to 400 million by 2015. In fact, the rate of reduction is less than half the required rate. Three-quarters of the world's poorest people live in rural areas, emphasizing that the challenge of feeding growing populations is really expanding economic activity in rural areas. In addition to past constraints to growth, HIV/AIDS now dramatically affects nutrition, food security, agricultural production, and rural societies in many countries and further undermines the ability of the world community to achieve hunger reduction goals. Sub-Saharan Africa is most affected because of these factors and is an obvious focus of food security efforts. Asia, however, has the greatest absolute number of malnourished and undernourished people and also must be a focus of attention.

At the World Food Summit, participating nations, including the United States, committed to the goal set by the Food and Agriculture Organization (FAO) of the United Nations. Government and civil society developed the 1999 U.S. Action Plan on Food Security as the U.S. strategy for addressing international and domestic hunger reduction goals.

In November, the FAO will convene the World Food Summit: five years later for nations to review progress and recommit to the hunger reduction target. This is an opportunity for the United States to show strong leadership in addressing food security.

STRATEGIES FOR REDUCING HUNGER AND MALNUTRITION

Unfortunately, there is no convenient or simple solution to combating hunger and malnutrition. In the U.S. Action Plan, developed with input from government agencies, nonprofit and faith-based organizations, and private citizens, the United States identified several strategies to address this global problem. They include: expanding agricultural production, especially through agricultural research and technology; providing ongoing social programs for the world's most vulnerable people, especially women and children; expanding trade and achieving a new round of global trade negotiations; improving methods of assuring food safety; and continuing food aid to countries with emergency situations.

A more productive agriculture is necessary to fuel the economic growth required to alleviate poverty in food-insecure countries; for the most part, rural areas are the most food insecure. Agricultural research is key to developing and adopting crop varieties and for increasing crop and livestock yields so essential to helping reduce malnutrition and hunger. Moreover, dwindling options for land and water resources and increased population and environmental stresses make it imperative that we emphasize biotechnology, one of the very few new tools we have to address these constraints. Biotechnology also can improve the nutritional and other quality aspects of food products for the benefit of all consumers. The U.S. government is reinforcing this emphasis through additional support to international agricultural research.

Food security, of course, cannot be attained by just producing more food. Investment in agriculture must be complemented by social safety nets and programs that address hunger among the most vulnerable groups. For example, women are the backbone of food production and household nutrition and income in many developing countries, thus making gender aspects a key consideration in food security program planning and implementation. The United States expects its development partners to assure this focus on the role of women.

Often in the poorest countries, it is not the lack of food that causes hunger and malnutrition but the lack of access to it, a condition generated by a combination of complex factors. In addition to the poor being unable to purchase food, many agricultural and food products cannot flow between countries because of high tariffs or poor infrastructure and transportation systems. Farmers barely eking out a living cannot move beyond subsistence farming because poorly defined property rights preclude their use of the land as collateral for credit — a critical need for small-scale farmers everywhere. Many countries cannot sell their surplus food because their systems for ensuring the food's safety are inadequate. All of these problems point to the widespread need for general development of legal and regulatory systems, along with greater investment in infrastructure.

The poorest countries need open markets in which to sell their products. Trade can be a big booster of living standards, creating new opportunities throughout the developing world. Greater market access for agricultural products, elimination of export subsidies by developed countries, and science-based trade rules will enhance food security for all nations. But progress in achieving these goals is more critical and much more urgent for the poorer countries.

Food aid continues to be an important component of the international safety net for meeting specific food shortages in the lowest income countries that experience natural or conflict-related disruption of food supplies or simply cannot afford commercial food imports. Food aid is a unique resource for addressing hunger and nutrition problems, addressing emergency food needs, supporting development programs, and directly feeding vulnerable groups. The United States is continuing its efforts to better target and increase the effectiveness of its food aid programs, while continuing their fundamental humanitarian nature.

Safe food is essential for food security as well as physical health and economic productivity. Technical assistance for food safety helps strengthen national food regulatory systems, protects local consumers, and reduces barriers to the export and import of food. The U.S. Department of Agriculture (USDA) now offers such training in selected developing countries.

U.S. ASSISTANCE TO LOW-INCOME COUNTRIES

The U.S. government operates a wide variety of programs and activities targeted to the agriculture and food security needs of low-income countries. These include:

• **More attention to agriculture.** The U.S. government has reversed the decline in foreign assistance funding for agriculture projects that began in the late 1980s among all donors, expanding funding to more than $300 million in fiscal year 2000.

• **Renewed commitment to agriculture and food security in Africa.** Activities such as the 1998 Africa Food Security Initiative support trade and investment; civic institution-building; micro-credit finance; agricultural research and extension, including collaborative research arrangements; private agricultural enterprises; community participation in development programming; resource conflict management strategies; and entrepreneurial opportunities for women in Africa.

• **Agricultural research and biotechnology.** In 2000, the U.S. Agency for International Development (USAID) contributed $39 million to international agricultural research centers. As part of this effort, $7 million is being provided for biotechnology and biosafety capacity-building in low-income countries. This year, USAID will allocate $22 million to nine collaborative research support programs in commodities, livestock, sustainable agriculture, integrated pest management, land access, and natural resources. These activities are carried out through partnerships between U.S. and host country institutions, such as universities, national agricultural research centers, government agencies, nongovernmental organizations (NGOs), and communities. USDA also supports bilateral scientific and research exchanges as well as technical assistance in this area.

• **Capacity-building activities for trade.** The U.S. government committed more than $600 million to capacity-building activities for trade in developing countries and transitional economies for 1999 to 2001. For example, the Africa Trade and Investment Policy program helps reform-oriented countries improve the enabling environment for trade and private investment, links U.S. and African firms through business and trade associations, and supports market-friendly reforms.

• **Market access.** The United States has virtually no duties on most agricultural products from least developed countries, and it helps these countries build the export capacity to take advantage of this market access. Market access has been expanded for Africa and the Caribbean through the African Growth and Opportunity Act and the Caribbean Basin Trade Partnership Act. Moreover, technical assistance is being provided to help countries benefit from these laws, such as meeting technical standards for the market.

• **Debt relief.** Congress has appropriated $544 million for debt relief linked to poverty reduction investments for the world's poorest countries through the multilateral Heavily Indebted Poor Countries initiative. For these poor countries, debt relief is necessary to allow their economies to grow.

• **School feeding.** Beginning in 2001, the Global Food for Education multilateral school feeding pilot program is using $300 million for U.S. commodities and related costs to improve nutrition, enhance the quality of basic education, and improve enrollment, attendance, and performance for 9 million school children, especially girls. Some 49 programs in 38 countries are envisioned through mid-2002 for this pilot program.

• **Food aid.** The United States annually provides more than half of total global food assistance, most of it as grants. In fiscal year 2000, the United States provided 8 million tons, valued at $2,500 million, to 83 countries, maintaining the largest increase in our international food assistance in a decade. This year some 6 to 7 million tons are being provided, with an increasing portion distributed through private voluntary organizations (PVOs) and multilateral channels.

• **Food safety.** The United States provides technical assistance to countries participating in international standard-setting bodies; developing national science-based measures for animal and plant health and food safety; improving capacity in food pathogen control, pest and disease management, surveillance, risk assessments, and inspections; improving infrastructure for processing plants and laboratories; developing optimal manufacturing practices; and conducting research.

• **HIV/AIDS.** The Bush administration's 2002 budget request includes $200 million for a new Global AIDS and Health Fund, $480 million in additional overall funding for international HIV/AIDS prevention and control efforts, and $2,500 million for research, including on vaccines. The private Gates Foundation has announced a $100 million contribution to the new global fund, in addition to over $300 million already donated to fight HIV/AIDS, malaria, and tuberculosis. U.S. pharmaceutical companies also have donated or offered AIDS drugs at reduced cost, in addition to providing millions of dollars for programs.

• **Private sector contributions.** Increasingly, such organizations as PVOs, foundations, corporations, colleges, and universities, are contributing to foreign assistance. Of the $50,000 million in net total resources from the United States to developing countries and multilateral organizations in 1999, $36,000 million came from private capital and grants from NGOs. In 2000, the $2,200 million of U.S. government funding to PVOs generated an additional $9,000 million from private sources for development and humanitarian activities. PVOs often implement U.S. foreign assistance programs.

President Bush said in a recent radio address: "We're a wealthy nation with responsibilities to help others." That is why we take the commitments we made at the 1996 World Food Summit so seriously. By ending world hunger, we will all benefit from greater world peace and security. ❑

❑ BUILDING PROSPERITY MEANS INVESTING IN PEOPLE

By Andrew S. Natsios, Administrator, U.S. Agency for International Development

More than 800 million people face chronic hunger, 113 million children are not in school, and the growing HIV/AIDS epidemic threatens fragile health and social systems worldwide, says Andrew Natsios, administrator of the U.S. Agency for International Development. "Unless the world addresses these issues of poverty and hunger," he says, "we can look forward to spreading humanitarian crises, increasing and more violent internal conflicts, and deteriorating conditions for the world's poorest peoples."

Natsios says he intends to refocus USAID's resources to provide additional support and funding for agriculture, with a particular emphasis on Africa, to urge African farmers to adopt the latest agricultural research, and to focus on regional, coordinated approaches to poverty and hunger reduction. Other key USAID poverty reduction strategies he will pursue include microenterprise development, education — particularly of women and girls — and research and treatment of AIDS and other diseases.

The U.S. Agency for International Development (USAID) is the U.S. government's principal institution working to fight poverty through economic growth, end hunger through increased agricultural production, and prevent conflict in developing countries around the world. USAID extends assistance to people recovering from disaster, trying to escape poverty, and engaging in democratic reforms.

Our work with government and private partners worldwide has yielded impressive results — even as the world's population doubled from 3,000 million in 1960 to more than 6,000 million today. In the past 30 years, the percentage of people living in absolute poverty has been cut almost in half. The majority of the world's citizens today can provide themselves and their families an adequate standard of living. Most of the world's population now lives in countries that have embraced market-based economic systems and democratic forms of government.

In the past 50 years, infant and child death rates in the developing world have been reduced by 50 percent, and health conditions around the world have improved more during this period than in all previous human history. We helped eradicate smallpox worldwide and are close to eliminating polio. Literacy rates climbed from 35 percent to 70 percent in the past 30 years, and primary school enrollment has tripled.

In one sense, the global community has succeeded remarkably in assuring that coming generations will be better off than previous ones — healthier, more prosperous, and capable of generating further improvements in the quality of life through their innovations and investments.

THE CHALLENGES OF POVERTY AND HUNGER

But before we pat ourselves on the back for a job well done, let's consider the job left undone. More than 1,200 million people live on less than a dollar a day. More than 800 million people face chronic hunger that prevents them from leading healthy and active lives. More than 113 million children are not in school — and many of these face abusive working conditions, even slavery. The growing HIV/AIDS epidemic causes real suffering for millions of people, leaves millions of children orphans, and threatens already fragile health and social systems.

Unless the world addresses these issues of poverty and hunger, we can look forward to spreading humanitarian crises, increasing and more violent internal conflicts, and deteriorating conditions for the world's poorest peoples. At USAID, this discontent and desperation affects our work directly: nearly two-thirds of the countries with USAID field missions have been ravaged by civil conflict over the past five years, in some cases destroying years of economic and political progress, demolishing health and education systems, and driving away affluent and educated people.

Poverty and food security are great challenges. As Americans, we have both a self-interest and a moral imperative to confront them. USAID helps fulfill these obligations by working to increase incomes and food security through broad-based economic growth and economic liberalization programs, in combination with programs in health, education, and democratic governance. From decades of experience, we know that our coordinated development programs, carefully implemented, can over the long term improve real incomes and increase food security in a sustainable manner.

AFRICA: A CLEAR REGIONAL CHALLENGE

Sub-Saharan Africa stands out as posing the greatest challenge to the world community — and to USAID. While global poverty rates generally dropped in most regions in the 1990s, in Africa, the trend was upward. Similarly, while the number of undernourished individuals is projected to decline significantly in most regions of the world before 2015, estimates are that the number of hungry in Africa will increase by about 10 million a year over the next decade. By 2010, 435 million Africans could face severe food insecurity.

To stimulate economic development for African people to work and to prosper, first and foremost, we must build the agricultural sector. In Africa, 70 percent or more of the poor live in rural areas and depend on agriculture for all or part of their incomes; malnutrition is associated with 55 percent of child deaths. Increasing farm productivity leads both to increased income and improved nutrition. Because of Africa's dependence on agriculture, increasing incomes in agriculture will also generate employment, which will in turn increase incomes in other sectors.

Under the Bush administration, I intend to refocus USAID's resources and strategies on providing more support and funding for agriculture, with particular emphasis on Africa. Our specific goals are to eliminate famine, improve nutrition and diet for poor families, dramatically cut absolute poverty, and reduce income disparities between rural and urban families. To accomplish these goals, our economic development strategies will focus on several fundamental principles.

First, we know that science-based, market-based economic policies give farmers and agricultural processors incentives to produce. For example, in Mali, USAID supported policy and institutional reforms in the mid-1980s that increased incentives to invest in better rice varieties and processing technology, and improved the management of both agricultural and natural resources. The result: rice production in the inner delta region of Mali doubled between 1993 and 2000.

Second, we want African farmers to make use of the latest agricultural research. From the Mali example and others, we know that agricultural technology can increase productivity — if we ensure that rural farmers have access to that technology and the ability to put it to use.

Third, we must focus on scale. The fact is, severe poverty or hunger in one country causes displacement and economic effects that hurt surrounding nations. To ensure sustainable economic growth, I intend to focus on regional, coordinated approaches to poverty and hunger reduction.

Another important piece of USAID's economic development strategy is microenterprise development. By providing poor entrepreneurs with access to capital and business training, USAID has helped millions of people start small enterprises and raise their standard of living — and generated employment for millions more. In Africa, more than 250,000 clients had loans averaging $214 from USAID-supported institutions, with a repayment rate greater than 98 percent.

USAID also helps create economic opportunity by helping developing countries become real partners in the global trading system. Although domestic markets will continue to be important, regional and global markets offer opportunities for Africa to export cash crops and other products to markets where demand will increase their incomes. USAID is the world leader in helping African countries develop the expertise needed to participate in trade negotiations and fulfill the responsibilities of trade agreements.

As noted earlier, a sustainable poverty reduction strategy is more than building economic opportunity. To ensure stable economic growth over the long haul, we must address health and social issues.

In Africa, AIDS is one of the most serious threats to development. The hardest-hit African countries will lose between 13 percent and 23 percent of their labor forces over the next 20 years. The result will be severe farm labor shortages at a time when we need to increase agriculture income in Africa to build prosperity. The United States is the world leader in responding to HIV/AIDS, and President George W. Bush has put the full force of his cabinet behind the U.S. response to this crisis. The U.S. approach emphasizes prevention and public education and includes treatment, care for orphans, measures to stop mother-to-child transmission, affordable drugs, delivery systems, infrastructure, and medical training. And, of course, it includes research into vaccines and a cure. USAID also funds major efforts to address malaria, tuberculosis, and other diseases.

Education is critical to participating in a global and interconnected economy. As President Bush said recently: "Literacy and learning are the foundation of democracy and development." In fact, one of the best investments of our development dollars is in the education of women and girls. The president directed Secretary of State Colin Powell and me to develop an initiative to improve basic education and teacher training in Africa for all, regardless of gender, and pledged increased funding for these efforts.

MAKING USAID MORE EFFECTIVE: THE FOUR PILLARS

In order to fight poverty more effectively, I intend to fundamentally change the way the agency does business by focusing on four "pillars": Global Development Alliance; Economic Growth, Agriculture, and Trade; Global Health; and Democracy, Conflict, and Humanitarian Assistance. By aggregating current and new programs that are mutually reinforcing into these pillars, USAID will be able to use scarce budget and human resources more effectively and to describe its programs more clearly.

Global Development Alliance. In recent years, the paradigm of foreign assistance funding has changed drastically. The globalization of the world economy has meant that governments, while still essential, are not the only institutions through which public services are provided. The role of religious institutions, nongovernmental organizations, private foundations, universities, and the private market economy in providing services and accomplishing public objectives has dramatically increased.

U.S. organizations and companies want to and already do help less fortunate people worldwide, but many organizations are not prepared to provide assistance in developing countries effectively. On the other hand, USAID has not been prepared to take full advantage of the resources private organizations can bring us. The Global Development Alliance pillar will change this by actively seeking out partners willing to commit real resources — funding, information, and personnel — to support development programs. With these partners, we will build alliances that target specific development objectives and leverage private funds from foundations and corporations to accomplish those objectives.

Economic Growth, Agriculture, and Trade. This pillar highlights the interrelationship and interdependence of economic growth and agricultural development, international trade, environmental sustainability, and the development of a country's human capital — with the ultimate goal of creating and cultivating viable market-oriented economies.

Global Health. This pillar includes maternal and child health, nutrition, women's reproductive health, HIV/AIDS, and programs that address infectious disease such as malaria and tuberculosis. These are global issues with global consequences: the health of a population directly affects its productivity, and unchecked diseases in other countries pose threats to our own.

Democracy, Conflict, and Humanitarian Assistance. This pillar recognizes USAID's world leadership in its ability to respond to natural and man-made disasters. This pillar also recognizes that responding to disasters is not enough: we must learn to prevent conflicts that lead to humanitarian crises before they happen and help people rebuild better after such crises. We will integrate USAID's democracy programs with new approaches to crisis and conflict analysis and with the development of new methodologies to assist conflicting parties to resolve their issues peacefully.

CONCLUSION

Our new approaches and strategies will enable USAID to coordinate our programs and leverage substantial private resources to fight poverty and hunger in the world's poorest countries. Our goal is to help poor people improve their lives and build societies that can become stable and secure trading partners. In so doing, USAID serves America's foreign policy objectives and reflects the deep humanitarian instincts of the American people. The result will be a world that is safer, more prosperous, and freer than ever before. ❑

❑ FREEING TRADE TO COMBAT POVERTY

By Alan Larson, Under Secretary for Economic, Business, and Agricultural Affairs, U.S. Department of State

Trade liberalization can be a powerful tool in fostering development and reducing global poverty, says Under Secretary of State Alan Larson. Free trade, he says, lowers the cost of basic necessities like food and clothing, discourages corruption, and allows democracy to develop and grow, leading to a better quality of life, especially for the poor.

One way developed countries can help emerging economies is to provide more access to their markets, Larson says. However, with trade among developing country partners now accounting for 40 percent of total developing country trade, a new round of global trade negotiations would give developing countries an opportunity to lower their trade barriers at the same time as their neighbors, allowing them to more fully participate in the global economy.

Countries that aggressively enter the global open market system prosper. Their political systems and societies become more open, offering new opportunities for their current citizens and for future generations. As President George W. Bush has said: "Free trade is the only proven path out of poverty for developing nations. When nations are shut off from the world, their people pay a steep price.... Those who condemn free trade condemn the poor to permanent poverty."

Liberalizing trade has a profound effect on growth and poverty because free trade opens economies to competition and societies to comparison. Free trade creates opportunities by allowing resources to flow where they are put to productive uses, raising standards of living. Free trade helps build open investment climates, discourages corruption, and welcomes new ideas, allowing democracy to take root and grow. Free trade lowers the cost of basic necessities like food and clothing, leading to a better quality of life — especially for the poor.

FREE TRADE'S ROLE IN ECONOMIC GROWTH AND POVERTY REDUCTION

Economic growth is the primary means by which countries reduce poverty. Several very recent empirical studies by World Bank economists have concluded that developing countries that have lowered trade barriers and increased trade over the past 20 years have also experienced stronger economic growth.

These studies suggest that openness to trade leads to declining absolute poverty rates and does not increase income inequality. For example, developing countries that reduced barriers to trade during the 1980s and 1990s grew an average of 3.5 percent and 5 percent, respectively, on a per capita basis. Income inequality in those countries did not increase; rather, the incomes of the poor tended to correlate very highly with overall growth in gross domestic product.

Free trade's contributions to growth go beyond a country's balance sheet. Open trade increases the competitiveness of domestic economies by exposing domestic firms to sharper competition. Perhaps most importantly, vigorous participation in the world trading system, including following global trading rules, heightens the transparency and predictability of economic transactions. These effects often reinforce the attractiveness of developing country economic environments as destinations for direct investment.

Foreign direct investment (FDI) contributes to growth by increasing the size and soundness of a country's economic assets. FDI, in contrast to portfolio flows and bank lending, tends to be less attached to economic downturns and financial spillover and so is a more predictable and durable part of a country's asset base. FDI flows to developing countries in 1999 reached $208,000 million, dwarfing total official development assistance flows at $50,000 million.

LEAVING NO COUNTRIES BEHIND

America's goal, in the words of President Bush, is to "include all the world's poor in an expanding circle of development." One of the most significant steps we can take to reach this goal is to put our full support behind the launch of a new multilateral trade round at the World Trade Organization (WTO) meeting in Doha, Qatar, this November. Developing countries have a large stake in this discussion: the developing world as a whole now ships some 45 percent of global exports.

Multilateral trade liberalization is more important than ever for developing countries due to the burgeoning trade relationships among them, which now account for 40 percent of total developing country trade. However, these trade flows often face the highest trade barriers. Despite important reforms, developing country trade protection remains high and may have increased in the 1990s. Average developed country tariffs on manufactured goods, including textiles and clothing, now stand at 8 percent, while average developing country tariffs on the same items are 21 percent. A multilateral trade round would give developing countries an opportunity to lower their trade barriers at the same time as their neighbors, allowing them to participate more fully in the global economy.

Despite the benefits of a new round, some developing countries have real concerns. Institutional weakness, scarce resources, and a general lack of experience in trade policy can make it difficult for poor countries to implement the wide-ranging and sometimes complex legal and policy obligations undertaken by WTO members.

The United States is well aware of these roadblocks and is prepared to work in partnership to overcome obstacles to the integration of developing countries into the trading system.

MARKET ACCESS

One of the most fundamental ways developed countries can assist is to widen access to our markets. Last year, Quad members — the United States, the European Union, Japan, and Canada — agreed to lower trade barriers to the least developed countries (LDCs). In May 2000, the United States initiated the African Growth and Opportunity Act and enhanced our Caribbean Basin Initiative. These two preference programs, combined with improvements in our Generalized System of Preferences and market opening measures under the Uruguay Round of trade talks, have eliminated most tariffs and quotas on goods from least developed economies. As a result, U.S. imports from LDCs have grown by 50 percent in the last four years.

However, preference programs for least developed countries are not a panacea, and they will not take a huge bite out of global poverty since more than 80 percent of the world's poor live in larger developing countries such as India, China, Pakistan, and Egypt that do not benefit from these programs. To lift all of the poor out of poverty, the capacity of these countries to trade must be strengthened.

BUILDING TRADE CAPACITY

Many developing countries need assistance in building adequate and effective trade capacity. Developed countries and multilateral institutions must do more to build trade capacity within and among countries while integrating trade into comprehensive and coherent economic development strategies.

One way to ensure that adequate attention is given to trade within economic development policy is to mainstream trade into national development plans and poverty reduction strategies. At the 2001 International Monetary Fund/World Bank spring meetings, the Bank committed to mainstream trade capacity-building into its country assistance strategies and to support borrowers' efforts to incorporate trade capacity-building in Poverty Reduction Strategy Papers (PRSPs). The PRSPs are economic development strategies drawn up by the debt relief recipients and reviewed by the Bank.

Since 1996, the WTO has cooperated with other multilateral institutions to assist the least developed countries in building the capacity to trade. The Integrated Framework, supported by the WTO Secretariat, coordinates efforts of six core international agencies that deal with trade and/or technical assistance to ensure that programs are complementary. The United States has given $200,000 to the Integrated Framework Trust Fund.

In 1995, the WTO created a Global Trust Fund to assist the least developed countries to participate actively in the WTO and take advantage of new opportunities in international trade offered by WTO agreements. In 2000, the United States gave $1 million to the trust fund. Further, the United States recently provided $650,000 to the WTO to assist many sub-Saharan countries address WTO issues and $640,000 to the World Bank for a project on research and institution-building for sanitary and phytosanitary standards and product standards development in Africa.

The United States also uses bilateral assistance programs to strengthen developing country capacity to trade. In the last two years, the U.S. Agency for International Development (USAID) has contributed $600 million to programs designed to build the capacity to trade. These programs address a wide range of needs — from programs to strengthen governance and the rule of law, to workshops in trade negotiation and regulatory policy. Truly integrating trade liberalization into country strategies increases the chance that new areas for growth opened by liberalization will be identified and used fully.

INCREASING HUMAN CAPACITY

Both developed and developing countries need to devote more attention and resources to nurturing human capacity, especially through basic education. Education boosts individuals' abilities to make informed choices, giving them more tools to combat poverty and the flexibility to adapt when change is warranted. The more flexible an economy and its workers are, the more a liberalizing country can take advantage of growth opportunities brought by freeing trade. President Bush has asked the Congress to increase U.S. funding for international basic education programs by 20 percent. He has also called upon the multilateral development banks to expand education funding. In addition, education will be a primary theme of the 2002 G-8 Summit in Alberta, Canada.

Poverty reduction requires a comprehensive partnership between developing and developed countries. The journey might be longer for some countries than for others, but there is more hope each day. And trade is one of the brightest beacons leading the way on the path out of poverty to truly sustainable development. We have an unprecedented opportunity to change the lives of half of the world's people who live on less than $2 a day.

President Bush has reminded us that, "What some call globalization is, in fact, the triumph of human liberty stretching across national borders. And it holds the promise of delivering billions of the world's citizens from disease and hunger and want. This is a great and noble prospect, that freedom can work not just in the new world or the old world, but in all the world."

Poverty, at root, is the absence of human freedom. Development, in contrast, is the fruit of human freedom. Free trade can be a powerful means to empower the poor and foster development and prosperity. ❑

ENDING MASS POVERTY

By Ian Vásquez, Director, Project on Global Economic Liberty, Cato Institute

Economic growth is the "only path to end mass poverty," says economist Ian Vásquez, who argues that redistribution or traditional poverty reduction programs have done little to relieve poverty. Vásquez writes that the higher the degree of economic freedom — which consists of personal choice, protection of private property, and freedom of exchange — the greater the reduction in poverty.

Extending the system of property rights protection to include the property of poor people would be one of the most important poverty reduction strategies a nation could take, he says.

The historical record is clear: the single, most effective way to reduce world poverty is economic growth. Western countries began discovering this around 1820 when they broke with the historical norm of low growth and initiated an era of dramatic advances in material well-being. Living standards tripled in Europe and quadrupled in the United States in that century, improving at an even faster pace in the next 100 years. Economic growth thus eliminated mass poverty in what is today considered the developed world. Taking the long view, growth has also reduced poverty in other parts of the world: in 1820, about 75 percent of humanity lived on less than a dollar per day; today about 20 percent live under that amount.

Even a short-term view confirms that the recent acceleration of growth in many developing countries has reduced poverty, measured the same way. In the past 10 years, the percentage of poor people in the developing world fell from 29 to 24 percent. Despite that progress, however, the number of poor people has remained stubbornly high at around 1,200 million. And geographically, reductions in poverty have been uneven.

This mixed performance has prompted many observers to ask what factors other than growth reduce poverty and if growth is enough to accomplish that goal. Market reforms themselves have been questioned as a way of helping the poor. After all, many developing countries have liberalized their economies to varying degrees in the past decade.

But it would be a colossal mistake to lose focus on market-based growth and concentrate instead on redistribution or traditional poverty reduction programs that have done little by comparison to relieve poverty. Keeping the right focus is important for three reasons — there is, in fact, a strong relationship between growth and poverty reduction, economic freedom causes growth, and most developing countries can still do much more in the way of policies and institutional reforms to help the poor.

THE IMPORTANCE OF GROWTH

The pattern of poverty reduction we see around the world should not be surprising. It generally follows the relationship found by a recent World Bank study that looked at growth in 65 developing countries during the 1980s and 1990s. The share of people in poverty, defined as those living on less than a dollar per day, almost always declined in countries that experienced growth and increased in countries that experienced economic contractions. The faster the growth, the study found, the faster the poverty reduction, and vice versa. For example, an economic expansion in per capita income of 8.2 percent translated into a 6.1 reduction in the poverty rate. A contraction of 1.9 percent in output led to an increase of 1.5 percent in the poverty rate.

That relationship explains why some countries and regions have done better than others. "Between 1987 and 1998, there was only one region of the world that saw a dramatic fall in both the number of people and the proportion of the population living on less than a dollar a day. That region was East Asia," observes economist Martin Wolf. "But this was also the only region to see consistent and rapid growth in real incomes per head."

High growth allowed East Asia to reduce the share of its poor during this period from 26 to 15 percent and the number of poor from 417 million to 278 million people. With annual growth rates of nearly 9 percent since 1979, when it began introducing market reforms, China alone has pulled more than 100 million people out of poverty. The more modest but increasing growth rate in India during the past decade means that the outlook of the poor in the two countries that make up half of the developing world's population is noticeably improving.

Elsewhere the performance is less encouraging but follows the same pattern. Poverty rates rose in Eastern Europe and Central Asia, where economic activity declined sharply, and stayed the same in Latin America and sub-Saharan Africa, where growth was low or negligible.

Even within regions there are variations. Thus Mexico's per capita growth rates of 1.5 percent in the 1990s did not affect the share of people living in destitution, while Chile's 7 percent average growth rate from 1987 to 1998 reduced the poverty rate from 45 to 22 percent, according to the Institute for Liberty and Development based in Santiago.

Likewise, Vietnam stands out in Southeast Asia. With that country's per capita growth rates averaging about 6 percent in the 1990s, the World Bank reports that those living under the poverty line declined from 58 to 37 percent between 1993 and 1998. And Uganda's per capita growth of more than 4 percent in the 1990s reduced the share of people living below a minimum poverty line from 56 percent to 44 percent between 1992 and 1997. The Centre for the Study of African Economies at Oxford University concluded that "general growth accounts for most of the fall in poverty."

The dramatic impact of growth cannot be understated, even when differences in productivity rates are apparently small. To illustrate, Harvard economist Robert Barro notes that per capita income in the United States grew at an average 1.75 percent per year from 1870 to 1990, making Americans the richest people in the world. Had this country grown just one percentage point slower during that time period, U.S. per capita income levels would be about the same as Mexico's. Had the growth rate been just one percentage point higher, average U.S. income would be $60,841 — three times the actual level.

THE IMPORTANCE OF ECONOMIC FREEDOM

The West's escape from poverty did not occur by chance. Sustained growth over long periods of time took place in an environment that generally encouraged free enterprise and the protection of private property. Today, developing countries have an advantage. By adopting liberal economic policies, poor countries can achieve within one generation the kind of economic progress that it took rich countries 100 years to achieve. High growth is possible because poor countries will be catching up to rich countries, rather than forging a new path. Studies by both the World Bank and the International Monetary Fund confirm that countries such as China and others that have chosen to open their economies are indeed converging with the industrialized world.

The most comprehensive empirical study on the relationship between economic policies and prosperity is the Fraser Institute's "Economic Freedom of the World" annual report. It looks at more than 20 components of economic freedom, ranging from size of government to monetary and trade policy, in 123 countries over a 25-year period. The study finds a strong relationship between economic freedom and prosperity. Divided by quintiles, the freest economies have an average per capita income of $19,800 compared with $2,210 in the least free quintile. Freer economies also grow faster than less free economies. Per capita growth in the 1990s was 2.27 percent in the most free quintile, while it was -1.45 percent in the least free countries.

The Fraser study also found that economic freedom is strongly related to poverty reduction and other indicators of progress. The United Nations' Human Poverty Index is negatively correlated with the Fraser index of economic freedom. People living in the top 20 percent of countries in terms of economic freedom, moreover, tend to live about two decades longer than people in the bottom 20 percent. Lower infant mortality, higher literacy rates, lower corruption, and greater access to safe drinking water are also associated with increases in economic liberty. Indeed, the United Nations' Human Development Index, which measures various aspects of standards of living, correlates positively with greater economic freedom.

The implications for the poor are impressive. Economists Steve Hanke and Stephen Walters examined the leading empirical studies on the relationship between economic freedom and prosperity and concluded that a 10 percent increase in economic freedom tends to increase per capita gross national product by 7.4 to 13.6 percent. Since developing countries can still increase their levels of economic freedom substantially, and some have by 100 percent or more in the past two decades, the payoff of enhanced liberty can be seen not only in terms of growth but also in terms of a range of human development indicators. Hanke and Walters found, for example, that an increase in per capita income from $500 to $1,000 produces a rise in life expectancy of about 6 percent. Indeed, high growth creates the wealth that makes it possible for countries to invest in health, education, and other human needs that are an essential part of continued growth. Nor are those benefits shared unequally. The Fraser study found that there is no correlation between economic freedom and inequality, while a World Bank study has found that the incomes of the poorest 20 percent of the population rise proportionately with the average rise in income.

TOWARD MORE EFFECTIVE POVERTY REDUCTION

Although the collapse of central planning forced many countries to abandon inward-looking economic policies in the 1990s, most of the developing world is still far from adopting a coherent set of policies consistent with economic freedom. Russia may have dumped communism, but in terms of economic freedom the Fraser Institute ranks the country 117 out of 123 nations. Even countries such as Argentina and Mexico that have done much to liberalize their economies have clung to policy remnants of the past, with devastating consequences for the poor. Mexico's peso crisis of 1994-95, for example, resulted from monetary and fiscal policies during an election year that were thoroughly inconsistent with market economics.

Attention to market-oriented macroeconomic policies is well founded, particularly since they benefit the poor. That is especially so of two such policies — reducing inflation and the level of spending — which disproportionately favor the poor. Much less attention, however, has been paid to institutional reforms and the microeconomic environment. Three areas stand out: the rule of law, the level of bureaucratic regulation, and the private property rights of the poor.

A legal system capable of enforcing contracts and protecting persons and their property rights in an evenhanded manner is central to both economic freedom and progress. Indeed, the sustainability of a market economy — and of market reforms themselves — rests largely on the application of the rule of law. Yet the rule of law is conspicuously missing in much of the developing world. The 2001 "Economic Freedom of the World" report, which includes a more comprehensive index of economic freedom for 58 countries, takes this measure into account. It finds that Latin American countries rank especially low in this area. Also at the bottom of the list are transition countries such as Russia and Ukraine. Were reliable data available for African countries, they would no doubt receive low ratings as well.

The absence of the rule of law is especially unfortunate for the poor, not only because they have fewer private resources to protect their rights, but also because the rule of law in itself is related to economic growth. Robert Barro created an index that measured the rule of law on a scale of 0 to 6 and found that a country's growth rate increases by half a percentage point with each increment in his index. Because the rule of law provides essential protections for the poor, sustains a market exchange system, and promotes growth, it may well be the most important ingredient of economic prosperity.

Another much neglected area in need of reform is regulation. Here again the Fraser Institute's comprehensive index found that the freedom to operate a business and compete in the market is circumscribed in much of the developing world. The same countries that ranked low in the rule of law area ranked low in this area. To have an idea of the bureaucratic burden with which people in the developing world must contend, consider the cases of Canada, Bolivia, and Hungary. According to a study by the National Bureau of Economic Research, it takes two days, two bureaucratic procedures, and $280 to open a business in Canada. By contrast, an entrepreneur in Bolivia must pay $2,696 in fees, wait 82 business days, and go through 20 procedures to do the same. In Hungary the same operation takes 53 business days, 10 procedures, and $3,647. Such costly barriers favor big firms at the expense of small enterprises, where most jobs are created, and push a large proportion of the developing world's population into the informal economy.

The informal economy in the developing world is large due to another major factor. The private property rights of the poor are not legally recognized. Peruvian economist Hernando de Soto has documented how poor people around the world have no security in their assets because they lack legal title to their property. In rural Peru, for example, 70 percent of poor people's property is not recognized by the state. The lack of such legal protection severely limits the wealth-creating potential that the poor would otherwise have were they allowed to participate within the legal framework of the market.

Without secure private property rights, the poor cannot use collateral to get a loan, cannot take out insurance, and find it difficult to plan in the long term.

Ending what amounts to legal discrimination would permit poor people to benefit fully from the market system and allow the poor to use their considerable assets to create wealth. Indeed, as de Soto has shown, the poor are already asset rich. According to him, the assets of the poor are worth 40 times the value of all foreign aid since 1945. The wealth of Haiti's poor, for example, is more than 150 times greater than all foreign investment in that country since its independence in 1804. In the limited places that poor people's property has been registered, the results have been impressive. Where registration was done in Peru, new businesses were created, production increased, asset values rose 200 percent, and credit became available.

Extending the system of property rights protection to include the property of poor people is the most important social reform that developing countries can undertake. It is a reform that has been almost completely ignored around the world, yet it would directly affect the poor and produce dramatic results for literally thousands of millions of people.

KEEPING THE RIGHT FOCUS

Countries have ended mass poverty only by following policies that encourage economic growth. But that growth must be self-sustaining to translate into enduring increases in wealth. Policies of forced industrialization or state-led development may produce high growth for a time, but history has shown that such episodes are followed by economic contraction. Economic freedom, by contrast, shows a strong relationship with prosperity and growth over time. Fortunately, many developing countries are following that path, producing high and rapid growth and showing that it is good for the poor. Their experience may create a demonstration effect for the majority of nations that are in many ways still economically unfree.

All developing nations can do more to increase growth. Establishing the rule of law, reducing barriers that hamper entrepreneurship and competition, and recognizing the property rights of the poor are three reforms that go beyond the liberalization measures that many countries have already introduced. Those reforms not only contribute to economic growth; they increase the effectiveness of growth in reducing poverty. Policy-makers in rich and poor countries alike should not lose focus on the promise of growth. It remains the only path to end mass poverty. ❑

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ GRANTS FOR THE WORLD'S POOR: MORE HELP, SAME COST

By Adam Lerrick, Director, The Gailliot Center for Public Policy, and Professor of Economics, Carnegie Mellon University

The multilateral development banks should provide grants, not loans, to the impoverished nations of the world, says Adam Lerrick, director of The Gailliot Center for Public Policy and economics professor at Carnegie Mellon University.

Lerrick rejects arguments that this approach would deplete World Bank resources. Grants will not cost more than loans; the funding requirement is the same if the level of aid is the same, he says. He suggests that the capital markets will finance development programs when assured of Bank payments for services.

Lerrick formerly served as senior advisor to the chairman of the International Financial Institution Advisory Commission — the Meltzer Commission — of the U.S. government.

The sight of a starving child anywhere in the world causes discomfort at the dinner tables of the well fed that no amount of antacid can alleviate. In the electronic world of the global village, as media expert Marshall McLuhan predicted in the 1950s, "the living room has become the voting booth." Television has moved the debate on development aid away from the conference tables of multilateral institutions up to the pulpit, onto the streets, and into the public conscience.

Not to give to needy nations is no longer an option. To give more is on every list. But how to give wisely, cost-effectively, and directly for the benefit of the poor? And how to bring a permanent end to the cycle of borrowing more simply to meet the annual payments of an ever-mounting debt? Both remain elusive goals. The Heavily Indebted Poor Countries (HIPC) debt relief initiative provides only a temporary stopgap.

In all the dialogue, scant attention has been paid to the sad record of past aid or to the last 50 years of World Bank stewardship of $500,000 million in flows from the industrialized nations. By the Bank's own reckoning, fewer than one out of three of its projects in the poorest countries yields satisfactory and sustainable results. Forty-two needy countries now carry a load of $175,000 million in official debt they are clearly unable to repay and have nothing to show for it but a 25 percent decline in their standard of living since 1980.

WHY GRANTS?

Numbers like these led President George W. Bush to propose a major change in the format of development aid at the G-7 July meeting in Genoa. End traditional loans to impoverished nations that cannot repay. Instead, provide outright grants for the basic improvements in living standards and infrastructure that are the foundation for the climb from poverty to productivity.

Grants are not new, but these were redesigned to succeed:

- Project-centered on tasks that are easily quantified such as vaccinations and literacy, water treatment and electricity.

- Executed under competitive bid with a strong reliance on the specialized skills of increasingly mobile private sector providers and charitable organizations.

- Costs shared by the donor and the beneficiary on a sliding scale according to need.

- Payment made only for performance, as measured by independent audit. No results: no funds expended. No funds diverted to offshore bank accounts, vanity projects, or private jets.

An example: A country of $250 per capita income qualifying for 90 percent grant resources determines that vaccination of its children against measles is a desired goal. If the World Bank confirms the need, the government would solicit competitive bids from private sector agents, nongovernmental organizations such as charitable institutions, and public sector entities such as the Ministry of Health. If the lowest qualifying bid is $5 per vaccination, the World Bank would agree to pay $4.50 (90 percent) for each child vaccinated directly to the provider. The government would be responsible for the remaining $0.50 (10 percent) fee. Payments would be made only upon certification by an agent independent of all participants — the government, the World Bank, and the provider of vaccinations — that vaccinations had been administered.

World Bank aid to the poorest economies now comes from the International Development Association (IDA), which offers $6,000 million of loans per year at near zero interest rates to 72 countries with less than $1,500 per capita income. Among them are the 59 neediest nations, where people exist on less than $2 per day. These loans represent 33 percent of the Bank's lending.

The poorer the country, the greater the need for grants. Currently under IDA, all recipients benefit from the same subsidy in funding, although some are clearly less poor and others can generate resources domestically and from the capital markets abroad. If all IDA flows were converted to a grant format and the aid element varied on a sliding scale according to need — from 90 percent for the poorest to 50 percent for those nearing graduation — an average 70 to 75 percent would result, identical to the current aggregate level of subsidy in loans but with a more equitable distribution of aid.

Poor countries are not passive bystanders in the grant process. Theirs is the deciding voice in the choice of programs, partnered with the discipline of a current co-payment obligation that cannot grow into unsustainable debt. They are now insulated against risk. Under pay-as-you-go grants, there can be no outlay without benefits and no continuing financial liability if projects fail. Performance risk is now with the private sector.

COUNTERING THE OPPOSITION

Opposition to the shift to grants revolves around the faulty argument that grants will deplete World Bank resources, together with its ability to help the poor, unless grants are partnered with an immense infusion of new funding — $800 million more each year from the United States alone.

It would seem logical that when money is given away instead of being lent, the stockpile of funds will eventually vanish. Not so. Grants can deliver the same amount of aid, make every dollar more effective, provide a permanent exit from debt for the poorest countries, protect donor contributions from risk of loss — all without diminishing the funding pool and without asking for more taxpayer monies from the industrialized world than current programs demand.

Grants will not cost more than loans. The funding requirement is the same when the level of aid is the same. Donors will not have to give more unless they wish to give more aid.

IDA now extends 40-year loans that carry an interest rate of 0.75 percent. This near-zero charge reduces the present value of these payment promises to 27 cents on the dollar and translates into gifts equal to 73 percent of their value. A loan that has a 73 percent gift component cannot cost more than an outright grant that covers 73 percent of program outlays. In both cases, countries pay the remaining 27 percent. How can lending $100 and asking for only $27 to be repaid be any different from giving $73? There is an additional hidden cost to lending: the poorest borrowers seldom repay loans.

Shrinking resources, occasioned by the lack of loan repayments into a circulating aid pool, are always advanced as a reason to block the shift to grants. Real-life practices give the lie to this reflow claim, for many loans are never truly collected. Most debts are simply recycled to the same borrowers with more added to cover interest payments. Ultimately, many debts must be forgiven, as in the current HIPC relief initiative that covers 41 of the neediest nations. Whether recycled or forgiven, loans are simply grants in disguise.

There is no excuse for a continued defense of an outdated method for delivering aid designed at a time when direct loans were the only option. Now, sophisticated capital markets are able to provide financing and are willing to tolerate the risk that once deterred projects in the developing world.

The Bank's capital will remain intact; under grants, only the income it generates will be disbursed. The pool of donor funds now used for lending, and future cycles of contributions, would be transformed into an endowment that invests in the capital markets and generates the income to supply a stream of payments for services. There are already $108,000 million of rich country contributions on IDA's balance sheet, partly in loans and partly in cash. These cash balances, augmented by future loan repayments, would be invested at a conservative 8.25 percent return and eventually yield $8,400 million in grants each year after administrative expense.

Poor countries will not be compelled to borrow to finance the implementation of projects. Instead, the $8,400 million annual stream will be leveraged by the capital markets. Financing for projects will be attracted by service contracts in which the Bank's direct responsibility for the lion's share of every payment greatly reduces risk for lenders. Thus, an identical $108,000 million in outstanding development programs would be sustained in perpetuity. As IDA moves from lending to grants over a 40-year transition span, the volume of development programs and the flow of financial resources to poor countries would match what would have been delivered by traditional loans. Failures to repay old loans would reduce resources but no more so than under lending.

The World Bank will soon seek replenishment funding for IDA, as happens every three years. Amounts are significant; last time it was $11,500 million. Giving to needy nations is a continuing obligation but so is the responsible use of taxpayer funds. If finance ministers and legislators add a proviso for the use of grants when making their new contributions, the increased effectiveness of aid might then encourage them to give more and with good conscience. ❑

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ A GLOBAL PARTNERSHIP FOR AFRICAN ECONOMIC DEVELOPMENT

By Horst Köhler, Managing Director, International Monetary Fund

"There is no question that the IMF, the World Bank, and other donors will need to provide increased and better-coordinated technical assistance to support poverty reduction strategies in Africa," says Horst Köhler, managing director of the International Monetary Fund.

One promising initiative, Köhler says, is the Poverty Reduction Strategy Papers, which allow developing countries to devise their own development strategies with guidance from the international financial institutions. To be successful, he says, such strategies must be based on promoting good governance; developing health, education, agriculture, and infrastructure; expanding regional and global economic integration; and building partnerships between Africa and its bilateral, multilateral, and private sector development institutions.

The following was presented to a meeting of the United Nations Economic and Social Council in Geneva, Switzerland, on July 16, 2001.

Today's meeting is taking place in a difficult economic environment. Growth is slowing throughout the world. This may be uncomfortable for the advanced economies, but it will be a further source of hardship for many emerging markets and developing countries, and a real setback in the fight against world poverty. Of course the business cycle is not dead, and some correction was even necessary to counteract excessive exuberance. But now the advanced economies, in particular, have a responsibility to be proactive in strengthening the prospects for sustainable growth in their own countries, and thereby to restore momentum in the global economy. Emerging markets and developing countries, for their part, should stay the course of structural reform and sound macroeconomic policies.

The slowdown in world economic activity has made it clearer than ever that nations are interconnected. And this serves as a warning that prosperity in the advanced economies cannot be sustained in the presence of widespread poverty. Integration into the global economy has brought unprecedented gains in income and improvements in human well-being for most of the world. But the rising tide of prosperity has left far too many behind, in particular, almost all of sub-Saharan Africa. And for everyone, talk about economic stability and poverty reduction should ring hollow in the absence of a strategy to fight the HIV/AIDS pandemic, reflecting last month's UN special session in New York.

All of these developments underscore the need for an integrated concept for answering critical questions about globalization. This concept must respond to the fact that all humanity shares one world, and lay the foundation for more broadly shared prosperity. Above all, success in the fight against poverty is key to stability and peace in the Twenty-First Century. And nowhere are the battle lines clearer than in Africa.

During my first year at the IMF, I traveled twice to Africa for discussions with heads of state, the private sector, and civil society, and met often with African leaders in Washington. I was left in no doubt that it is a continent of extraordinary diversity — with huge problems but also enormous potential. In particular, I have been struck by the resolve of African people, and especially African women, to work hard and persevere in the face of many obstacles. We cannot let them down. I strongly oppose cynicism and pessimism about Africa. And I know that there is a way forward.

THE NEW AFRICAN INITIATIVE

Today, we are presented with a true window of opportunity. African leaders have been working together on strategies to accelerate economic growth and development and to lead the continent out of widespread poverty. I am very pleased that these approaches — the MAP (Millennium Partnership for the African Recovery Program) and the OMEGA plan — have now been consolidated into a single New African Initiative. This initiative is firmly anchored in the fundamental principles of African ownership, leadership, and accountability in eliminating homegrown obstacles to sustained growth, and I think this is the most important factor in this initiative.

The New African Initiative focuses on four core elements.

- First and foremost, there is a clear awareness that peace, democracy, and good governance are preconditions for investment, growth, and the reduction of poverty.

- Second, the initiative calls for action plans to develop health care and educational systems, infrastructure, and agriculture.

- Third, it rightly relies on the private sector and on economic integration at the regional and global levels.

- And fourth, it identifies concrete steps to develop more productive partnerships between Africa and its bilateral, multilateral, and private sector development partners.

I see these elements together as forming the basis for a comprehensive approach to fighting poverty in Africa. I think it is especially significant that the New African Initiative outlines a concrete organizational structure to facilitate its implementation. My advice is to move forward ambitiously with the implementation of this initiative, but to beware of bureaucracy and institutional infighting, because in the end, this has to pay off for the people, not for the organizations and institutions. I can assure you that the International Monetary Fund (IMF) stands ready with its expertise and resources to cooperate actively in the process and provide strong support for this African vision and work program.

I am gratified that the New African Initiative recognizes the Poverty Reduction Strategy Papers (PRSP) process as a core vehicle for building continent-wide priorities into national poverty reduction programs and coordinating international support. This allows us to build on the experience we have already gained together. Indeed, in my view, Poverty Reduction Strategy Papers, with their emphasis on country ownership, broad participation, and dealing with the economic and social fundamentals, should continue to be the guiding framework for our partnership with African countries. The PRSP process is still a work in progress — only in the past few months have we received the first five "full PRSPs," — but there are signs that it will bear fruit. Growth performance is holding up and even improving in a number of countries, despite the difficult global environment. Spending on health and education is expected to rise by about 1 percent of gross domestic product (GDP) this year. And in response to calls by African countries and the donor community, the IMF and World Bank have begun preparing careful social impact analyses for eventual integration into national poverty reduction strategies. (World Bank President) Jim Wolfensohn and I are committed to working with our partners in Africa and the donor community to realize the full potential of the PRSP.

THE PRSP'S POTENTIAL

To be sure, African leaders have underscored the severe demands that this process is placing on their limited administrative capacities. There is no question that the IMF, the World Bank, and other donors will need to provide increased and better-coordinated technical assistance to support poverty reduction strategies in Africa. The IMF is planning a well-targeted extra effort at capacity-building in the Fund's core areas of responsibility, and will be in touch with major donors in the coming weeks to discuss ways in which they could support this effort. I believe that focusing the Fund's assistance more sharply on its areas of expertise is essential, and I am pleased that the World Bank, the United Nations Development Program, and the African Development Bank have been working in the same direction. Our efforts, therefore, will be complementary. And as the New African Initiative moves forward, the IMF will be prepared to provide input and assistance to the bodies that are eventually established for monitoring its implementation.

Toward the end of this year, the IMF and World Bank will conduct an in-depth review of the PRSP process, drawing on the views of their membership, other international institutions, donors, and civil society. I am sure this will identify additional areas for improvement. Not least, the PRSP process is a natural way to strengthen donor coordination, and the efforts in this direction that have already been taken by some donors are much appreciated. Donors who are truly serious about country ownership and aid effectiveness should also be willing to do more to ensure that their assistance truly serves African interests, not least by untying aid, and resist the temptation to micromanage from the perspective of their own societies.

Respect for country ownership and priorities also underlies our effort to streamline the IMF's conditionality. Conditionality remains essential, not least to safeguard the revolving character of Fund resources. But we need to focus it on the measures that are really critical to the macroeconomic objectives of country programs and leave real scope for countries to make choices consistent with their political and cultural traditions. I am pleased that African leaders have chosen to make good governance a central element of the New African Initiative, because it is essential for attracting private investment and making efficient use of scarce public resources. The Fund stands ready to discuss the costs and benefits of government interventions and controls and to work with national authorities to identify ways to reduce the risks of mismanagement and corruption. We will also continue helping African countries to improve transparency and accountability in macroeconomic and financial policies, and in economic statistics, through our extensive work on internationally agreed standards and codes of good practice.

The IMF and World Bank are using the PRSP process, as well as their financial and technical assistance, to help African countries put in place the necessary conditions for a dynamic private sector — sound institutions, a predictable legal and economic environment, and a level playing field. In addition, we are strongly supporting investors' councils as means of constructive dialogue between African leaders and top executives of local and international companies. This will give businessmen a stronger voice and an opportunity to identify investment opportunities, key obstacles to private investment, and options for removing them.

SETTING THE STAGE FOR INCREASED TRADE

More than anything else, Africa needs better opportunities for trade, the best help for self-help. It is time, finally, to provide African nations with free access to the markets of industrial countries, in particular in those areas that matter most to poor countries, such as agricultural products, textiles, and clothing. These areas should also be an important focus for a new round of multilateral trade negotiations in the context of the World Trade Organization. I agree with UN Secretary-General Kofi Annan that protectionism is an obstacle in the fight against poverty and that the new round should be launched as soon as possible.

Equally important, developing countries need to remove their own impediments to trade. In Africa, this should also be part of a concept for regional economic cooperation and integration, as a vehicle for improving competitiveness and attractiveness to investors. The IMF has been a major supporter of regional trade and financial integration — for example in the West African Economic and Monetary Union (WAEMU) and the Customs Union for Eastern and Southern Africa (COMESA) — and is encouraging the harmonization and simplification of complex and overlapping subregional trade arrangements. We will continue providing advice and technical assistance on tax, customs, and trade practices. We will also provide assistance in developing regional surveillance and the harmonization and convergence of macroeconomic policies to help underpin a process of deeper regional integration — the ultimate aim of the new African Union.

Implementation of the target for the industrial countries to provide 0.7 percent of gross national product (GNP) in official development assistance (ODA) should be seen as an investment in peace and prosperity throughout the world. With a commitment to meet this target during the present decade, from today's average level of 0.24 percent of GNP, the increase in the first year alone would amount to over $10,000 million — the magnitude Kofi Annan has identified as needed to begin a comprehensive program of HIV/AIDS prevention and treatment. Moreover, there should be scope to direct increased aid more to the poorest nations; it is alarming that only one-fifth of total ODA flows now go to the least developed countries.

ALLEVIATING DEBT

Debt relief also forms an integral part of a comprehensive concept for poverty reduction. The IMF and World Bank have spearheaded an effort under the enhanced Heavily Indebted Poor Countries (HIPC) initiative that has already provided $25,000 million of debt relief to 19 countries in Africa, cutting their debt service-to-exports ratio by about one half (from 18 percent in 1998-2000 to about 9 percent in 2001-2005). HIPC debt relief provides annual budgetary savings for these countries varying between 1 and 2.5 percent of GDP, allowing significant increases in pro-poor spending.

I do think it is in the interest of HIPCs themselves to track effectively the use of the resources released by this initiative, to demonstrate to their people — and to the donor community — that they are being put to good use for poverty reduction. We are doing our utmost to extend the benefits of this initiative to the remaining eligible countries. In the process, we will strengthen our efforts to meet the special needs of countries emerging from conflict, including interest subsidies on the IMF's emergency post-conflict assistance. I also welcome the decisions by G-7 and other donor countries to provide further relief by forgiving 100 percent of their bilateral claims in the context of the HIPC initiative.

But we also need to be clear that debt relief is not a panacea. Credit is and will remain an indispensable element for economic development, and that is why, in the longer run, it will be crucial for poor countries to win the trust of investors in their ability and willingness to repay what they borrow. That is why the IMF will continue working closely with the World Bank and other partners in helping African countries to create sound domestic financial sectors and, eventually, integrate into international financial markets.

The IMF is cooperating actively in preparations for the Conference on Financing for Development (FfD, to be held in Mexico in March 2002), and we look forward to its success. The secretary-general's report to the preparatory committee and the Zedillo report (on financing for development) are good inputs toward a productive outcome. And I am confident that the FfD conference can make a real difference for poverty reduction in Africa, and in the world as a whole, by concentrating on two areas. The first is to identify gaps in the institutional framework to fight world poverty, while making the most of existing mechanisms. And the second is to help build a wider public constituency, especially in the advanced economies, for necessary actions on trade and aid.

I also remain convinced of the need for a concrete, constructive, and transparent system for monitoring progress and coordinating our activities toward the achievement of the International Development Goals. Jim Wolfensohn and I are already discussing a general approach along these lines with Kofi Annan. But time is passing, and we need to make faster progress. The PRSP process is gathering important momentum, and should be used as the basis for monitoring poverty reduction efforts by individual poor countries. The Organization for Economic Cooperation and Development is working on a monitoring process for the delivery of support by the major industrial countries — in areas such as market access, aid, debt relief, and capacity-building. Beyond this, there is still a need for an overall framework and allocation of responsibility, as well as mechanisms to monitor other dimensions of international support, such as the control of arms trade and narcotics trafficking. And, of course, the United Nations is a natural forum for an overall assessment.

I do not want to underestimate the magnitude of the challenge we all face in promoting sustained development and poverty reduction in Africa. But the emerging African vision and work program provide an opportunity for a decisive step forward. We cannot afford to miss this chance. The IMF is part of the UN family. And we are committed — based on our mandate and expertise — to working closely with all of you to make this vision a reality. ❑

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ DEMOCRACY, GOVERNANCE, AND THE MARKET

By John D. Sullivan, Executive Director, Center for International Private Enterprise

There is no truth to the belief that markets will spontaneously emerge if government stops intervening in the economy, says John D. Sullivan, head of the Center for International Private Enterprise. Government institutions and self-regulating organizations must play key roles in ensuring that rules are fair, apply to all, and are enforced, and that the process is transparent. The business community must do its part, he says, by eliminating the corruption that is so devastating to economic growth and poverty reduction.

Since the early 1980s, there has been an unprecedented trend toward democracy and market-based economies. Nonetheless, much remains to be done to reinforce this progress and prepare nations for the political and economic realities of the 21st century, including globalization. Even long established democracies such as Colombia, Peru, and Venezuela have seen their political and economic stability threatened. Other countries, including Turkey, Indonesia, and Ukraine, face severe pressure as they attempt to establish democratic rule-of-law societies.

Contemporary history has shown that countries with democratic, market-based systems are best equipped to respond to the challenges of globalization. Three aspects of democracy have proved to be crucial to long-term economic and social development.

- A stable democratic system is the best guarantor of political stability, which is essential for long-term economic growth.

- Democratic practices such as transparency and accountability are essential for effective and responsive government and for efficient and prosperous economic activity.

- Sound legal and regulatory codes backed by the rule of law must exist for business to thrive in a market economy.

STRENGTHENING DEMOCRATIC GOVERNANCE

Experiences of the 1980s and 1990s demonstrate that failure to incorporate democratic governance as part of economic reform seriously jeopardizes the reform agenda. For much of the last 20 years it was fashionable to speak of the Washington Consensus, a reform program based on macroeconomic stabilization, fiscal reform, and other adjustments to economic policy. Recent developments, especially in Eastern and Central Europe as well as in Indonesia and Argentina, demonstrate the limits of this approach. Equal attention must be paid to the key institutions in society and to the process through which government decisions are made. Building democracy and a market economy has to begin by making sure that the rules of the system are open and fair for all.

The intellectual foundations for efforts to build a broader and more comprehensive democratic reform agenda stem from the field of New Institutional Economics developed by Ronald Coase and Douglass North, who won the Nobel Prize for their work. The institutional approach simply says that rules are important in conditioning outcomes. Put more elegantly, the success or failure of any effort to achieve a long-lasting transition to democratic market-oriented systems depends on the design and functioning of the institutional framework.

To highlight the importance of institutions, let me point out three common myths about the relationship between the state and the market.

The first myth is the belief that once private enterprise constitutes a substantial portion of an economy, it has become a market economy. History abounds with examples where this has not been the case. The Philippines under Ferdinand Marcos and Indonesia under Soeharto are classic examples of economies that were capitalist based on private enterprise. But they were not open-market systems. Economists call this type of behavior rent seeking. The rest of us call it corruption and cronyism. The greater the degree of systemic corruption in a society, the less its economy functions on market principles.

Many different types of market economies are possible, and there are real distinctions among institutional structures in different countries. But all market economies feature a competitive system in which the rules are the same for all participants. Only a fully functioning democracy can sustain such a system over time.

The second myth is grounded in a misconception that the business community or the private sector in general is a homogeneous monolith that either supports or opposes certain policies or leaders. This is not the case. Most countries have several business communities, each with its own interests and objectives. In the economy of a single country there can be the state sector, private sector, and informal sector. Within the private sector there might be firms and entrepreneurs who work mostly in international trade, while others produce solely for the domestic market. Clearly, these two groups will not always support the same policies. Nor will they always favor market-oriented reform.

Firms created behind protectionist trade barriers — and with strong links to and benefits from government — tend to support the status quo. Often they also are quite anti-democratic. Conversely, firms that have been locked out of government favors, small entrepreneurs, and those engaged in international trade often lead the demand for change. Because the business community is so diverse, it would be wise for these firms and entrepreneurs to form partnerships with business associations, think tanks, foundations, and other organizations with a vested interest in an open economy and a democratic political system.

The third myth is the most dangerous. It is the belief that markets will spontaneously emerge if government stops intervening in the economy. This is far from true. The government must establish consistent, fair rules and laws so a strong market economy can emerge. Government institutions and self-regulating organizations have key roles in ensuring that rules are enforced. Credible, fair bank supervision is one example.

Without binding rules and structures that govern all players, anarchy follows. Business then becomes simply "casino capitalism" in which investments are only bets that people will keep their word, that companies will tell the truth, that workers will be paid, and that debts will be honored.

FOREIGN ASSISTANCE AND DEVELOPMENT

Getting the relationship right between government departments, business organizations, civil society, and market institutions is vital. Foreign assistance programs run by donor countries and international financial institutions must seek to achieve concrete objectives, such as:

- Promoting development of the laws and institutions necessary for open, market-oriented economies, including those covering property rights, antitrust and competition, banking, and accounting standards.

- Increasing citizen participation in the democratic process by allowing business groups and other parts of civil society to participate in the day-to-day decision-making process.

- Creating open systems of feedback to government, including legislative hearings, regulatory review panels, citizen advisory panels, and other communication channels between society and the state.

- Fostering private voluntary organizations and freedom of association.

- Building support for — and understanding of — the rights, freedoms, and obligations essential to a democratic private enterprise system.

- Enhancing an entrepreneurial culture by providing incentives to innovate, save, invest, and launch new firms.

- Simplifying compliance systems to enable micro and small businesses to join the legal, or formal, economy and mainstream of society.

- Expanding access to business and economic information necessary for informed decision-making by all parts of civil society.

STRENGTHENING THE ROLE OF BUSINESS ASSOCIATIONS

As advocates for the private sector, business associations in industrialized nations play a vital role in encouraging good governance and sound policy-making. In most emerging market economies, however, such associations are only beginning to realize the importance of "strength in numbers" and why it is in the business community's interest to promote a democratic process. Mobilizing small and medium-sized enterprises is especially important to create the critical mass that drives reform.

One tool to affect public policy is a national business agenda that identifies policy reform as the highest priority for the business community in the near term. The agenda specifies the reforms in terms of laws and regulations and offers concrete suggestions for change. Key to the agenda is participation. Programs in countries as diverse as Egypt, Paraguay, Haiti, and Nigeria have followed similar steps:

- Meeting with members in open forums to identify barriers to business growth and job formation.
- Analyzing policies and forming recommendations.
- Publishing in the media to gain input from concerned parties.
- Formulating policy reform programs.
- Publicizing the agenda.
- Presenting the agenda to the president and key ministers in a national meeting.
- Ongoing advocacy directed at the government, including the executive and parliament branches.

The Nigerian Association of Chambers of Commerce, Industry, Mines, and Agriculture (NACCIMA) has used its agenda for several years to coordinate economic reform. In 1999, this task assumed critical importance due to the country's struggle to create a true democratic system after years of military rule. Given pressure on NACCIMA from both Nigeria's political transition and its continuing economic crisis, developing and publicizing the national business agenda demonstrate NACCIMA's remarkable ability in the face of considerable hardship.

The National Association of Businesswomen (NABW) in Malawi created a national call to action to redress grievances experienced by women entrepreneurs. The association held regional forums across the country to identify the major issues facing women, including lack of information and access to credit. From these meetings the NABW developed a national business agenda and advocated before government in support of legislative changes that would boost the growth of women-owned enterprises in Malawi.

REMOVING INSTITUTIONAL BARRIERS TO PARTICIPATION

Members of the informal sector produce legitimate products without proper permits or legal status because they lack the resources to comply with burdensome, excessive rules and regulations necessary to participate in the formal economy. In many countries, the informal sector can account for up to 50 percent of the official economy. Entrepreneurs are locked out of the formal economy and political process as they work in low-income, low-growth business activities. A large and growing informal sector results from fundamental flaws in government processes and is proof that a market system hasn't been created.

Hernando de Soto of the Institute for Liberty and Democracy (ILD) in Peru was one of the first to recognize the challenges the informal sector presents to political and economic reform. Lack of secure property rights is central to his thesis that millions of people are condemned to poverty and sidelined from their countries' political discourse. De Soto's path-breaking research literally changed the nature of the debate about markets and democracy. De Soto and his ILD team are building market institutions in such diverse settings as Egypt, Mexico, and the Philippines, and de Soto will soon be turning his attention to Russia.

COMBATING CORRUPTION TO SUPPORT DEMOCRATIC VALUES

Business communities in developing countries are realizing that corruption is costing them money and they must do something to eliminate it. Corruption not only economically hurts the business community and the citizens of developing countries, but it has a destabilizing effect on democracy and the general well-being of a nation. Combating corruption can bring about broad reforms and improve the functioning of governance.

The National Association of Entrepreneurs (ANDE) in Ecuador created a research and advocacy program targeted at eliminating opportunities for corruption. ANDE has focused not on past corruption or any particular group, but on the need to initiate reforms that will change the direction of business and institute clean governance practices.

ANDE's studies showed that since the Republic of Ecuador was founded more than 160 years ago, some

92,250 legal norms had been created — and 52,774 were still in force in 1997. The number of overlapping, unclear, and contradictory laws and regulations has created an environment of legal chaos, leaving the application and enforcement of laws to the discretion of bureaucrats. Since Ecuador is a civil code country, its courts could not reconcile law or create precedents. ANDE recommended creating a seven-member judicial committee empowered to codify and reconcile existing law. ANDE's advocacy campaign succeeded so well that the judicial committee it recommended was included in Ecuador's new constitution.

Another approach to combating corruption is to help build the watchdog role of the media in society. The Center for International Private Enterprise (CIPE) has launched a network of 500 journalists throughout Latin America called Journalists Against Corruption, or PFC, its Spanish initials. PFC supports journalists dedicated to investigating and exposing waste and unethical conduct in government and corruption in all sectors of society. PFC is a network, clearinghouse, and service provider for these journalists and the organizations that support them. It encourages enhanced investigations and reports about corruption, offers investigative assistance, and advocates on behalf of journalists when they suffer reprisals. In 2000, protests from PFC resulted in the prompt release from jail of two Mexican journalists who had been reporting on corrupt practices and drug trafficking by the police.

PROMOTING SOUND CORPORATE GOVERNANCE

Another focal point is the promotion of sound corporate governance principles that attack the supply side of the corruption relationship. Since the high-profile scandals during the Russian and Asian financial crises, corporate governance issues have surfaced as key reform issues in developing countries and transition economies. One lesson learned from these crises is that weak or ineffective corporate governance procedures can create huge potential liabilities for individual firms and, collectively, for society. Corporate governance failures can be potentially as devastating as any other large economic shock. As M.R. Chatu Mongol Sonakul, former governor of the Bank of Thailand, remarked: "The Asian financial crisis showed that even strong economies lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence erodes."

Even countries with few large firms may want to begin looking at the question of corporate governance since it is now being adapted to meet the needs of family-owned companies. Even more important are the privatized firms and those still in the public sector. Ensuring good standards of corporate governance in these areas greatly enhances the faith of the public in the integrity of the privatization process and helps ensure that the country realizes the best return on the national investment.

CONCLUSION

Combating corruption, fostering corporate governance, strengthening women's business associations, and reducing barriers to formality have created new opportunities. Each action serves as a focal point to push forward with market reforms and adopting democratic practices. Sound corporate governance requires a framework of market institutions as well as sound business practices based on democratic principles. Similarly, ensuring that women and entrepreneurs of modest means have access to the business system as participants and leaders helps ensure that an open market economy exists for all, not just for a favored few.

As Roque Fernandez, a brilliant former Argentine finance minister, once said: "The Cold War is over and the University of Chicago won." He was referring to the market-oriented economic reform agendas being pushed throughout Latin America and much of the rest of the world. I'm hopeful we can add critical new dimensions to this view by bringing about a broader and profoundly democratic agenda based on transparency, accountability, property rights, and other fundamental rules societies and economies can use to govern themselves. ❑

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❑ RURAL AND URBAN POVERTY: UNDERSTANDING THE DIFFERENCES

By David Satterthwaite, Director, Human Settlements Programme, International Institute for Environment and Development

Definitions of poverty based on income levels don't reflect the many forms of deprivation that factor into rural and urban poverty, with the result that nations and multilateral organizations underestimate how many people live in poverty and in what conditions. Moreover, says David Satterthwaite, of the London-based International Institute for Environment and Development, income-based poverty lines alone are not adequate to form a firm basis for poverty reduction programs.

A multiplicity of laws, rules, and regulations on land use, enterprises, buildings, and products often make illegal most of the ways the urban poor find and build their homes and earn income, says Satterthwaite. Programs to help reduce poverty — targeted to either urban or rural populations — should reflect the diversity and complexity found within and among local contexts.

Traditional measures of poverty consider whether individuals or households have adequate food or sufficient income to purchase it. However, these measures, at best, can lead to only a partial understanding of poverty, and often to unfocused or ineffective poverty reduction programs. They fail to capture many aspects of deprivation, including lack of access to the services essential for health and literacy and lack of political voice and legal protection. They also fail to recognize the tremendous health burden poor people face, which is linked to poor quality housing and lack of basic services.

While the end result of poverty for rural and urban households — insufficient food that threatens the health and lives of family members — may be the same, the causes of poverty vary. For instance, the cause of poverty for a rural household that relies on a small land holding and that suffers from a low crop yield is not the same as for an urban household in a squatter shack community whose main income earner has lost a job due to recession or ill health or has suffered a drop in real income. Programs aimed at reducing rural and urban poverty need to recognize these differences. However, they also need to recognize the links between rural and urban areas. A rural household's response to poor crop yields may be to send one of its members to an urban area to seek work; an urban household may respond to declining income by sending their young children to rural relatives.

WHAT'S WRONG WITH INCOME-BASED POVERTY MEASURES

Over the past 10 years, the gap between how poverty is understood and how it is measured has widened. On one side, a growing volume of literature drawing mostly on empirical studies describes the many dimensions of poverty — including lack of assets, rights, access to services, and political voice — and discusses which population groups are most vulnerable. This literature has shown how discrimination often causes or increases poverty, including discrimination against women, children, and particular ethnic groups. On the other side is the official literature, most of which concentrates on trends in poverty and draws data from government or international agency surveys that use conventional income-based poverty lines.

Most definitions of poverty applied to Africa, Asia, and Latin America are based on definitions developed decades ago in Europe and North America, where populations at that time were mainly urban based and the proportions of the economically active populations working in agriculture were relatively small and falling. Poverty lines in use now were set by defining a level of income needed to pay for basic food and other essentials. But in low- and middle-income nations with mainly rural populations, most poverty is not caused by lack of income but by lack of access to sufficient land on which to grow crops and raise livestock, and to lack of other non-cash assets.

Income-based poverty lines have two other limitations. First, the income levels on which they are based are too low; they make little or no allowance for the cost of non-food essentials such as transport, keeping children at school, and paying for water and health care, even though these services represent high costs for most low-income households. Second, they fail to account for such aspects of poverty as poor quality housing, inadequate access to emergency services and legal protection, and voicelessness within political systems.

THE SCALE OF RURAL AND URBAN POVERTY

The most recent though somewhat dated (1992) detailed study of rural poverty, covering 114 developing countries, found that close to 1,000 million rural dwellers had incomes and consumption levels below nationally defined poverty lines. Two-thirds were in Asia and more than one-fifth in sub-Saharan Africa. More than two-thirds of the rural population in 42 of the poorest countries were "poor." The data highlight only incomes or consumption levels. They do not take into account inadequacies in provision for health and emergency services, water and sanitation, and schools.

The World Bank estimates there were some 500 million poor urban dwellers in the year 2000, based on its "one-dollar-a-day" income-based poverty line. Although poverty in developing countries has largely been in rural areas, this is changing as societies urbanize and rural poor move to urban areas seeking greater economic opportunities or because they lose their land or livelihood. The scale of urban poverty is often underestimated. Nearly three-quarters of the world's urban population now live in Africa, Asia, and Latin America. In Latin America, most poverty now is urban. In Africa, while there are still more poor people in rural than in urban areas, the continent's urban population is larger than North America's, and a high proportion of it lives in poverty.

THE URBAN POOR

Most government statistics on urban poverty are based on poverty lines that are too low in regard to the cost of living in cities. The World Bank estimate for the scale of urban poverty is an underestimate because in many cities one dollar per person per day does not cover the costs of essential non-food needs.

Large cities have particularly high costs for such non-food essentials as:

- Public transportation.

- Education. Even where schools are free, related costs for uniforms, books, transport, and exam fees make it expensive for poor households to keep their children in school.

- Housing. Many tenant households in cities spend more than one-third of their income on rent. Households that rent or are in illegal settlements may also pay high prices for water and other services.

- Water, sanitation, and garbage collection. Payments to water vendors often claim 10 to 20 percent of a household's income. Tens of millions of urban dwellers have no toilet in their homes, relying on pay-as-you-use toilets or simply relieving themselves in open spaces or plastic bags.

- Health care and medicines, especially where there is no access to a public or NGO (nongovernmental organization) provider and private services must be purchased. Many low-income households also spend considerable resources on disease prevention — for instance, to purchase mosquito coils to protect family members from malaria and other mosquito-borne diseases.

- Child care, when all adults in a household are involved in income-earning activities.

- Payments to community-based organizations, bribes to police, fines when arrested for illegal street vending, and other incidental costs.

In addition, a multiplicity of laws, rules, and regulations on land use, enterprises, buildings, and products often make illegal most of the ways urban poor find and build their homes and earn income. A law may criminalize the only means by which half a city's population earns a living or finds a home. If applied unfairly, regulations can have a major negative impact on the poor in the form of large-scale evictions, harassment of street vendors, exploitative patron-client relationships that limit access to resources, corruption, and denial of civil and political rights.

There are important links between the extent of deprivation faced by low-income households and the quality of their government. Where infrastructure and services — water, sanitation, health care, education, public transportation — are efficient, the amount of income needed to avoid poverty decreases significantly. Where government is effective, poorer urban groups benefit from the economies of scale that urban concentrations provide for most forms of infrastructure. But where a government is ineffective and unrepresentative, poor urban communities may have as bad or worse living conditions than the poor in rural areas. Large, highly concentrated urban populations with no access to water or sanitation and with high risks of accidental fires live in some of the world's most threatening environments.

THE RURAL POOR

In rural areas, most livelihoods depend on access to land and/or water for raising crops and livestock or to forests and fisheries.

Rural poverty is diverse. The 1992 study of rural poverty identified six categories of rural people at greatest risk of poverty: smallholder farmers, the landless, nomadic/pastoralists, ethnic/indigenous groups, those reliant on small/artisanal fisheries, and internally displaced/refugees. Many poor rural people fall into more than one category. Causes of poverty also differ between categories. In addition, the extent to which rural poverty is influenced by crop prices also varies greatly, from areas where self-sufficiency is the norm to areas where almost all production is for international markets and where the extent of poverty is much influenced by international prices and trade policies.

More than half of the rural poor and three-quarters of the poor in the "least developed countries" are smallholder farmers. Landless laborers make up a higher proportion of the rural poor in countries where agriculture is more commercialized and linked to world markets. For instance, landless laborers make up 31 percent of the rural poor in Latin America and the Caribbean compared to 11 percent in sub-Saharan Africa.

As with urban poverty, an important part of rural poverty is lack of services such as schools, health care, and access to credit. The links between poor health and poverty are strong because most rural poor lack easy access to health services while facing multiple health risks in their home and work environments. The reason most rural dwellers lack services is their distance from facilities that provide the services. For most poor urban households, the reason is inability to access nearby services. A squatter household living 200 meters from a hospital, secondary school, or bank or 40 to 50 meters from a water main or sewer can be as effectively excluded from these services as a rural resident 30 kilometers away.

RETHINKING POVERTY MEASURES

To understand the deprivations poor people face and effect the best means to address them, we need to understand local contexts and how external forces influence them. Distinguishing between rural and urban areas is one useful way to emphasize differences in local contexts and in the forms poverty takes, and in the design of programs to reduce it. We need an understanding of poverty that:

- Recognizes the differences between rural and urban populations.

- Acknowledges that where people live and work and other aspects of their environments influence the scale and nature of their deprivation.

- Recognizes that there are common urban and rural characteristics that cause or influence poverty, while tempering generalizations because of the diversity of urban and rural locations.

There are also many rural areas with some urban characteristics and urban areas with rural characteristics. For instance, many rural areas around prosperous cities or on corridors linking two cities have many non-farm enterprises and adults who commute or temporarily relocate to an urban area for work. Many rural areas have tourist industries that provide nonagricultural employment opportunities. Fast-expanding cities can surround village enclaves where rural characteristics persist — although with time, these rural characteristics generally become lost. Agriculture is an important part of the livelihood of many low-income urban households. In both rural and urban settings, landless laborers are among the poorest of the poor.

Poverty reduction programs should respond to the diversity and complexity of local contexts. Interventions by outside organizations should be influenced by the knowledge and priorities of those who face deprivation. The effective functioning of institutions that protect the poor's civil and political rights and provide access to basic services should be ensured.

IMPLICATIONS FOR INTERNATIONAL AGENCIES

International agencies working to reduce poverty can take several actions.

First, they should develop greater capacity to support and work with local institutions that can tailor poverty reduction initiatives to local contexts in ways that respond and are accountable to the poor. This includes working with local governments as well as with local NGOs and organizations formed by the poor themselves. In countries including India, South Africa, Zimbabwe, Thailand, Cambodia, and the Philippines, federations formed by urban poor groups are working with local governments to find more effective ways to reduce poverty.

Second, they should rethink how poverty is defined and measured by national statistical offices so the views of poor groups are fully represented and measures of poverty broadened beyond income-based or consumption-based indicators to include access to services and respect for civil and political rights. This rethinking should also recognize the variations within and among nations in the income levels needed to avoid poverty.

Finally, they should ensure that their own institutional structures and policy responses to poverty recognize the multiple dimensions of poverty, including the distinctions and linkages between rural and urban poverty. ❑

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ REMITTANCES AS A DEVELOPMENT TOOL

By Susan F. Martin, Director, Institute for the Study of International Migration, Georgetown University

Remittances — financial flows from workers residing abroad — are having a far greater positive impact on developing country economies than previously acknowledged, says Georgetown University Professor Susan Martin. "The multiplier effects of remittances can be substantial, with each dollar producing additional dollars in economic growth for the businesses that produce and supply products bought with these resources," she says.

While remittances are clearly needed and beneficial, Martin says, she points out that the poorest residents of the United States and other wealthy countries are bearing the brunt of assisting people in developing countries. The remitters often forego investments in education and work skills needed to be competitive in their new country, she says.

This article was originally presented at a conference organized by the Inter-American Development Bank.

During the past decades, remittances have grown significantly in scale and impact. The International Monetary Fund's Balance of Payments report for 2000 shows that countries in the Western Hemisphere received more than $16,000 million in 1999 from workers residing abroad. Worldwide, the flow of remittances exceeds $100,000 million per year, with more than 60 percent going to developing countries.

It is worth noting the weaknesses of existing data on remittances. These numbers likely underrepresent the scale of remittances by thousands of millions of dollars since many countries have inadequate processes for estimating or reporting on the funds remitted by foreign workers. Correcting for underreporting, the Inter-American Development Bank estimates that total remittances in the Western Hemisphere now likely exceed $20,000 million per year.

GROWTH IN INTERNATIONAL MIGRATION

Remittances are expected to continue to grow in size as international migration continues to grow. During the past 35 years, the number of international migrants has doubled from 76 million to more than 150 million worldwide. The Western Hemisphere has seen a comparable increase in the number of international migrants living and working abroad, growing to about 40 million across the whole hemisphere. Almost three-quarters reside in the United States. Of these, more than half come from other countries in the Americas. Other major receiving countries of international migrants are Canada, Venezuela, and Costa Rica, with some countries, such as Mexico, experiencing emigration, immigration, and transit at the same time.

There are a number of reasons that international migration is likely to continue to grow in the future, although the sources and destinations may shift. Under classic theory, immigration occurs when there is a combination of push/supply and pull/demand factors, as well as networks to link the supply of migrants with the demand of employers and families in receiving countries. Economic globalization and integration are fueling all parts of this equation. On the demand side, businesses, particularly but not exclusively multinational corporations, press for access to a global labor market for their recruitment of personnel. This pertains to both skilled and unskilled labor. On the supply side, when rising expectations for economic advancement are not met quickly enough, migration is tempting for workers who can earn far more in wealthier countries. Generally, those most likely to migrate have some resources to invest in the move.

Increased immigration generally means increased remittances. Until relatively recently, researchers, economists, and development agencies tended to dismiss the importance of remittances or emphasized only their negative aspects. They often argued that money sent back by foreign workers was spent largely on consumer items, pointing out that it seldom was invested in productive activities that would grow the economies of the developing countries. They also feared that those receiving remittances would become dependent upon them, reducing incentives to invest in their own income-generating activities.

Moreover, what was considered to be excessive consumerism, they argued, would lead to inequities, with remittance-dependent households exceeding the standard of living available to those without family members working abroad. Often, government attempts to encourage or require investment of remittances were heavy-handed and led to few economic improvements. Over time, the critics pointed out, remittances would diminish as the foreign workers settled in their new communities and lost contact with their home communities. Sometimes, wives and children would be left behind, with the all-important remittances no longer contributing to their livelihood.

THE EFFECTS OF REMITTANCES

Many of these problems still exist, but recent work on remittances show a far more complex picture. Perhaps because the scale of remittances has grown so substantially in recent years — it almost quadrupled in the Western Hemisphere during the past decade — experts now recognize that remittances have far greater positive impact on communities in developing countries than previously acknowledged. Such experts as Edward Taylor at the University of California at Davis argue that even consumer use of remittances stimulates economic development, particularly when households spend their remittances locally. The multiplier effects of remittances can be substantial, with each dollar producing additional dollars in economic growth for the businesses that produce and supply the products bought with these resources.

The microeconomic effects of remittances can also be significant. Important contributors are the hometown associations (HTAs) of migrants abroad who send communal resources to the villages from which they emigrated. Collected through a variety of means, these resources have helped villages improve roads, water and sanitation systems, health clinics, schools, and other community infrastructure. The HTAs often start with small resources, but they have the potential to grow to significant size. According to one study, "Consider the Salvadoran 'United Community of Chinameca': their first largesse was $5,000 to build a school, and then they built a septic tank worth $10,000. Later they constructed a Red Cross clinic at a cost of $43,000 and bought an ambulance worth $32,000." Some state and local governments match the resources from HTAs in order to magnify their impact. There has been a recent trend toward encouraging the HTAs to invest in small businesses and manufacturing activities in order to produce new jobs for villagers. These are truly grassroots initiatives that involve community-to-community development.

Also, remittances are often used to help families address emergency needs that could, perhaps, be better addressed through other means, or prevented altogether. For example, many households use some portion of their remittances to deal with emergency health care needs because they lack access to routine health care and do not have insurance coverage.

The Mexican Migration Project asks respondents how their family members use remittances. According to one research study, "the largest single reported use of remitted or saved funds was health care expenses for family members. Among those who remitted (approximately 60 percent of respondents), fully three-quarters reported that some share of the funds were used for health care expenses." At the same time, many migrants do not take advantage of an initiative by the Mexican government that enables them to purchase health insurance for families in Mexico for a very low rate per month. Such cross-border health coverage, purchased in the United States for relatives at home, could be a more effective use of remittances than the funding of emergency care. Since many migrants return periodically to their home communities, such cross-border programs could also provide the largely uninsured U.S. residents with a source of health care as well.

A sizeable part of remittances flowing to Central America have been used to reconstruct the countries after years of civil war and more recent hurricanes and earthquakes. Remittances have become so important a part of reconstruction that they have been prominently on the foreign policy agenda. A resident of El Salvador, Francisco Flores Perez, recently used a visit with President George W. Bush to request work permits for Salvadorans in the United States. The increased earnings that legally authorized workers could remit would far outweigh the likely foreign aid that would be forthcoming.

THE "COST" OF REMITTANCES

Remittance aid is clearly needed and beneficial to the families that receive this help, yet when remittances are used to support development or address reconstruction needs, it means that the poorest residents of the United States and other wealthy countries are bearing the brunt of assisting people in developing countries. Latin American migrants tend to have low incomes, often living in poverty, yet they remit thousands of millions of dollars to their home countries.

While beneficial to the families and societies at home, it is well to ask if the remittances come at a cost to those settling abroad. What trade-offs are they making to save sufficient resources to remit? Are they unable to make investments in education and skills upgrading, for example, in order to send money home? Are there ways, perhaps through community-investment programs supported by remittance transfer companies, to invest some of this lost income in development activities in their new places of residence?

In short, the issue of remittances as a resource for development requires better answers to some fundamental questions. For example, how can governments best estimate the actual flow of remittances; how precisely are remittances used, and are there alternative mechanisms to gain more "bang-for-the-buck"? To what extent can the multiplier effect of remittances be increased by initiatives to encourage local purchase of locally produced goods; how best can transfer costs be reduced to maximize the level of remittances reaching local communities; and how best can governments and international organizations help HTAs and home villages make the most effective use of the communal remittances for development without impeding local initiative? Given the scale of remittances today, and their potential as a tool for development, these issues are clearly deserving of attention. ❑

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

FACTS AND FIGURES

❑ POVERTY INDICATORS

The International Monetary Fund (IMF) provides assistance to low-income members through concessional lending under the Poverty Reduction and Growth Facility (PRGF) and debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

Launched in 1996, the HIPC initiative is designed to reduce the external debt burden of eligible countries to sustainable levels, enabling them to service their external debts without need of further debt relief and without compromising growth. Assistance under the HIPC initiative is limited to countries that are eligible for PRGF and International Development Association (IDA) loans and that have strong records of policy performance under PRGF- and IDA-supported programs but are not expected to achieve a sustainable debt situation after full use of traditional debt relief mechanisms.

In the following table, gross national income (GNI), formerly gross national product (GNP), is the value of final output of goods and services produced by residents of an economy, plus net primary income from non-resident sources.

The percent of people living on less than a dollar a day is part of the international poverty measure used by the World Bank. The data are based on household surveys conducted by national statistical offices or private agencies, supervised by national government or international agencies, and obtained by government statistical offices and World Bank country departments. The dollar-a-day standard — $1.08 in 1993 international prices — is equivalent to $1 in 1985 prices adjusted for purchasing power parity (PPP).

PRGF-Eligible Countries
(asterisk denotes that a country is also HIPC-eligible)

	Population (millions) 1999	Gross national income per capita (dollars) 1999	Percent population living on less than $1 per day (survey year)	Illiteracy age 15 and over men 1999	Illiteracy age 15 and over women 1999
Afghanistan	26	—	—	50	80
Albania	3	930	—	9	23
Angola*	12	270	—	—	—
Armenia	4	490	7.8 (1996)	1	3
Azerbaijan	8	460	2 (1995)	—	—
Bangladesh	128	370	29.1 (1996)	48	71
Benin*	6	380	—	45	76
Bhutan	0.8	510	—	—	—
Bolivia*	8	990	29.4 (1997)	8	21
Bosnia and Herzegovina	4	1,210	—	—	—
Burkina Faso*	11	240	61.2 (1994)	67	87
Burundi*	7	120	—	44	61
Cambodia	12	260	—	41	79
Cameroon*	15	600	—	19	31
Cape Verde	0.4	1,330	—	16	35

(Continued)

	Population (millions) 1999	Gross national income per capita (dollars) 1999	Percent population living on less than $1 per day (survey year)	Illiteracy age 15 and over men 1999	Illiteracy age 15 and over women 1999
Central African Republic*	4	290	66.6 (1993)	41	67
Chad*	7	210	—	50	68
Comoros	0.5	350	—	34	48
Congo, Democratic Republic of*	50	755 or less, est.	—	28	51
Congo, Republic of*	3	550	—	13	27
Côte d'Ivoire*	16	670	12.3 (1995)	46	63
Djibouti	0.6	5,020	—	25	47
Dominica	0.07	3,260	—	—	—
Eritrea	4	200	—	33	61
Ethiopia*	63	100	31.3 (1995)	57	68
Gambia, The*	1	330	53.7 (1992)	57	72
Georgia	5	620	2 (1996)	—	—
Ghana*	19	400	38.8 (1998)	21	39
Grenada	0.1	3,440	—	—	—
Guinea*	7	490	—	—	—
Guinea-Bissau*	1	160	—	42	82
Guyana*	0.9	760	—	1	2
Haiti	8	460	—	49	53
Honduras*	6	760	40.5 (1996)	26	26
India	998	440	44.2 (1997)	32	56
Kenya*	29	360	26.5 (1994)	12	25
Kiribati	0.08	910	—	—	—
Kyrgyz Republic	5	300	—	—	—
Lao, People's Democratic Republic*	5	290	26.3 (1997)	37	68
Lesotho	2	550	43.1 (1993)	28	7
Liberia*	3	—	—	31	63
Macedonia, Former Yugoslav Republic of	2	1,660	—	—	—
Madagascar*	15	250	63.4 (1997)	27	41
Malawi*	11	180	—	26	55
Maldives	0.3	1,200	—	4	4
Mali*	11	240	72.8 (1994)	53	67
Mauritania*	3	390	28.6 (1995)	48	69
Moldova	4	410	11.3 (1997)	1	2
Mongolia	2	390	13.9 (1995)	27	48
Mozambique*	17	220	37.9 (1996)	41	72
Myanmar*	45	755 or less, est.	—	11	20
Nepal	23	220	37.7 (1995)	42	77
Nicaragua*	5	410	—	33	30
Niger*	10	190	61.4 (1995)	77	92
Nigeria	124	260	70.2 (1997)	29	46
Pakistan	135	470	31 (1996)	41	70

(Continued)

	Population (millions) 1999	Gross national income per capita (dollars) 1999	Percent population living on less than $1 per day (survey year)	Illiteracy age 15 and over men 1999	Illiteracy age 15 and over women 1999
Rwanda*	8	250	35.7 (1983-85)	27	41
Samoa	0.2	1,070	—	19	21
São Tomé and Principe*	0.1	270	—	—	—
Senegal*	9	500	26.3 (1995)	54	73
Sierra Leone*	5	130	57 (1989)	—	—
Solomon Islands	0.4	750	—	—	—
Somalia*	9	—	—	—	—
Sri Lanka	19	820	6.6 (1995)	6	11
St. Lucia	0.2	3,820	—	—	—
St. Vincent and the Grenadines	0.1	2,640	—	—	—
Sudan*	29	330	—	31	55
Tajikistan	6	280	—	1	1
Tanzania*	33	260	19.9 (1993)	16	34
Togo*	5	310	—	26	60
Tonga	0.1	1,730	—	—	—
Uganda*	21	320	—	23	45
Vanuatu	0.2	1,180	—	—	—
Vietnam*	78	370	—	5	9
Yemen, Republic of*	17	360	15.7 (1998)	33	76
Zambia*	10	330	63.7 (1998)	15	30
Zimbabwe	12	530	36 (1990-91)	8	16

Sources: The World Bank, *World Development Indicators 2001* and *The Little Data Book 2001*.

Health Indicators
(** = **percent urban population 1999**)

	Percent men 15-24 with HIV 1999 (average of high and low estimates)	Percent women 15-24 with HIV 1999	Infant deaths per 1,000 births 1999	Percent children under 5 weighing less than WHO-set standard 1993-99	Percent population with access to improved water source 2000
Afghanistan	—	—	147	—	19
Albania	—	—	24	8	—
Angola	2.7	1.3	127	41	38
Armenia	—	—	14	3	—
Azerbaijan	—	—	16	10	—
Bangladesh	0	0	61	56	97
Benin	2.2	0.9	87	29	63
Bhutan	—	—	59	19	86**
Bolivia	0	0.1	59	8	79
Bosnia and Herzegovina	—	—	13	—	—
Burkina Faso	5.8	2.3	105	33	84**
Burundi	11.6	5.7	105	—	96**
Cambodia	3.5	2.4	100	47	30
Cameroon	7.8	3.8	77	22	62
Cape Verde	—	—	39	—	64**
Central African Republic	14.1	6.9	96	23	60
Chad	3	1.9	101	39	27
Comoros	—	—	61	—	98
Congo, Democratic Republic of	5.1	2.5	85	34	45
Congo, Republic of	6.5	3.2	89	—	51
Côte d'Ivoire	9.5	3.8	111	24	77
Djibouti	—	—	109	—	100**
Dominica	—	—	14	—	—
Eritrea	—	—	60	44	46
Ethiopia	11.9	7.5	104	—	77**
Gambia, The	2.2	0.9	75	26	62
Georgia	—	—	15	3	—
Ghana	3.4	1.4	57	25	64
Grenada	—	—	13	—	97**
Guinea	1.4	0.6	96	—	48
Guinea-Bissau	2.5	1	127	—	49
Guyana	—	—	57	—	98**
Haiti	2.9	4.9	70	28	46
Honduras	1.7	1.4	34	25	90
India	0.6	0.4	71	45	88
Kenya	13	6.4	76	22	49
Kiribati	—	—	56	—	82**
Kyrgyz Republic	—	—	26	11	77

(Continued)

	Percent men 15-24 with HIV 1999 (average of high and low estimates)	Percent women 15-24 with HIV 1999	Infant deaths per 1,000 births 1999	Percent children under 5 weighing less than WHO-set standard 1993-99	Percent population with access to improved water source 2000
Lao, People's Democratic Republic	0.1	0	93	40	90
Lesotho	26.4	12.1	92	16	91
Liberia	—	—	113	—	—
Macedonia, Former Yugoslav Republic of	—	—	16	6	99
Madagascar	0.1	0	90	40	47
Malawi	15.3	7	132	30	57
Maldives	—	—	29	—	100**
Mali	2.1	1.3	120	27	65
Mauritania	0.6	0.4	88	23	37
Moldova	0.1	0.3	17	—	100
Mongolia	—	—	58	13	60
Mozambique	14.7	6.7	131	26	60
Myanmar	1.7	1	77	—	68
Nepal	0.2	1	75	47	81
Nicaragua	0.1	0.2	34	12	79
Niger	1.5	0.9	116	50	59
Nigeria	5.1	2.5	83	39	57
Pakistan	0	0.1	90	38	88
Rwanda	10.6	5.2	123	27	41
Samoa	—	—	23	—	—
São Tomé and Principe	—	—	47	—	—
Senegal	1.6	0.7	67	22	78
Sierra Leone	2.9	1.2	168	—	28
Solomon Islands	—	—	21	—	—
Somalia	—	—	121	—	—
Sri Lanka	0.1	0	15	33	33
St. Lucia	—	—	16	—	—
St. Vincent and the Grenadines	—	—	20	—	—
Sudan	—	—	67	34	86**
Tajikistan	—	—	20	—	—
Tanzania	8.1	4	95	31	54
Togo	5.5	2.2	77	25	54
Tonga	—	—	21	—	50
Uganda	7.8	3.8	88	26	—
Vanuatu	—	—	36	—	—
Vietnam	0.1	0.3	37	37	48
Yemen, Republic of	—	—	79	46	66
Zambia	17.8	8.2	114	24	52
Zimbabwe	24.5	11.3	70	16	77

Sources: The World Bank, *World Development Indicators 2000* and *The Little Data Book 2000.*

❑ LISTING OF COUNTRIES BY INCOME GROUP

Low Income

Afghanistan
Angola
Armenia
Azerbaijan
Bangladesh
Benin
Bhutan
Burkina Faso
Burundi
Cambodia
Cameroon
Central African Republic
Chad
Comoros
Congo, Democratic Republic of
Congo, Republic of
Côte d'Ivoire
Eritrea
Ethiopia
Gambia, The
Georgia
Ghana
Guinea
Guinea-Bissau
Haiti
India
Indonesia
Kenya
Korea, Democratic Republic of
Kyrgyz Republic
Lao, People's Democratic Republic
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Moldova
Mongolia
Mozambique
Myanmar
Nepal
Nicaragua
Niger
Nigeria
Pakistan
Rwanda
São Tomé and Príncipe
Senegal
Sierra Leone
Solomon Islands
Somalia
Sudan
Tajikistan
Tanzania
Togo
Turkmenistan
Uganda
Ukraine
Uzbekistan
Vietnam
Yemen, Republic of
Zambia
Zimbabwe

Lower Middle Income

Albania
Algeria
Belarus
Belize
Bolivia
Bosnia and Herzegovina
Bulgaria
Cape Verde
China
Colombia
Costa Rica
Cuba
Djibouti
Dominican Republic
Ecuador
Egypt, Arab Republic of
El Salvador
Equatorial Guinea
Fiji
Guatemala
Guyana
Honduras
Iran, Islamic Republic of
Iraq
Jamaica
Jordan
Kazakhstan
Kiribati
Latvia
Lithuania
Macedonia, Former Yugoslav Republic of
Maldives
Mali
Marshall Islands
Micronesia, Federated States
Morocco
Namibia
Papua New Guinea
Paraguay
Peru
Philippines
Romania
Russian Federation
Samoa
Sri Lanka
St. Vincent and the Grenadines
Suriname
Swaziland
Syrian Arab Republic
Thailand
Tonga
Tunisia
Turkey
Vanuatu
West Bank and Gaza
Yugoslavia, Federal Republic (Serbia/Montenegro)

Upper Middle Income

American Samoa
Antigua and Barbuda
Argentina
Bahrain
Barbados
Botswana
Brazil
Chile
Croatia
Czech Republic
Dominica
Estonia
Gabon
Grenada
Hungary
Isle of Man
Korea, Republic of
Lebanon
Libya
Malaysia
Malta
Mauritius
Mayotte
Mexico
Oman
Palau
Panama
Poland
Puerto Rico
Saudi Arabia
Seychelles
Slovak Republic
South Africa
St. Kitts and Nevis
St. Lucia
Trinidad and Tobago
Uruguay
Venezuela, Republica Bolivariana de

High Income

Andorra
Aruba
Australia
Austria
Bahamas, The
Belgium
Bermuda
Brunei
Canada
Cayman Islands
Channel Islands
Cyprus
Denmark
Faeroe Islands
Finland
France
French Polynesia
Germany
Greece
Greenland
Guam
Hong Kong, China
Iceland
Ireland
Israel
Italy
Japan
Kuwait
Liechtenstein
Luxembourg
Macao, China
Monaco
Netherlands
Netherlands Antilles
New Caledonia
New Zealand
Northern Mariana Islands
Norway
Portugal
Qatar
San Marino
Singapore
Slovenia
Spain
Sweden
Switzerland
United Arab Emirates
United Kingdom
United States
Virgin Islands (U.S.)

Source: The World Bank, *World Development Indicators 2001.*

❑ DEVELOPMENT ASSISTANCE AND WHERE IT GOES

The World Bank is among the world's largest single source of development assistance to reduce poverty globally. Resources for International Development Association (IDA) lending to poor countries are leveraged from shareholders' contributions. Bank lending also helps mobilize additional resources from cofinancers or client governments to support common development objectives. The World Bank's fiscal year runs from July 1 through June 30.

Lending by Region	**FY 2000 (millions of dollars)**
Africa	2,159
East Asia and Pacific	2,979
Eastern Europe and Central Asia	3,042
Latin America and the Caribbean	4,063
Middle East and North Africa	920
South Asia	2,112
Total	**15,300**

Lending by Sector	**FY 2000 (percent)**
Multisector	4.8
Education	4.5
Urban development	4.1
Environment	3.4
Private sector development	1.4
Oil and natural gas	1.1
Telecommunications	0.7
Mining	0.4
Public sector management	14.8
Financial sector	12.0
Transportation	1.1
Economic policy	8.4
Agriculture	7.4
Social protection	7.2
Health, nutrition, population	6.5
Electric power and energy	6.5
Water supply and sanitation	5.9

Source: The World Bank, *Partnerhips for Development: Spring 2001.*

❑ WORKERS' REMITTANCES

	Credit		Debit	
	1993	1999	1993	1999
Total (millions of dollars)	**43,727**	**62,976**	**45,619**	**60,947**
Industrial Countries	12,188	11,766	23,984	32,995
Developing Countries	31,539	51,211	21,635	27,952
Africa	**4,946**	**5,993**	**1,484**	**5,277**
Angola	—	—	83	—
Benin	103	0	21	—
Botswana	—	—	81	70
Burkina Faso	117	—	62	—
Côte d'Ivoire	—	—	420	—
Ghana	10	31	4	6
Guinea	—	6	20	13
Morocco	1,959	1,938	14	20
Nigeria	793	1,301	2	9
Seychelles	9	4	15	11
Tunisia	446	761	7	8
Asia	**7,807**	**17,906**	**85**	**3,156**
Bangladesh	1,007	1,797	—	2
China, People's Republic of	108	384	15	70
India	3,495	11,002	—	22
Indonesia	346	1,109	—	—
Korea	311	54	—	184
Malaysia	—	—	—	2,038
Maldives	—	—	27	41
Myanmar	28	138	—	—
Nepal	55	443	3	27
Pakistan	1,446	—	1	—
Papua New Guinea	—	—	—	8
Philippines	311	102	32	57
Samoa	31	45	3	3
Solomon Islands	—	—	2	—
Sri Lanka	632	1,056	—	—
Vanuatu	5	19	—	36

(Continued)

	Credit		Debit	
	1993	1999	1993	1999
Europe	3,534	6,520	4	255
Albania	275	357	—	—
Armenia	—	15	—	7
Croatia	213	454	—	28
Cyprus	79	83	—	81
Poland	—	698	—	35
Turkey	2,919	4,529	—	—
Middle East	**7,782**	**6,203**	**19,166**	**18,458**
Bahrain	—	—	396	856
Egypt	5,664	3,235	—	39
Jordan	1,040	1,664	78	204
Kuwait	—	—	1,229	1,731
Libya	—	—	323	213
Oman	39	39	1,423	1,438
Saudi Arabia	—	—	15,717	13,977
Western Hemisphere	**7,470**	**14,589**	**896**	**806**
Argentina	42	29	34	38
Brazil	1,123	1,190	48	138
Colombia	455	532	—	140
Costa Rica	0	101	—	84
Dominican Republic	721	1,519	—	—
Ecuador	75	1,084	—	—
El Salvador	790	1,374	—	—
Guatemala	205	466	6	27
Honduras	60	320	—	1
Jamaica	187	679	6	96
Mexico	3,332	5,909	—	—
Nicaragua	25	300	—	—
Panama	17	16	24	21
Peru	289	712	—	—
Trinidad and Tobago	18	0	—	—
Venezuela, Rep. Bol.	—	—	726	179

Workers' remittances cover current transfers by migrants who are employed in new economies and considered residents there. A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more. Workers' remittances often involve related persons. Persons who work for and stay in new economies for less than a year are considered non-residents; their transactions are appropriate mainly to the component for compensation of employees.

Source: International Monetary Fund, *Balance of Payments Statistics Yearbook 2000.*

KEY CONTACTS AND INTERNET SITES

UNITED STATES GOVERNMENT

Peace Corps
1111 20th St. N.W.
Washington, D.C. 20526 U.S.A.
Phone: 800-424-8580
http://www.peacecorps.gov

U. S. Agency for International Development
Information Center
Ronald Reagan Building
Washington, D.C. 20523-1000 U.S.A.
Phone: 202-712-4810
Fax: 202-216-3524
http://www.usaid.gov

U. S. Department of Agriculture
Foreign Agricultural Service
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Washington, D.C. 20250 U.S.A.
Phone: 202-720-3101
http://www.fas.usda.gov/

U. S. Department of State
Bureau of Economic and Business Affairs
2201 C. St. N.W.
Washington, D.C. 20520 U.S.A.
Phone: 202-647-7951
http://www.state.gov/e/eb/

U.S. Department of the Treasury
1500 Pennsylvania Ave. N.W.
Washington, D.C. 20220 U.S.A.
Phone: 202-622-2000
Fax: 202-622-6415
http://www.ustreas.gov/

INTERNATIONAL DEVELOPMENT ORGANIZATIONS

Consultative Group on International
Agricultural Research
http://www.cgiar.org/

European Commission
Development Directorate-General
http://europa.eu.int/comm/development/index_en.htm

Organization for Economic Cooperation
and Development
Development Assistance Committee
http://www.oecd.org/dac/

United Nations Development Program
http://www.undp.org

United Nations
Food and Agriculture Organization
http://www.fao.org

World Health Organization
http://www.who.int/home-page/

DEVELOPMENT BANKS AND FINANCE INSTITUTIONS

African Development Bank
http://www.afdb.org

Asian Development Bank
http://www.adb.org

Institute of International Finance
http://www.iif.com

Inter-American Development Bank
http://www.iadb.org

International Monetary Fund
http://www.imf.org

World Bank
http://www.worldbank.org

RESEARCH ORGANIZATONS

American Enterprise Institute for Public Policy Research
http://www.aei.org

The Brookings Institution
http://www.brookings.org

Cato Institute
http://www.cato.org

Center for International Development at Harvard University
http://www.cid.harvard.edu/

Center for International Private Enterprise
http://www.cipe.org

Heritage Foundation
http://www.heritage.org

Institute for International Economics
http://www.iie.com

International Food Policy Research Institute
http://www.ifpri.org

International Institute for Environment and Development
http://www.iied.org/

National Endowment for Democracy
http://www.ned.org

Woodrow Wilson International Center for Scholars Global Outlook: International Urban Research Monitor
http://wwics.si.edu/outreach/outcon.htm

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