Development and Poverty Reduction

Looking Back, Looking Ahead

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François Bourguignon, *Senior Vice President and Chief Economist*

THE WORLD BANK

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Introduction

Development thinking and practice have evolved in ways that should be conducive to more rapid development, but the promise has yet to be fulfilled. Why? In part because of natural lags between thinking, practice, and outcome. But also because countries of the developed and developing worlds have not delivered fully on their commitments in their North-South development partnership.

The pressure to do better is growing. The global imbalances in the distribution of income and wealth are huge, and the awareness of these imbalances grows as information flows ever more quickly around the globe. People everywhere can compare themselves to the richest developed societies, and they are anxious to reduce the yawning gaps in income and consumption.

Failing to come to grips with these imbalances is bound to produce mounting dissatisfaction. But we face a window of opportunity, one that may not stay open. The opportunity is to put into practice what we have learned about increasing opportunity and reducing poverty, at a time when demographics, economics, and even geopolitics should make that possible. Not doing this will sow discouragement about development and progress in wealthy and poor nations alike—creating barriers to future development efforts, even feeding civil and international conflict.

What will it take to move forward? There is a real opportunity for improving the mechanisms of global governance, but this will take several years. In the meantime, there are tasks to be tackled with some urgency. In trade, developed countries must follow through on their commitments at the Geneva talks—to give developing countries greater market access. In aid, donor countries must scale up their assistance in ways commensurate with the Millennium Development Goals, reinforcing and accelerating the mild progress of the past two years. In governance, developing countries must continue to move toward greater accountability, transparency, and efficiency. And all countries need to work together to address such disasters as HIV/AIDS and climate change.

This paper provides the background for a call to action. Part 1 reviews the changes in development thinking and development practice over the past decade. Part 2 shows that development progress has been mixed—with fairly impressive global aggregates, with rapid poverty reduction and continued advances in social indicators, but with highly uneven distributions of those gains. And despite some progress on policy environments and aid flows, both developing and developed countries have failed to deliver fully on the commitments to extend these gains. Part 3 looks at the worlds of 2015 and 2030 and maps out a course for action in the next decade.

Changes in development thinking and practice during the 1990s

part 1

The 1990s saw big changes in the marketplace of development ideas.[1] The lessons of the adjustment programs of the 1980s and the innovations in economic, political, and social theory together pushed development thinking toward a new paradigm characterized by broader and better integrated understanding of development and greater pragmatism about instruments.

Changes in development thinking

For most of the 1950s and 1960s, the idea of development was synonymous with aggregate growth. Starting in 1965, under the influence of Singer, Seers, and others, things begin to change, and the idea of development became more identified with processes of social and economic change. Empirical studies by Kuznets, Chenery, and others attempted to integrate growth and distribution, but, largely because of empirical limitations, these attempts were based on a rather simple vision of what constitutes development and distribution. This began to change during the 1990s, when enormous progress was made in conceptually linking the notions of economic growth, distribution, and poverty reduction.

Even the understanding of poverty has broadened from a narrow focus on income and consumption to a multidimensional notion of education, health, social and political participation, personal security and freedom, environmental quality, and so forth. The development community has also adopted more pragmatic means of achieving development, moving toward country specificity and flexible analysis and away from the twin dogmas of pervasive state control (1960s–1970s) and unregulated markets (1980s–early 1990s).

Development as poverty reduction

One of the most important developments of the 1990s was the sharper focus on poverty reduction as the major goal of development and development assistance. Most authors in the 1950s and the 1960s defined development in a broad way, but in practice it was more often viewed as a process of accumulating physical or human capital, with the goal of increasing national income.

A break occurred in the mid-1960s with the "dethronement of GNP" (in Singer's 1965 article) and McNamara's move toward poverty eradication as the true goal of development (notably in his 1973 Nairobi speech).[2] Poverty reduction had also been highlighted as a goal in the "basic needs" approach of the early 1970s. But the arguments were mostly ideological, often relying on faulty theoretical and empirical analysis. And during the long macroeconomic crisis that started at the end of the 1970s poverty considerations were set aside. The neoliberal stream that dominated the 1980s downplayed distribution and poverty and insisted on re-establishing market mechanisms to promote economic growth.[3]

So, the emphasis on poverty in the 1990s was not new. What was new was that it was fully articulated with growth, and no longer seen as antagonistic. The *1990 World Development Report* represented a major turn.[4]

In the 1990s development economics moved away from the macroeconomic explanations of Keynes or Harrod and Domar to emphasize the micro foundations of development issues. Development economists and policymakers became more concerned with micro-level decisions, realizing their crucial role in an economy's growth. For example, the role of women in household decisionmaking, the effects of the proportion of household resources controlled by women on the health and nutrition of their children, the role of microeconomics in poorly functioning land, labor, and credit markets, and the role of informal networks and institutions in dealing with market failures. The aim of this "micro" development literature is to understand what institutions may arise at a micro level to

The 1990s saw substantial progress on the instrumental aspects of development thinking—on what actually works for achieving the goals of development and why

cope with such failures and to structure policy to provide for them.[5]

The accepted meaning of poverty reduction also began to change. In earlier decades poverty was rather loosely defined, characterized as a particularly low level of income or consumption. In recent years the development community has broadened this notion of the meaning and objectives of development, with Amartya Sen particularly influential in persuading the development community to take such a broader view.[6] Poverty is now seen as the inability to achieve standards in addition to whether they are achieved. Poor people live without fundamental freedoms to live the kind of life they value. They often lack adequate food, shelter, education, and health care. They are extremely vulnerable to illness, violence, economic dislocation, and natural disaster. They are poorly served by institutions of the state and society. And they often find themselves powerless to influence key decisions affecting their lives.[7]

Evidence emerged to support this broader view. The World Bank's *Voices of the Poor*,[8] which drew on interviews with some 60,000 poor people worldwide, shows that in addition to more consumption and income, poor people value access to opportunities, a secure social environment, freedom from violence, a voice in decisionmaking, and the power to hold others accountable for their actions. The *World Development Report 2000/2001* clearly articulates the multifaceted dimensions of poverty, emphasizing that social development carries intrinsic value in addition to whatever instrumental value it may have.[9] Accordingly, absolute poverty is now recognized as the inability to achieve basic standards in nutrition, health, education, environment, and a voice in the decisions affecting poor people's lives. Signaling this recognition were the Millennium Development Goals adopted in 2000 and signed by 191 countries. They commit the development community to work toward progress in these multiple dimensions of poverty.

Efforts to integrate the various parts of development thinking have gone even farther to concern social justice and human rights. In recent years the international community has strongly emphasized the protection of human rights in poor countries.[10] The human rights approach to poverty reduction emphasizes the accountability of institutions that affect the fulfillment of individuals' rights. This approach is similar to the approach to development—and poverty reduction—based on promoting opportunity, facilitating empowerment, and enhancing security. It is a useful perspective in a wide range of areas—such as protecting minorities, ensuring respect for the rule of law, and making the policy process participatory, transparent, and effective.

A more pragmatic instrumental approach to development

In addition to normative shifts in development thinking, the 1990s saw substantial progress on the instrumental aspects of development thinking—on what actually works for achieving the goals of development and why.[11] They also saw the fall of several long-lived development dogmas,[12] the one-size-fits-all, silver-bullet policy packages regularly prescribed for all countries. To develop, build infrastructure and import machines, protect industries from competition, invest in human capital and technology transfer, liberalize markets, free the exchange rate, privatize state-owned industries and expose them to competition. By the second half of the 1990s a consensus was emerging for sound analysis, specific contexts, and cross-disciplinary approaches.

Complementarity of states and markets. In most developing countries in the 1950s and 1960s the dogma of planning held sway, with its emphasis on pervasive market failure and the need for a highly interventionist state By the 1980s the neoliberal counterrevolution had begun to take hold. Where the planners saw market failure, the neoliberals saw massive government failure, and their response was to move developing economies toward unregulated markets. "Getting prices right" was the mantra—an important corrective to the planning ideas, but equally incomplete as an approach to development. These competing ideologies continued to drive decisionmaking in many countries even after deeper economic analysis and extensive evidence undermined their credibility. The polarization of development debates and the lack of rigor in policy analysis did little to further the cause of poverty reduction.

In the 1990s the development community largely moved beyond this opposition between planners and neoliberals. The latter half of the decade witnessed the gradual consolidation of a consensus that states and markets are in fact complementary. Private enterprise operating through the market is the main engine of sustained economic growth. But keeping that engine running and ensuring that it powers poverty reduction require a state that is active in two key areas.

First, government needs to ensure that the investment climate is conducive to growth. Markets can harness the productive energies of the private sector only where the state provides an adequate environment. This entails upholding property rights and contracts, maintaining political and macroeconomic stability, providing public goods, and using (efficient) regulation and public services to fill gaps left by markets and to address externalities. Without this environment, private entrepreneurship may wither or be diverted into rent-seeking or other socially unproductive activities.

Second, government needs to invest in and empower its people, particularly poor people who might otherwise be excluded, through education, health, social protection, and mechanisms for encouraging voice and participation. Without broad participation, without more human capital and social capital, growth is unlikely to be fast and sustainable—because excluding large segments of society wastes potentially productive resources and breeds social conflict.

In short, the development community recognized that development demands effective and capable states, not to own and operate factories, but to help markets function efficiently and fill gaps that they leave. It has moved beyond ideological presupposition and dogma—away from implicitly viewing state ownership or privatization and liberalization as ends—and toward rigorous, context-specific analysis of the conditions for different policy frameworks and state interventions to bring the best results.

Institutions and governance take center stage. Directly linked to this is recognizing that institutions and governance are key determinants of sustained growth and poverty reduction. In the 1980s development approaches stressed improving policy—particularly in macroeconomics and trade—and "getting prices right" by removing government-imposed barriers to markets. But the 1990s awakened interest in institutions and governance—for four reasons:

- First, the failure of structural adjustment programs to spark growth in many low-income countries in the 1980s focused attention on the role of institutions and governance in development.
- Second, and perhaps most important, the end of the Cold War removed self-imposed blinders from the eyes of donor countries. Until the early 1990s, the United States and its allies had refrained from scrutinizing the governance failings of proxy states, for fear of undermining what they saw as bullwarks against communist expansion. But with the demise of the Soviet Union, both developed country donors and developing country citizens decried poor governance as an hindrance to development.
- Third, the transition in the economies of Eastern Europe and the former Soviet Union in the early and mid-1990s—which was far more difficult than many observers had expected—underlined the great importance of the institutional foundations for markets and for good policy.
- Fourth, the East Asian financial crisis of 1997–98 showed that even where policies had supported rapid growth and poverty reduction, weaknesses in institutional and governance foundations could threaten the whole edifice of development progress.

What is the core idea behind this new thinking about institutions and governance? Today's wealthy economies developed under a variety of policy regimes, from fairly liberal (Taiwan, China, and the United States) to fairly statist (Japan, Sweden). But they all passed a threshold

Private enterprise operating through the market is the main engine of sustained economic growth

of institutional quality that ensured political and economic stability, reasonable state capacity, enforcement of property rights and contracts, sufficient provision of public goods, and limits on government predation and corruption.

In contrast, many countries with poor institutions and weak governance are beset by poorly designed and weakly implemented policies, shoddy infrastructure and public services, and state harassment of citizens and business. Legal systems are neither effective nor predictable. Contracts are only weakly enforceable. And crime is widespread. Police extract money from citizens they are supposed to protect. Public officials steal public funds rather than provide public goods. They distribute contracts, licenses, and jobs to their friends and political supporters—or sell them outright. And they demand bribes for services, denying the neediest.

Weak institutions are not only an inequitable burden on citizens—they also act as brake on economic growth

Weak institutions are not only an inequitable burden on citizens—they also act as brake on economic growth by undermining incentives in the private sector. *Doing Business*, a recent World Bank–IFC report quantifying the obstacles to growth, has calculated that businesses in poor countries face much larger regulatory burdens than those in rich countries. They face three times the administrative costs, and nearly twice as many bureaucratic procedures and longer delays. And they have fewer than half the protections of property rights of rich countries.[13]

Most of these failings do not show up on standard macroeconomic measures of performance, yet they are deeply inimical to development.[14] Societies with weak institutions have not developed the basis for complex economic interactions; they have neither the software nor the hardware for development. The result is dysfunctional markets, weak competitive pressures, and private sectors dependent on government cronyism and corruption. Incentives are misaligned, so that entrepreneurial individuals "invest" their time and resources in competing for rents from the political system. Social norms form around clientelism, rent-seeking, and factional competition, rather than social cohesion and progress. These destructive norms become rational for the individual, despite their negative collective effect, and they often prove hard to unravel.

The breakdown in governance, erosion of institutions, and collapse of social cohesion are typically associated with a radical decline in living standards and rise in inequality—as in Moldova, the Caucasus, and Central Asia in the post-Soviet transition period. Heavy regulation and weak property rights exclude the poor from doing business.

The institutions of the developed economies cited above—Japan, Sweden, Taiwan (China), the United States—vary greatly, whether in regulation or in social protection or in labor markets. Even the meta-institution of democratic governance does not have unambiguous effects. The formal institutions of democracy do not always ensure checks on weak governance. Nor are these checks always absent in authoritarian regimes. Contrasting experiences in less democratic East Asian countries in the 1970s and more democratic African ones in the 1990s illustrate that mechanisms of accountability can take varying forms, defying a simple classification of formal political institutions. Not only are successful institutions highly varied in structure, but their origins are complex as well. Institutions are highly endogenous: they are not easily manipulated by governments as exogenous levers, but instead arise and evolve in historical contexts. These factors make the analysis of institutions a great challenge, one that development studies has just begun to grapple with seriously. But the recognition of the central role of institutions and governance itself marks a major advance in development thinking.

Country specificity. Parallel to recognizing the importance of institutions and governance is recognizing that the country context is crucial for the policy outcomes. With the dogmas of the state-market debate came an insistence on "monocausal" explanations of development.[15] This led to one-size-fits-all policy approaches, as the general models left little room for actual conditions. When mainstream development thinking discarded one model in favor of another, the result was too often major changes in policy recommendations without room for nuance. The most recent (though certainly not most simplistic) manifestation of this was the Washington Consensus at the beginning of the 1990s. Its list of preconditions for growth encapsulated many neoliberal precepts in what was often interpreted as a neat recipe for development.[16] Perhaps unfairly, that Consensus came to stand for a package of measures aimed largely at getting the government out of the economy—and it was applied with excessive uniformity across countries.

Common sense tells us that no one approach will work everywhere, since the binding constraints to development are unlikely to be the same across countries. Development theory is catching up with this view. Even under the simpler earlier models, outcomes of policies depended on the parameters assumed for a given country. But the case for country specificity received a boost in the late 1980s and 1990s, as a flowering of theoretical work on new multiple-equilibrium and endogenous-growth models emphasized initial conditions.

Take trade restrictions and import-substituting industrialization, pillars of the statist approach in the 1950s and the 1960s, but anathema to the neoliberals. The new pragmatic consensus now justifiably advocates more liberal trade regimes for most countries—but recognizes that the costs of following an import-substitution industrialization strategy varied with the country's characteristics. In large economies with access to foreign technology and equipment, competition and economies of scale moderated the inefficiency cost of trade restrictions. At least in earlier decades, Brazil, China, and India were able to develop manufacturing with fairly closed domestic economies, and some even became internationally competitive. But in small countries such as Jamaica, Sri Lanka, and Uruguay in the 1960s and 1970s, the market was too small, and any benefits of inward-looking industrialization were swamped by the costs. Sri Lanka began to grow only after it turned toward export-oriented policies in 1977.

Institutional variation also shapes policy outcomes. In Japan during the Meiji period, and more recently in the Republic of Korea, public institutions narrowed interest-group pressures, at least enough that they did not block development. Public enterprises were run efficiently and built capacity in sectors that paved the way for private investment. While governments played a role in allocating credit and foreign exchange, they did so more heavily on the basis of performance than is typical in other countries. But in Bolivia, Zambia, and other countries, where public enterprises and allocations were captured and used for patronage, the same strategies undermined industrialization.

Country specificity means that the key is addressing the binding constraints for growth at the right time in the right way, not adopting any one-size-fits-all policy packages. Identifying the most binding constraints and the best policy mechanisms to overcome them certainly is not obvious, putting a premium on sound analysis and the ability to experiment and scale up. Much remains to be done in this area. But note that country specificity does not imply the irrelevance of lessons from other countries, or of consistent basic principles, such as sound macroeconomics. Indeed, the crises of the 1990s highlight the importance of prudent macroeconomic management, whether to control booms or to reduce vulnerabilities.

The key is addressing the binding constraints for growth at the right time in the right way

Greater integration of economic and social aspects of development. Country context goes beyond economic and institutional circumstances. The 1990s also witnessed the recognition that attention to social context has strong instrumental value. Policies and projects must take into account a society's formal and informal norms, value systems, and institutions—or risk failing to address key determinants of poverty. The analyses underpinning policies and projects must break out of traditional disciplinary boundaries and take into account the interactions of social, political, and economic circumstances.

The strong links between ethnicity, gender, and economic functioning in many countries illustrate the importance of understanding social norms. For instance, black-owned firms in Kenya have poor access to finance, but local South Asians obtain informal loans through ethnic networks. This creates entry barriers and restricts competition along ethnic lines in the private sector. Similarly, women are cut off from markets where social sanctions against their owning assets are strong.

Perhaps the most profound illustration of interconnectedness of social, political, and economic issues is violent conflict. Today, conflict affects some 35 of the world's poorest countries, destroying economies, keeping millions of people in poverty, disrupting their access to services. The uncertainty reduces investment and diverts effort toward self-preservation and security. It also erodes social capital, destroying families and leaving a history of violence that makes reintegrating combatants and rebuilding cohesive political systems very difficult. This "conflict-development trap" is responsible for much of the extreme poverty remaining in the world.[17] And interventions in conflict-affected areas must be grounded in knowledge of the local social context and its interconnections with poverty, vulnerability, and violence.

The economy grows and develops best when the bulk of the population has the tools to participate in and benefit from growth

The increasing importance given to equity. Equity has long been recognized as a desirable outcome, and the 1990s saw a deepening understanding that equity often has instrumental value. New research, both theoretical and empirical, emphasized that inequality could slow the pace of poverty reduction, through two channels.

The first channel is direct and a simple arithmetic: income poverty reduction depends directly on the elasticity of poverty reduction with respect to growth. In a static sense, and ignoring the possible relationship between economic growth and income equality, a given rate of growth produces less poverty reduction, in relative terms, in a more unequal environment.[18] Dynamically, a worsening income distribution may even offset the favorable effects of growth on poverty. In Ethiopia, for example, the growth between 1981 and 1995 would have reduced the poverty headcount by some 31 percent, if the distribution of income had remained constant. In fact, the distribution worsened in ways that contributed to a 37 percent increase in poverty—so that the net effect was a 6 percent increase in poverty. Indonesia experienced the opposite effect between 1996 and 1999: there, distributional improvements offset the poverty-increasing effects of weak growth.[19]

The second channel is indirect, but to some extent more important. Many aspects of inequality—particularly inequality in access to opportunities—are inefficient and perpetuate the cycle of low productivity and poverty. Early development theories posited the opposite: though inequality was undesirable as an end, those theories viewed it as a means to long-run growth, because wealthy people tended to save and invest more of their incomes.[20] In the 1970s development thinkers and practitioners mapped out strategies for "growth with redistribution." Actions to promote equity were conceived of mainly in static terms, which implied a tension between growth and equity: short-term static interventions for equalizing incomes and wealth (for instance, extremely high tax rates or the expropriation of assets) were recognized as harmful to the incentives for individuals and economic agents to work, invest, and innovate. The challenge therefore was to achieve as much growth as possible and then to redistribute.[21]

But there is a view that the economy grows and develops best when the bulk of the population has the tools to participate in and benefit from growth. In this view, development strategies should aim to reduce sharp inequalities and equalize opportunities, improving both efficiency and equity. For instance, ensuring access to education and health care improves the productivity of the poor, boosting their quality of life and potentially the dynamism of society. Access to work opportunities decreases the likelihood that people will resort to crime. Because economic power often translates into political power, greater equity can underpin a broader targeting of public policy. If well executed, measures to equalize opportunities for people to lead productive lives are good for consensus, for social justice, for political stability, and for productivity.

Recognition of global interdependencies. Finally, and perhaps most visibly, development policy and development assistance in the 1990s had to adapt to the deepening of cross-border interdependencies—to what is usually called "globalization." Economic integration at a grand scale is nothing new: cross-border flows of labor and capital in the 19th and early 20th centuries were impressively large, with European bond investors financing much of the railroad infrastructure in the Americas, to take one example. But the recent globalization trends are exceptional in three main ways. First, the costs of transporting goods across borders are now far lower, which thanks to trade liberalization has boosted trade flows at rates far faster than global income growth. Second, information, including new technologies, now flows instantaneously around the globe, in quantities unimagined in earlier decades. Third, portfolio capital can now move extremely rapidly into (and out of) a larger number of emerging markets, in response to changes in local conditions or investor sentiment.[22]

These changes offer new opportunities to developing countries, for example, by allowing them to become integrated into global production chains. But they also bring new risks and vulnerabilities, particularly to poor countries. Stronger links between economies mean that shocks in industrialized or rapidly growing countries can be transmitted to smaller countries less well-equipped to cope with them. The ripple effects of the East Asian and Russian crises of the 1990s demonstrated this all too well. Similarly, trade and aid can benefit poor countries, but unexpected drops in either—perhaps caused by economic decline in rich countries or by new waves of protectionism—will have destabilizing effects on their economies. Such shocks could drag many poor countries back below the threshold of sustainable debt. Poor countries also suffer migration barriers and credit constraints that keep unskilled labor from flowing out, while highly educated people exit freely and in large numbers.

Globalization brings other public bads. Among them, the damage that economic growth, both in developed and developing countries, inflicts on the environment, particularly through greenhouse gas emissions. Breaches in security are also being felt as a global public bad, and the imbalance of global development has been blamed for it. It is certainly difficult to trace all international security problems directly to economic development issues, but the links are obvious in several instances: national conflicts spilling over to neighbors and forcing foreign intervention, and failed states threatening global stability.

Improved understanding of development assistance

Does aid promote development, and if so, under what circumstances? The large literature on these questions advanced considerably over the past decade. Before the mid-1990s, cross-country regression-based assessments of the role of aid were particularly inconclusive: while some studies found no impact, others found that aid generally fostered growth.[23] But since 1996 a series of empirical World Bank studies laid out a more nuanced position. On average, aid spurs growth and poverty reduction in countries with better institutions and policies, but it is squandered in poor policy and institutional environments.

Successful development assistance requires a conducive political economy in the recipient country

In 1998 the Bank published its influential study, *Assessing Aid: What Works, What Doesn't, and Why*, which developed this logic and argued that foreign aid would have a greater impact on poverty reduction if it were focused on poor countries with stronger economic institutions and policies.[24] The recognition that the effects of aid depended heavily on the environment was a major step forward. While this empirical judgment has not gone unchallenged by other researchers, new studies also tend to find a beneficial effect of aid, differing primarily on how much the beneficial results depend on the environment.[25] On this point, both intuition and case study evidence seem more consistent with the *Assessing Aid* argument.[26]

A second major advance has been the recognition that successful development assistance requires a conducive political economy in the recipient country. The failure of many structural adjustment programs in the 1980s, whether because of flawed design or poor implementation, underlined the country ownership of reforms. Empirical evidence suggested strongly that conditions on loans—that is, promises of future reforms—were far less reliable as guides to the borrower's reform commitment than past actions. As a result, the extensive use of conditionality fell out of favor with development thinkers.[27] And new studies provided evidence that aid was highly fungible: foreign aid to one sector often had the effect of financing investments in another sector on the margin, because the recipient government could redeploy its own resources from the first sector to the second, undermining the intent of the donor.[28] For development assistance to make a positive contribution, therefore, it was necessary that the broader public expenditure program be consistent with development aims. It no longer sufficed to ensure that a single project was well designed and implemented.

The end of the 1990s marked a sea change in development practices and a revival of multilateral initiatives on development

Both advances in thinking would have the effect of shifting development resources from countries with poor policies, institutions, and governance to those with better environments for growth. While this strategy had strong economic justification, it raised a troubling question: what could the development community do to help the hundreds of millions of people living in the countries with the poorest aid environments? More recent work has begun to address that question, and while it is too early to assess whether that work will bear fruit, merely putting the question squarely on the development research agenda is a major advance.

Changes in development practice

The changes in development thinking inspired and paralleled changes in development practice. The aid programs in the 1980s and early 1990s were substantially influenced by strategic concerns, heavily determined by donor views on reforms, enforced through long lists of conditions. The end of the 1990s marked a sea change in development practices and a revival of multilateral initiatives on development.

More effective allocations of aid

Recent work shows that over the past few years, most donors have incorporated the new research on aid selectivity in their work. Three-fourths of aid agencies studied have a positive relationship between their aid allocations and a measure of sound policies and institutions, after controlling for per capita GDP and population.[29] In general, the most policy-focused agencies are also the most poverty-focused ones, indicating that it is possible to target aid both to the countries where poverty is great and to countries with reasonable governance.

The improvement in selectivity has been most noticeable for the World Bank's IDA facility, now the most selective of all donors. In 1984–89 there was little relationship between IDA disbursements and measures of governance. By 2002 the relationship had strengthened to the point that a one standard deviation increase in the measure of policies and institutions (the CPIA index) translated into nearly 100 percent more aid flowing to the country.[30] Several bilateral donors also rank high on policy and poverty selectivity, including Denmark, Ireland, the Netherlands, Norway, Sweden, and the United Kingdom.[31]

Better aid delivery: Reducing conditionality, promoting ownership and harmonization

As noted earlier, it is not only where the aid goes that matters—it is how it is delivered. The shift in aid allocation in the 1990s was accompanied by a shift in the way aid is delivered to countries, responding to the increased emphasis on political economy and country ownership. The 1980s and early 1990s were marked by a surge in structural adjustment programs. These programs mostly aimed at improving the macroeconomic conditions of a country through broad liberalization measures, with appropriate policies typically enforced through loan conditions. The focus on macro stability and drastic interventions was a response to the sorry state of many economies, which took on massive debts, thanks to recycled petrodollars, and continued to spend as they had in the commodities boom of the 1970s

In early 1999 World Bank President James D. Wolfensohn announced the Comprehensive Development Framework (CDF)—a new framework for how the World Bank should do business with recipient countries and other development partners. It promotes four principles, addressing past shortcomings in development assistance. First, development efforts should be rooted in a long-term, holistic vision of a country's needs, not just macroeconomic but also social and structural. Second, it should focus on results rather than inputs. Third, it should be based on country-owned strategies. And fourth, development actors should foster partnerships to support the country-owned strategy.

These principles led to a major innovation in aid delivery—the Poverty Reduction Strategy (PRS) process adopted in 2001 by the boards of the World Bank and IMF. This process became the basic springboard for all low-income country access to expanded debt relief, and then to the concessional funding windows of the two institutions—the International Development Association (IDA) and the Poverty Reduction and Growth Facility (PRGF). It marks an advance on previous aid-delivery mechanisms in several key respects.

First, the PRS process is more explicitly based on country ownership than past approaches. Each PRS strategy is developed by the recipient country and presented in a Poverty Reduction Strategy Paper, through what is envisioned as a participatory process with representatives from all major groups in society.

Second, the PRS offers a new vehicle for effective coordination and harmonization among donors, reducing the costs of donor fragmentation. It is not only the explicit coordination between the World Bank and the IMF that marks an advance. Several bilateral donors, among them the European Commission and the U.K. Department for International Development, have thrown their full support behind the PRS approach and placed their own grants to low-income countries under the same discipline. For many countries, the PRS process has now become the main forum for donor coordination.

Third, the PRS process has supported a move away from project-centered assistance, setting development assistance in an explicit policy-consistent framework. Where countries have demonstrated some track record of seriousness in their reforms, aid is now delivered as direct budget support through Poverty Reduction Support Credits, rather than individual projects. To provide accountability, the PRS identifies clear targets for results and monitors progress toward them.

Fourth, in its emphasis on country ownership and budget support, the PRS has supported a move away from excessive conditionality. The adjustment lending programs of the 1980s and early 1990s were marked by a proliferation of conditions—as many as 40 legally binding conditions per operation in the early 1990s.

While conditionality can support policy changes, it cannot persuade reluctant reformers. Since aid was becoming more focused on "willing reformers" articulating a development vision through the PRS process (the poor countries with relatively good institutions and policies), donors have attempted to lighten conditionality and mainly support measures the country included in its PRSP. For example, in the IMF's Poverty Reduction and Growth Facility, conditionality has become more parsimonious, focused on the IMF's core areas of expertise, and limited to measures that have a direct and critical impact on the program's macroeconomic objectives.

The change to a more country-driven process is not trivial. There is an inherent tension between a voluntary, country-owned statement of priorities (the PRSP) and a mandatory, externally driven judgment about its quality and feasibility.[32] The two may be notionally separate—the government "owns" its strategy and the donors "own" their independent assessments of the strategy and resulting aid allocations. But in practice, different power relationships and local chemistry determine how much one actually influences the other. It is too soon to evaluate this evolution in the way of delivering aid. The implementation of this reform is taking time, both by donors (harmonization) and recipient countries (elaboration of PRSPs). But the first results are encouraging.[33]

Good governance is at the center of a comprehensive development vision and effective aid

The centrality of governance and institutions

The changes described earlier emphasize the centrality of good governance in a comprehensive development vision and effective aid. The international community's focus on governance and corruption is fairly recent. Since 1996, when James D. Wolfensohn highlighted corruption in

There is now greater recognition that democratic accountability, voice, and transparency matter for development, as both ends and means

his Annual Meetings speech as a major obstacle to development, the World Bank and the development community more generally have tried to build up considerable expertise and knowledge in this area. For example, there is now greater recognition that democratic accountability, voice, and transparency matter for development, as both ends and means. There is also better understanding of the effects of corruption and poor governance on the investment climate.

This greater understanding has led to the creation of a spectrum of measurements, allowing a better understanding of which components matter in which settings.[34] These measurements are guiding operational decisions by donors. For example, the World Bank allocates IDA funds across countries in part on the basis of each country's CPIA rating, the Bank's measure of the quality of each recipient country's policy and institutional framework.[35] "Quality" here means the extent to which that framework fosters sustainable, poverty-reducing growth and the effective use of development assistance. With CPIA ratings available, the quantity of development assistance to IDA countries now depends more on the quality of underlying governance and institutions, rather than simply on policy commitments made by the recipient government.[36]

But focusing more assistance on countries with good governance and institutions has highlighted the need to also figure out how to assist poor people in "poor performing countries"—countries with poor economic management, deep-seated corruption, and governments failing to deliver basic services to their populations. Aid-financed programs in those countries—categorized as low-income countries under stress and characterized by CPIA ratings equal to or below 3.0—have not worked well. Because of the move toward aid selectivity, the Bank disengaged from some countries and later was not ready to respond when opportunities arose. In recognition of the great complexities, the Bank developed a new approach in 2002. Though these countries receive less financial support from the Bank, the Bank remains engaged with other donors by promoting domestic demand and capacity for change, supporting simple reforms, and exploring innovative mechanisms for social service delivery.

While this approach is more promising, it would be overly optimistic to expect quick turnarounds. Of the low-income countries under stress in the early 1990s, few besides Mozambique and Uganda have since made great progress in reducing poverty. Even so, faster development in even a handful of countries would affect millions of people. The commitments under the New Partnership for Africa's Development (NEPAD)—that governance reforms need to take place as a kind of quid pro quo—is of course good. But this is a slow long-term process. It has always been so, even in today's rich countries.[37] Yet rich countries are already complaining that NEPAD is not delivering. In part, this is a lack of realism.

Addressing the global agenda

The beginning of the millennium has been characterized by a welcome revival of multilateral initiatives for development. This revival coincides with the emergence of anti-globalization movements that have been very vocal in rich countries to advocate on behalf of developing countries.

The 1990s opened with the World Conference on Education for All (EFA) in Jomtien, Thailand. Representatives from 155 countries pledged to universalize primary education by 2000. Their intention was that children, youth, and adults would "benefit from educational opportunities designed to meet their basic learning needs."[38] The assessment presented at the EFA Dakar conference in April 2000 revealed a mixed scorecard. The number of children in school had increased (from 599 million in 1990 to 681 million in 1998), and many countries were approaching full primary school enrollment for the first time. But some 113 million children were out of school. Discrimination against girls was widespread. And nearly a billion adults—mostly women—were illiterate. Many developing countries were blamed for their inaction, while the donor community was criticized for dwindling aid commitments.

In Rio de Janeiro, Brazil, in June 1992, at the United Nations Conference on Environment and Development, better known as the Earth

Summit, world leaders signed the UN Framework Convention on Climate Change, an agreement to limit emissions of greenhouse gases—contained in automobile exhaust and industrial pollutants—that are widely blamed for climate change. The agreement based on voluntary efforts to reduce emissions was not legally binding and did not contain measures for enforcement, but it provided a framework to limit emissions. The Earth Summit led to a follow-up conference on global warming in Kyoto, Japan, in 1997, which resulted in the "Kyoto Protocol" requiring all industrial countries to cut their emissions to levels below those of 1990 in 10 years. All major industrial nations ratified the protocol, including the European Union and Japan. The United States signed the treaty but recently withdrew. Ten years after Rio, the World Summit on Sustainable Development, in Johannesburg, South Africa, in August 2002, picked up on the same areas of global concern but looked farther ahead—to achieving sustainable development and protecting the environment (including climate change, energy, clean water, health, development, and sanitation).

In international trade the Uruguay Round, concluded in 1994, was a failed attempt at promoting development through trade. The bargain was that the North would reduce import barriers, particularly in textiles and agriculture, and the South would adopt new domestic regulations in areas such as services and intellectual property. While developing countries benefited from the reduction in import barriers, the new domestic regulations proved costly: the measures were expensive to install (particularly in countries with limited capacity) and those for intellectual property rights led to higher prices for patented products.[39] The round to start in 2000 did not fare well either, despite declared intentions from various parties. In 1999 the trade ministers of WTO's 135 member countries adjourned the Seattle Ministerial Conference, amid raucous demonstrations by antiglobalization movements, without having set an agenda for the next round of negotiations. For two years or so, demonstrations occurred at every political meeting of international leaders—such as G-7 meetings and Annual and Spring Meetings of the IMF and the World Bank. The passionate debate on the benefits of globalization took center stage in newspapers, on the web, and in political, economic, and academic circles. It probably had the salutary effect of increasing awareness in developed countries of the plight of poor people and the lack of action by rich countries.

The United Nations Millennium Summit, in New York in 2000, marked a turn with a new agreement between rich and poor countries about what to do for the world's poor. The international community made a major commitment to promoting development and fighting poverty. This was crystallized in the Millennium Declaration, adopted by world leaders. The declaration pulled together unfulfilled commitments made at various international conferences on specific subjects in the 1990s. The Millennium Development Goals (MDGs) include specific targets for reducing income poverty and improving health, education, the status of women and girls, the environment, and international development cooperation by 2015.

The United Nations Millennium Summit marked a new agreement between rich and poor countries about what to do for the world's poor

At the United Nations Conference on Financing for Development in Monterrey, Mexico, in March 2002 world leaders reaffirmed their commitment to the MDGs and adopted an action plan to reach them. Developing countries committed to improving governance, institutions, and policies, while developed countries committed to increasing aid, opening their markets to trade, and supporting capacity building in developing countries.

Progress was made in other areas too. Concerns about the costs of rising debt burdens led to the Jubilee 2000 movement for debt forgiveness, as well as the expansion of the heavily indebted poor country (HIPC) initiative for debt relief. The initiative aims to relieve the onerous debt burdens of the world's poorest countries, conditional on a track record of committed pro-poor growth policy reforms and a commitment to maintain social spending. Countries identified as HIPCs share certain features. They have been heavily indebted for most or all of the past decade. They are poor, with at least half of their populations living on less than $1 a day. And they are highly dependent on development assistance, having received an average of 10 percent of GDP in aid in the 1990s.

For this group the HIPC initiative is an important step toward reducing poverty and setting them on a growth path. Today 13 countries have reached their completion point under the HIPC Initiative and been granted $26 billion in unconditional debt service relief. The 27 countries that have reached decision point are expected to receive $53 billion in nominal debt service reduction over time and the ways to move beyond debt relief to debt sustainability are now being analyzed.

More aid is delivered to the poor countries that have proven able to improve their policies and governance

Finally, the international trade agenda was unblocked with the launch of the Doha Development Round. In 2001, at the 4th WTO Ministerial Conference in Doha, political leaders from a large number of countries agreed on a new round of trade negotiations (under the auspices of the WTO). And for the first time, they placed the interests of developing countries at the top of the agenda. As discussed in part 2, the Doha Round reached a landmark at the WTO General Council Meetings in July 2004.

Summary

The past 10 years have witnessed a dramatic shift in development thinking and practice. We understand better the concept of poverty and the dynamics of poverty reduction. And our understanding has become more pragmatic, driven not by dogmas but by country realities. This shift in development thinking has changed the aid mechanisms at the World Bank and IMF and in the donor community as a whole. More aid is delivered to the poor countries that have proven able to improve their policies and governance, with the aid based on the development vision that each country develops for itself. The donor community is still struggling with harmonizing its processes and instruments, but even here there has been major progress. We are only starting to see the benefits.

Part 2 explores how development outcomes have changed in the past decade, and how well developed and developing countries are delivering on the commitments made since the UN Millennium Summit of 2000. It shows that the progress has been encouraging but mixed, both for development and for delivering on the North-South partnership.

Where are we now? The past decade's development achievements

part 2

Part 2 assesses the facts on the ground. The changes in developmental thinking and practice appear positive, but how have development outcomes changed? Is progress accelerating toward the development goals? And are developing and developed country governments delivering on recent commitments to sustain progress as part of their renewed development partnership?

Thanks to better macroeconomic management, and investments in their people, developing countries have improved the growth of per capita income from the lows of the early 1980s.[40] The share—and even the number—of people living in extreme income poverty continued to fall in the 1990s. And there has been progress on many social indicators, including life expectancy and literacy. But the record on global inequality is more mixed: a large share of individuals in the developing world are catching up, even as many developing countries and their people are falling behind. And delivering on the development partnership is far from complete.

The advances of the 1990s cannot be attributed primarily to recent changes in development thinking and practice, for it was on-the-ground experience that led to those changes. In many of the areas outlined in part 1, development thinking and practice may be beginning to contribute to better outcomes. But greater progress will take time.

Poverty reduction: Global progress, but with lagging regions

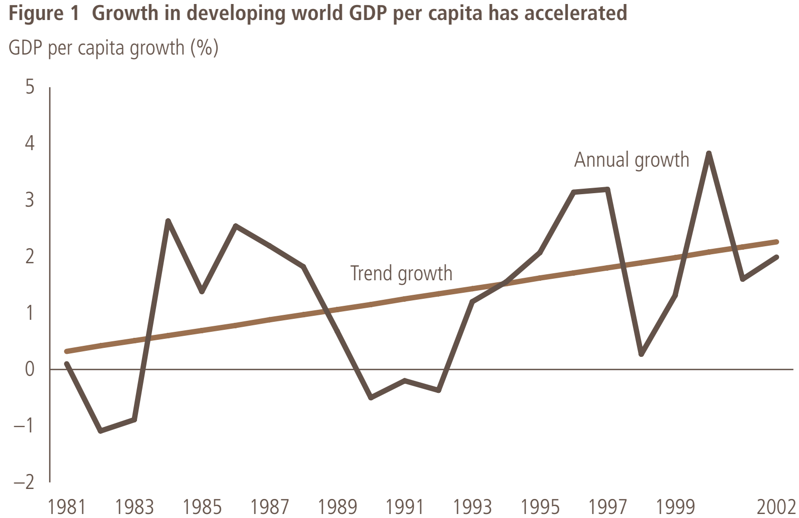
This section surveys indicators of development progress at the global level, including income growth, poverty, inequality, and health and education. It then highlights some development successes and failures for countries.

Accelerating growth—but not everywhere

An obvious first indicator of economic progress is economic growth. Though development entails much more than growth in incomes and encompasses poverty reduction across various dimensions—as emphasized in Part 1—long-term poverty reduction needs to be built on a foundation of sustained growth.

There are signs that the better economic policies and greater investments in human capital are paying off, despite the recent recession. GDP per capita in the developing world rose by 30 percent between 1981 and 2001. Average GDP growth in developing countries (though not per capita growth) has outpaced growth in developed countries every year since 1993, except in the crisis years 1998–99. And there are indications that, in the midst of large fluctuations caused by several major shocks, the trend rate of GDP growth in developing countries has risen since the early 1980s.[41] Combined with slower population growth, the underlying rate of developing country per capita GDP growth has increased significantly since 1981 (figure 1). The picture would be much less encouraging if the graph began in the 1960s—when developing country growth was quite rapid—and continued into the 1970s, when growth rates slowed dramatically

Figure 1 Growth in developing world GDP per capita has accelerated



Source: Authors' calculations from Statistical Information Management and Analysis, modifying World Bank (2004c).

after the oil price shocks set off global recessions and developing country debt crises. But the rebound from the nadir of the late 1970s and early 1980s is unmistakable, at least in the global averages.

While this is welcome news at the global level, it conceals large and sobering regional disparities. The acceleration is driven substantially by the increasing weight of fast-growing China and India in the developing-world GDP calculations. Without those countries, the acceleration is less pronounced, with the growth rate picking up only in the past decade, rebounding from the lows of the early 1990s.[42]

But the rebound from the nadir of the late 1970s and early 1980s is unmistakable

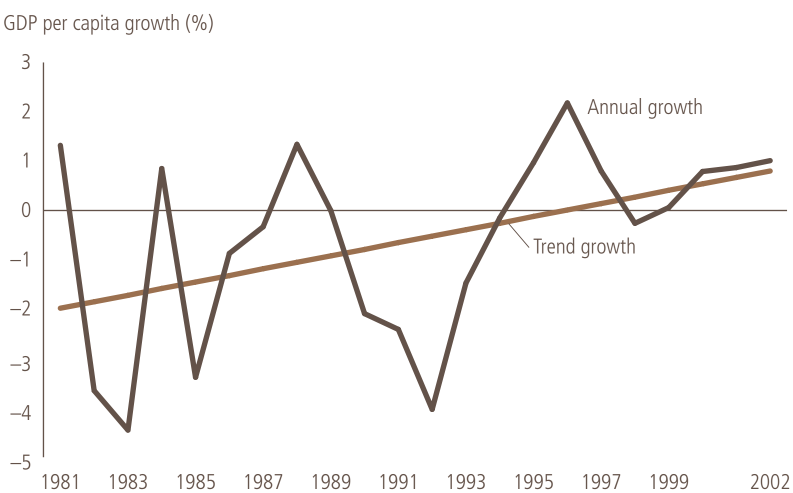
The recent history of growth is decidedly mixed:

- Per capita incomes in East Asia and Pacific outside China grew strongly on average in the 1990s, as they had in the 1980s. This strong regional growth reflected not only the progress in the East Asian "newly industrialized countries" that had established themselves in the 1970s and 1980s, but also rapid growth elsewhere, most notably in Vietnam. Incomes in South Asia outside India also grew at significant rates in the 1990s, though less strongly than in East Asia.
- Sub-Saharan Africa had no net per capita income growth in the 1990s, despite rapid growth in a few countries. The fast growers included Botswana and Mauritius, which historically had grown rapidly, but also Mozambique (almost 8 percent annual growth in the 1990s) and Uganda (almost 7 percent). By the end of the decade, there were signs of a broader (if still modest) pickup in growth, and average incomes rose over the past several years. Thanks to that pickup, Africa now shows a trend acceleration in growth over 1981–2002, one that is statistically significant and greater than for the developing world as a whole, if from a very low base (figure 2). But the very large year-to-year variation in growth rates caution against reading too much into what could be a cyclical upturn.
- The Europe and Central Asia region saw its average income decline sharply in the 1990s, during the transition from state socialism to market economy. While Poland recovered fast enough to record average growth of 4.5 percent over the decade, most other countries—especially the countries of the former Soviet Union—saw more protracted transition recessions. Even so, the region rebounded to strong positive growth of about 4 percent in 2001–03, and growth is expected to continue.
- Per capita incomes grew in both Latin America and the Caribbean and the Middle East and North Africa in the 1990s, but much slower than in East and South Asia. Moreover, Latin America and the Caribbean suffered a slight fall in incomes in 2001–03, in the wake of Argentina's financial crisis.[43]

So, even as growth picked up at the global level, many countries have been left behind, disproportionately the ones that started poor.

The poorest countries grew the slowest over the past 20 years, and as per capita incomes rise the growth rate increases (figure 3). For most countries in the first three deciles, the trend is especially disheartening: not only did they fail to narrow the gap separating them from the rich countries, but they actually suffered falling per capita incomes on average.[44] Economically

Figure 2 Growth in Sub-Saharan Africa accelerating but highly volatile



Source: Authors' calculations from Statistical Information Management and Analysis, modifying World Bank (2004c).

speaking, global incomes are diverging rapidly, both in relative and absolute terms. Countries in the top decile had on average 16 times the per capita income of countries in the bottom three deciles in 1980, with an absolute income gap of $19,000 (in 2002 prices and using purchasing power parity corrections). In 2002 they had 22.5 times more, with a gap of $26,500.

The picture is somewhat more heartening if the focus is on what happened to the average person, not the average country (figure 4). Notably, the income share of the bottom 70 percent of world population clearly increased.[45]

Despite this progress, global income inequality remains quite high. In population-weighted terms, the poorest 40 percent of countries receive just over 10 percent of world gross national income, the richest 20 percent receive more than 60 percent. If we compare people at the two extremes of the distribution, the ratio of the per capita income of the top 5 percent to the bottom decile's per capita income is 32 to 1.

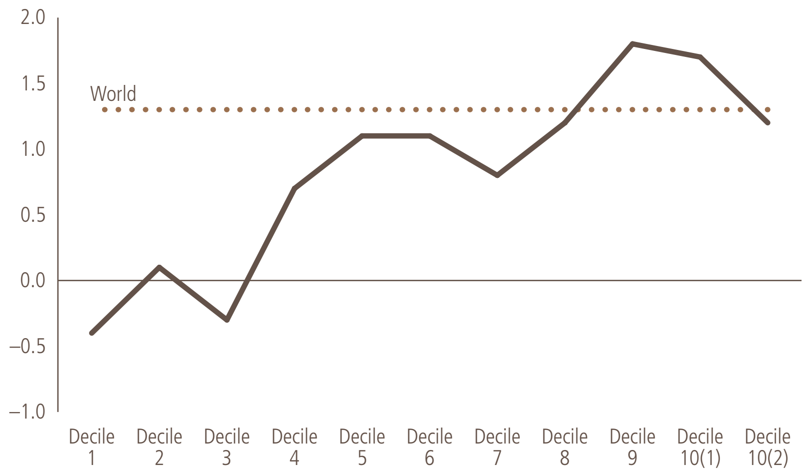
Reductions in income poverty

The key indicator of development progress is the share and number of people in extreme poverty. Different countries set their national poverty lines at different levels, so for comparative purposes, extreme poverty is often defined as subsisting on less than $1 in consumption per day. By this measure, and in line with previous findings, recent years have seen tremendous progress at the global level. The proportion of people living in extreme poverty in developing countries dropped by almost half between 1981 and 2001, from 39.5 percent of global population to 21.3 percent (table 1). And for the first time in history, the absolute number of people living on less than $1 a day in all developing countries dropped, from 1.5 billion in 1981 to 1.1 billion in 2001. Much of this progress occurred in the 1980s, but extreme poverty continued to decline in the 1990s. The number of extremely poor people fell by about 100 million—from 1.2 billion to 1.1 billion people—while the global poverty rate dropped from 28 percent to 21 percent.[46]

Much of this progress on the global front was concentrated in Asia. In East Asia and Pacific the absolute number of people pulled out of extreme poverty since 1981 was close to 500 million, most of them in China, where GDP per capita has quintupled since 1981, and the number of extremely poor fell from more than 600 million to slightly more than 200 million. About half this progress was in the first half of the 1980s, as China took the first major steps to liberalize its rural economy. As China grew rapidly in the 1990s, poverty continued to fall, if more

Figure 3 Poor countries are growing slowest

Annual growth of GNI per capita by decile, 1980–2002 (Equal weight per country)

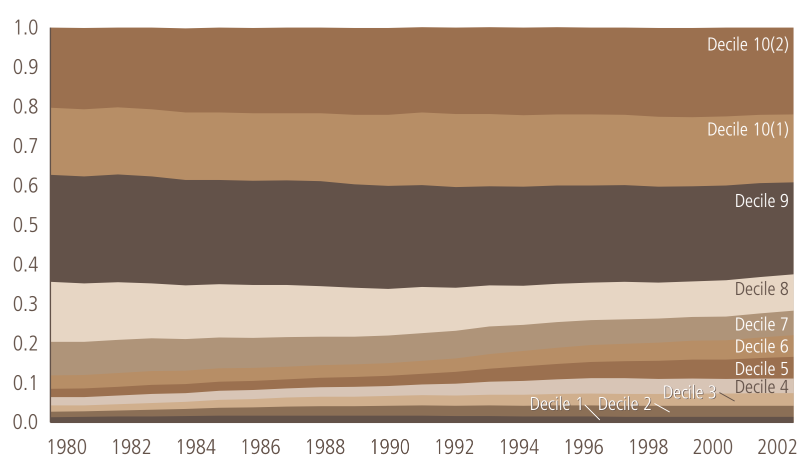


Note: The figure groups countries by decile from poorest (D1) to richest (D10). Deciles are defined as of 1980, with decile 10 divided into two vintiles. Because there were 135 countries in the sample, each decile accounts for 13–14 countries.

Source: Bourguignon, Levin, and Rosenblatt (2004).

Figure 4 Average global income shares of poorer countries rose

Percentage shares for population-weighted deciles of countries



Note: The figure groups countries by decile from poorest (D1) to richest (D10). Deciles are defined as of 1980, with decile 10 divided into two vintiles. Because there were 135 countries in the sample, each decile accounts for 13–14 countries.

Source: Bourguignon, Levin, and Rosenblatt (2004).

Health and education outcomes have improved even in countries where incomes were not growing robustly

slowly. South Asia also grew rapidly, reducing its poverty rate from from 41 percent in 1990 to 31 percent in 2001 (though the number in poverty did not drop as fast because of rapid population growth).

By contrast, poverty rose in Sub-Saharan Africa and in Europe and Central Asia. Since 1981 a 15 percent contraction in GDP per capita in Sub-Saharan Africa resulted in a near-doubling of the number of people living in extreme poverty, as the poverty rate rose from 42 percent to 47 percent. In Eastern Europe and Central Asia, too, high unemployment and declining output in many of the former centrally planned economies drove extreme poverty rates up from near-zero in 1981 to 6 percent by 1999 (and $2 a day poverty rates from 2 percent to 24 percent). Much of the increase was likely transitional, and poverty has recently declined. In Latin America and the Caribbean poverty rates rose in the "lost decade" of the 1980s, but fell in the 1990s, ending near their 1981 levels. And in the Middle East and North Africa extreme poverty rates dropped by about half since 1981, with almost all this progress in the 1980s, and a significant rise in the numbers of people in poverty in the 1990s.

Progress on social indicators

Part 1 emphasized the multidimensionality of poverty: that development means not just higher incomes for poor people, but improved social indicators and expanded individual capabilities. Raising incomes tends to improve health and education outcomes, but these outcomes have improved even in countries where incomes were not growing robustly.

The health gains have been impressive. Developing countries at any given level of income now have infant (under-5) mortality rates far lower than those of countries at the same income 25 or 50 years ago, thanks to better

Table 1 People living on less than $1 a day (millions)

Region	1981	1984	1987	1990	1993	1996	1999	2001
East Asia & Pacific	767	558	424	472	416	287	282	284
China	606	421	308	377	336	212	224	212
Europe & Central Asia	1	1	2	2	17	20	30	18
Latin America & Caribbean	36	46	45	49	52	52	54	50
Middle East & North Africa	9	8	7	6	4	5	8	7
South Asia	475	460	473	462	476	441	453	428
Sub-Saharan Africa	164	198	219	227	241	269	292	314
Total	1,451	1,272	1,169	1,219	1,206	1,075	1,117	1,101
Excluding China	845	850	861	841	870	863	894	888

Source: Chen and Ravallion (2004).

Table 2 Proportion of people living on less than $1 a day (%)

Region	1981	1984	1987	1990	1993	1996	1999	2001
East Asia & Pacific	55.6	38.6	27.9	29.6	25.0	16.6	15.7	15.6
China	61.0	40.6	28.3	33.0	28.4	17.4	17.8	16.6
Europe & Central Asia	0.3	0.3	0.4	0.5	3.7	4.2	6.2	3.7
Latin America & Caribbean	9.7	11.8	10.9	11.3	11.3	10.7	10.5	9.5
Middle East & North Africa	5.1	3.8	3.2	2.3	1.6	2.0	2.6	2.4
South Asia	51.5	46.8	45.0	41.3	40.1	35.1	34.0	31.1
Sub-Saharan Africa	41.6	46.3	46.8	44.6	43.7	45.3	45.4	46.5
Total	39.5	32.7	28.4	27.9	26.2	22.3	22.2	21.3
Excluding China	31.5	29.8	28.4	26.1	25.5	24.0	23.7	22.8

Source: Chen and Ravallion (2004).

knowledge and technology.[47] Partly as a result, the developing world enjoyed a significant increase in life expectancy over the past two decades: from 60.0 years in 1980 to 63.1 in 1990 and 64.6 in 2002. But the pace of advance was far slower than between 1960 and 1980, when life expectancy at birth rose, remarkably, by almost 15 years.

The developing world has also made major strides in education. For the 73 developing countries with complete data, the average number of years of education completed (among adults aged 15 and older) rose from 3.6 in 1980 and 4.4 in 1990 to 5.1 in 2000. And the number of adults with no schooling fell from half of the developing world's population to just over a third.[48]

Almost all of a variety of other health and education measures show progress (tables 3 and 4).[49] The improvements after 1980 were slower than in the 1970s, but most of them continued in the 1990s for many regions and indicators.

Sub-Saharan Africa lags behind on each of these indicators—hardly surprising, given the region's poverty, economic stagnation, and health crises over the past three decades. And yet, even in Africa, all of the indicators in the table show progress since 1970, and most since 1990 as well. The most glaring (and terrible) exception to this trend is life expectancy. Because of HIV/AIDS, average life expectancy in the region stopped rising in the late 1980s, and by 2002 it had fallen by four years, from 50 to 46. And in much of Southern Africa, the tragedy is even greater: in Botswana, life expectancy fell from a peak of 61 years to 38, in South Africa from 63 to 46, in Zimbabwe from 57 to 39—unimaginably tragic reversals of decades of progress.

Development successes and failures

The recent development progress in China and India does much to drive the population-weighted

The number of adults with no schooling fell from half of the developing world's population to just over a third

Table 3 Selected education indicators

	Gross primary school enrollment (%)				Illiteracy rate, adult females (% of females aged 15 and above)			
Region	1970	1980	1990	2000	1970	1980	1990	2000
East Asia and Pacific	89	111	121	106	57	42	29	21
Europe & Central Asia	..	99	98	95	8	7	5	4
Latin America & the Caribbean	107	105	106	132	30	23	17	12
Middle East & N. Africa	70	87	96	95	83	73	60	49
South Asia	71	77	90	98	82	75	66	58
Sub-Saharan Africa	51	80	74	79	82	72	60	48

Note: The gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education. Overage or underage enrollment frequently occurs. Repetition rates are quite high in some developing countries, leading to a substantial number of overage children enrolled in each grade. Thus enrollments are an indicator of the capacity of the education system, but a high ratio does not necessarily mean a successful education system.

Table 4 Selected health indicators

	Fertility rate (births per woman)				Under-5 mortality rates (per 1,000 live births)			
Region	1970	1980	1990	2000	1970	1980	1990	2000
East Asia and Pacific	5.72	3.06	2.44	2.12	125	77	58	44
CEE/CIS & Baltic States	2.65	2.47	2.26	1.57	76	58	44	38
Latin America & the Caribbean	5.25	4.09	3.14	2.56	123	84	54	36
Middle East & N. Africa	6.74	6.17	4.75	3.41	196	132	81	62
South Asia	5.98	5.26	4.06	3.29	206	176	128	100
Sub-Saharan Africa	6.62	6.63	6.07	5.20	223	194	180	174

Source: Stern, Dethier, and Rogers (forthcoming).

The low-income countries under stress, both individually and as a group, have astoundingly poor social indicators

measures of global advances, but the progress extends far beyond these two countries.[50]

- *Mozambique* emerged in 1992 from a long and debilitating civil war, which left the country among the world's poorest. With international help, Mozambique implemented policy reforms that reduced inflation and spurred investments and exports. After growing just 0.1 percent on average in the previous decade, GDP grew 8.4 percent a year from 1993 to 2001, and school enrollment expanded rapidly.
- *Uganda*'s new government in the mid-1980s inherited a country devastated by years of conflict and economic mismanagement. Since then, reforms have increased private investment, reversed capital flight, and boosted external trade. As a result, Uganda reversed income poverty sharply, from 56 percent in 1992–93 to 35 percent in 2000. It has made great strides in primary education, implementing a universal primary education policy that brought several million additional children into school (the gains also represent also a rebound from pre-conflict levels).
- *Vietnam* also moved strongly to reform its economy and reduce poverty at the end of the 1980s, when disastrous economic policies had produced hyperinflation, falling economic activity, and mass exodus of economic migrants. The reforms included stabilization, infrastructure investments, reform of property rights, and expansion of the education system, and the results were remarkable: Vietnam cut its income poverty rate from 58 percent to 37 percent in just six years (1993–99).
- Some countries made progress on the non-income dimensions of poverty despite slow growth and little reduction in income poverty. *Bangladesh*, one of the world's poorest and most densely populated countries, has not sustained rapid growth since achieving independence in 1971, though there has been a noticeable acceleration of growth in the last 10 years or so. Nor did it significantly reduce income poverty rates over 1984–2000, the period with data. Even so, it has made impressive strides in improving the health and education of its people. Over the first 30 years of independence, it saw infant mortality drop from about 140 per 1,000 live births to 71. It was the only one of the world's 20 poorest countries to sustain reductions in birth rates between 1980 and 2000. And by targeting interventions to reduce the cost of schooling for girls, their enrollment increased from 34 percent of secondary enrollment in 1990 to 48 percent in 1997.

Many countries have done much worse. The low-income countries under stress, both individually and as a group, have astoundingly poor social indicators.[51] As a result, they made little or no progress toward the MDGs. They have failed largely for domestic reasons, but international actions often have not helped from a developmental perspective, and sometimes have heightened the problems.

The most tragic cases are countries in conflict. Globally, the incidence of civil war has increased substantially over the past 40 years, concentrated in the poorest countries, which have three times the number of civil wars that middle-income countries do.[52] Many of them seem to be in a trap where economic decline and natural resource dependence fuel conflict, which then prevents growth and development, imprisoning the country in conflict.

Some other countries have taken major steps to improve economic management and invest in their populations, but have yet to reap the dividends. They include such regional leaders as Brazil and South Africa, which in the 1990s maintained macroeconomic stability and increased economic openness in an often difficult global environment. Both greatly expanded educational access for the students from poor families. Yet neither has seen growth accelerate to the levels that would rapidly reduce poverty.

Global environmental stewardship

Serious environmental problems in developing countries include polluted air and water, depleted land and water resources, greenhouse gas emissions, declining fisheries, destroyed forests, and lost biodiversity. Air pollution alone causes 2 million deaths each year, and the huge economic costs from environmental degradation are a major drag on economic growth. As these costs have become more apparent during the past two decades, national governments and international agencies have taken significant steps to reduce environmental damage. At the World Bank, for example, environment and natural resource management projects now account for $11.2 billion in lending, 12 percent of the Bank's active portfolio. Other multilateral and bilateral agencies have also provided billions for environmental improvement, and developing countries have made extensive investments from their own resources.

For some local environmental problems, these efforts have contributed to significant progress. Air pollution has fallen, and many lives have been saved in some cities of China, Brazil, Mexico, and other rapidly industrializing countries. This improvement occurred far sooner than might have been expected, given the experience of cities in higher income countries. China is actually reforesting, and recent evidence from a few Latin American countries suggests that deforestation has at least slowed in some protected areas. These local achievements are satisfying, because they show that progress is possible. But they are no cause for complacency. Millions continue to die from pollution. Widespread land degradation impoverishes poor farmers. And water resources are being rapidly depleted in many countries.

In the global arena, a notable success was the Montreal Protocol, which committed developed and developing countries to eliminate ozone-depleting substances. Projects to phase out these substances in developing countries have been heavily supported by a multilateral fund. From 1986 to 2000, the consumption of ozone-depleting substances dropped from 1.1 million tons a year to less than 100,000, with the program on track to complete elimination by 2010.

Other global environmental problems have proven much less tractable. Greenhouse gases are accumulating steadily, fish stocks are still falling, and there is no convincing evidence that overall deforestation and biodiversity loss have diminished. If recent trends continue, we are headed for drastic depletion of our global environmental resources.

What have we learned? We know that today's institutional arrangements can, under favorable conditions, reduce environmental problems that are clearly identified, measurable, rapidly reversible, and obviously contrary to the interests of politically influential groups. For example, poisonous air pollution in cities affects rich and poor alike, many emissions sources are easily identifiable, and reducing these emissions at the source can clean the air quickly and, in many cases, at modest cost. Under these conditions, several governments have embarked on policies to reduce pollution, often in collaboration with multilateral agencies.

Today's institutional arrangements can, under favorable conditions, reduce environmental problems that are clearly identified, measurable, and rapidly reversible

But those institutions have proven much less effective in dealing with the accumulation of greenhouse gases, the loss of biodiversity, the accumulation of persistent organic pollutants in human tissues, and the depletion of soil and water resources. These problems are not reversible within electoral cycles or the lifespans of conventional projects. They grow slowly, often without accurate measurement, so the popular media generally ignore them. They often reflect overexploitation of common-property resources that are difficult to manage collectively. Their victims are frequently scattered, poor, and powerless. And effective action promises substantial near-term costs for politically powerful constituencies.

Delivering on commitments

The Monterrey summit ushered in a new compact between developing and developed countries—the Monterrey Consensus—that stressed their mutual responsibilities and accountabilities in the development effort. It called on developing countries to improve their policies and governance, and on developed countries to step up their support through market access for trade, more and better aid, and debt relief.

Has the quality of policies and governance in developing countries improved?

Developing countries, taken as a group, have done much to strengthen the foundations for

Developing countries have increased their integration in the world economy while limiting their vulnerability to shocks

growth since the early 1990s. Macroeconomic management has improved substantially, as developing countries reduced fiscal imbalances and reined in inflation. For low-income countries the average fiscal deficit shrank from 6.7 percent of GDP in 1988–92 to 5.0 percent of GDP in 1998–2002, and the median annual inflation rate fell from 10 percent to 5 percent.[53] In middle-income countries, average fiscal deficits worsened slightly over the period, but only to a manageable 3.6 percent of GDP in 1998–2002, while the median inflation rate dropped from more than 14 percent in 1988–1992 to 5 percent in 1998–2002.

Developing countries have increased their integration in the world economy while limiting their vulnerability to shocks. Unweighted average tariff rates in developing countries fell by almost half, from over 25.4 percent in the late 1980s to 13.5 percent in 2003. The drop was greatest in the most protected region, South Asia, which cut tariffs from 68.9 percent to 19.8 percent. Nor were tariffs generally being replaced by nontariff barriers: like other regions, South Asia also sharply curtailed the coverage of nontariff barriers from 57 percent of all tariff lines in 1989–94 to 13 percent in 2000. In addition, the external debt burden of developing countries is now less severe than in the early 1980s or mid-1990s. The debt to export ratio fell from an average of 157 percent in the early 1980s (peaking at more than 200 percent) to 90 percent in 2003. And the ratio of debt service and short-term debt to reserves fell from 330 percent to 72 percent.

Progress is harder to measure in the domain of institutions and governance. According to the World Bank's CPIA index, both the low-income and middle-income country groups on average improved the quality of their public sector management and their institutions for social inclusion between 1999 and 2003 (table 5). But the improved performance on institutions and governance still lags well behind that on economic management. The ratings of other multilateral development banks—most comparably, the African Development Bank and the Asian Development Bank—all show similar patterns of recent improvement in average ratings on governance, public management, and socially inclusive development.[54]

Where do we stand on the Doha trade agenda?

A second element of the partnership for development, also enshrined in the Monterrey Consensus, is a commitment by developed countries to open market access for goods and services produced in developing countries. This is particularly important in agriculture, textiles and clothing, and labor-intensive services—where developing countries typically have a comparative advantage. The state of affairs in these sectors is rather disappointing. For example, developed country support to agriculture through border controls and producer subsidies amounts to more than $300 billion a year. World Bank estimates suggest that further trade liberalization in agriculture and other sectors can increase real income in the developing world by up to $500 billion by 2015, if complemented by developing country actions. These estimates are likely to understate the full effects of trade integration because they include only the dynamic effects that can be easily quantified.

Table 5 Average CPIA scores on four governance components, 1999–2003

	Quality of budgetary & financial management		Efficiency of revenue mobilization		Quality of public administration		Transparency, accountability, control of corruption	
	1999	2003	1999	2003	2001	2003	1999	2003
All developing countries	3.18	3.41	3.22	3.53	3.12	3.19	2.88	3.16
Low-income	2.74	3.06	2.94	3.28	2.73	2.86	2.56	2.80
Middle-income	3.54	3.68	3.45	3.73	3.42	3.44	3.15	3.45
Low-income countries under stress	2.00	2.18	2.27	2.91	1.77	2.09	1.96	2.23

Note: The scores for components of the CPIA index range from 1 (worst) to 5 (best).

Source: Development Committee 2004.

The Doha Round reached a landmark at the WTO General Council Meetings in July 2004. While aiming for an agreed "framework" rather than the more specific modalities for negotiations was a modest objective, delegations exceeded expectations by beginning to address key issues. By coming to such an agreement, the delegations provided the momentum to keep the process going through the political season in the United States (elections) and Europe (changes in the European Commission). Observers hope that substantive negotiations can then resume in 2005, but the new optimism should not cloud the fact that no firm commitments have been made yet.

Agriculture remains the main focus of the discussions. The most important and contentious issue is market access. The G-20 and the Cairns Group pushed for a more liberal framework, focusing on liberalizing domestic support and eliminating export subsidies. And it was in this area that the Geneva agreement laid the groundwork for significant reforms in global agricultural trade. It did this by charting the way toward eliminating export subsidies, introducing new commitments on trade-distorting farm subsidies, and providing for progressive reductions in border protection—all of which should remove constraints on the incomes of the world's poorest countries and producers. It was encouraging that cotton, a product of particular importance to least developed countries, received special emphasis.

But poor countries face daunting barriers to their nonagricultural products as well, with tariffs on their manufactures typically exceeding by a wide margin the tariffs on goods from wealthier countries. Here too the Geneva talks promised progress, with the conferees agreeing on a framework for expanding nonagricultural market access.

A challenge beyond the details of these negotiations is to keep the action on trade from slipping out of the multilateral arena. The number of bilateral and regional trade agreements continues to escalate, posing a significant threat to the global regime. While the gains from real-world trade agreements depend heavily on country specifics often missing from textbook models, bilateral and regional agreements are less likely to improve welfare, because of the potential for trade diversion to inefficient producers. They also make reaching multilateral agreements more difficult.

Where do we stand on the Monterrey aid commitments?

The Monterrey Declaration acknowledged the importance of aid in complementing domestic efforts in developing countries. Aid clearly needed renewed attention. In 2001 aid flows from DAC donors stood at just 0.22 percent of their gross national incomes, far below the 0.34 percent average from 1990–92.[55] The Monterrey Declaration called for a substantial increase in official development assistance (ODA)—and for donors to ensure that debt relief did not detract from ODA resources. In making commitments to increase development assistance, donors were responding not only to the 1990s aid decline but to the improvements in the allocation and effectiveness of aid in the 1990s.

Donors were responding not only to the 1990s aid decline but to the improvements in the allocation and effectiveness of aid in the 1990s

Discussions surrounding Monterrey produced indicative pledges by donors for the volume and targeting of ODA. The OECD estimated that if all DAC countries were to meet these pledges, the ratio of ODA to GNI would increase to 0.29 percent by 2006—an increase that would return aid ratios to 1994 levels but still be substantially below pre–Cold War levels (table 6).

Donors have begun to follow through on these commitments. Between 2001 and 2003 the ratio of ODA to GNI rose from 0.220 percent to 0.246 percent, around a third of the increase needed (figure 5). In dollar terms the rise appears quite substantial: from $52.3 billion in 2001 to $68.4 billion in 2003, an increase of 30 percent. But a large part of that growth in the dollar value is due to changes in exchange rates, especially the weakening of the dollar. Correcting for exchange rate movements and inflation, the real increase in aid was 13 percent.

Another concern is that the 13 percent real increase is not leading to new "net cash inflows" to the countries in greatest need. Analysis suggests that strategic (political) motives, technical cooperation, and debt relief account for the majority of the real increase in aid flows. In 2002, $2.9 billion of the $5.9 billion nominal increase in ODA was due to debt relief, and another

The quality of aid matters as much as its quantity

$1 billion was for just two countries (Afghanistan and Pakistan). Technical cooperation increased by $1.9 billion. Netting these factors out leaves an increase of only $0.1 billion in nominal terms. So, the increments actually flowing to the broad group of "MDG deficit" countries is small.

Although the recent commitments and actual increases are somewhat encouraging, they fall far short of what is likely needed to reach the MDGs. Available estimates of the additional aid that would be necessary to reach the MDGs, even though very rough, translate into aid to GDP ratios more than 0.40 percent in donor country GDP, far more than the current target of 0.29 percent.

The quality of aid matters as much as its quantity. The Nordic countries, the Netherlands, and the United Kingdom show high policy selectivity, as does IDA. Other major donors, such as France and the United States, are less selective.[56] But greater selectivity is no panacea. A major challenge for the development community is to deepen its understanding of the most effective ways of dealing with unstable states whose poor and worsening institutions are carrying them toward "failing" as states.

Another element of aid quality is harmonizing practices among donors. Over the past 2–3 years donors and recipients have made some progress toward making aid more disciplined and better aligned with development priorities and country strategies, but much remains to be done.[57] Progress is seen most often in countries where the initial conditions are most favorable, where government leadership is strong, and where some degree of donor coordination is already taking place.

Table 6 ODA in 2001 and prospects for 2006 (Monterrey commitments)

DAC donors	2001		Monterrey commitments	
	ODA ($m current)	ODA/GNI (%)	Amount[1]	Achieved by
Australia[3]	873	0.25	0.25	Already
Austria	533	0.29	0.33	2006
Belgium[2]	867	0.37	0.70	2010
Canada	1,533	0.22	8% annual increase	to 2010
Denmark	1,634	1.03	>0.70	n.a.
Finland[2]	389	0.32	0.44	2007
France[2]	4,198	0.32	0.50 (0.70 by 2012)	2007
Germany	4,990	0.27	0.33	2006
Greece	202	0.17	0.33	2006
Ireland[2]	287	0.33	0.70	2007
Italy	1,627	0.15	0.33	2006
Japan	9,847	0.23	2001–03 av. level ($9.5bn)	From 2003
Luxembourg	139	0.76	1.00	2005
Netherlands	3,172	0.82	0.80	n.a.
New Zealand	112	0.25	Future level under review	n.a.
Norway	1,346	0.80	1.00	2005
Portugal	268	0.25	0.33	2006
Spain	1,737	0.30	0.33	2006
Sweden	1,666	0.77	1.00 (at least 0.87% in 2006)	2006
Switzerland[2]	908	0.34	0.40	2010
United Kingdom	4,579	0.32	0.40	2005–06
United States	11,429	0.11	0.17	2006
DAC countries, total	52,335	0.22	0.29	2006

1. Assumes average real growth in GNI of 2% a year (3% Canada, 4% Greece, 5% United States, and zero for Japan) from 2003 to 2006.

2. ODA/GNI ratio for 2006 interpolated between 2003 and year target scheduled to be attained.

3. As aid volume determined in annual budgets, assumes same ratio in forward years.

Source: OECD, DAC.

Where do we stand on debt relief?

Development finance is on more stable ground now than in the 1990s, thanks to the rotation in external financing flows from debt to equity and the pursuit of sounder economic policies by developing countries. For the most heavily indebted poor countries (HIPCs), debt relief is crucial to create the fiscal space for spending increases needed to promote growth and reduce poverty. As of April 2004, 27 HIPCs have reached the decision point and are receiving debt relief. Together with other forms of debt relief, the HIPC initiative has achieved a $51 billion reduction in the overall debt stock of these countries (figure 6).[58] As a percentage of exports, their debt service has fallen from 16.9 percent in 1998 to 9.8 percent in 2003 (and a projected 7.9 percent in 2006). As a percentage of GDP, debt service fell from 3.9 percent in 1998 to 2.4 percent in 2003, and as a percentage of government revenue, from 25.2 percent to 14.6 percent.[59]

Compared with what was thought possible a decade ago, this debt relief for the poorest countries is a substantial achievement. Yet many indebted countries have yet to benefit fully. Some low-income countries under stress have not yet fulfilled the requirements for debt relief. And even some countries that have benefited from debt relief continue to have high debt ratios, leaving them highly vulnerable to shocks.

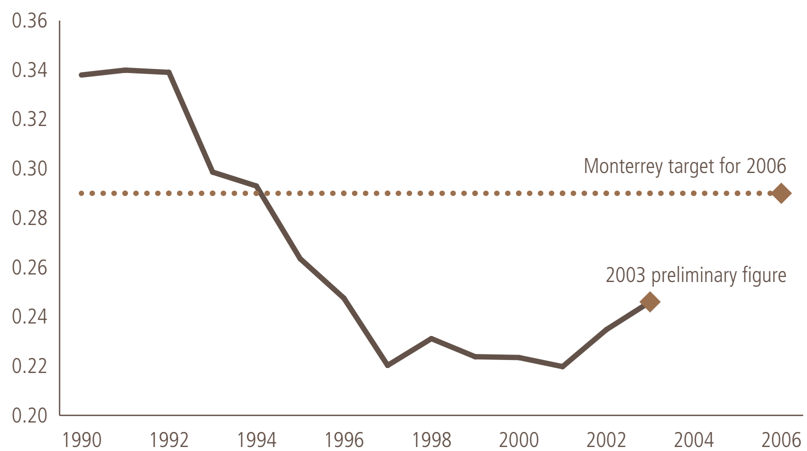
Summary

The progress in development outcomes and the delivery on the development partnership have been mixed. The 1990s brought stronger GDP growth performance and continuing (though in some cases slowing) progress on income poverty and social indicators. Yet many countries fell farther behind, especially in Sub-Saharan Africa.

In part, the mixed outcomes reflect an inevitable lag between thought, action, and outcome. But they also reflect a failure of governments to deliver on their promises. Developing countries have improved their policies, but the quality of their governance and institutions often lags well behind, especially in the low-income countries under stress. Developed countries have yet to show a willingness to do what is necessary to improve trade opportunities for poor countries, though the recent Geneva meetings signal that this is now changing. Aid flows have increased, though too much of the increase depends on special circumstances, raising fears that the momentum will not be sustained. And even if donors fulfill their current commitments, total aid flows will remain well below the levels thought necessary for reaching the MDGs. Last, the debt situation is markedly better for some countries that have qualified for relief, but remains grave for too many others. All this adds up to a worrying discrepancy between the progress in ideas and results on the ground.

Figure 5 Official development assistance—bouncing back since 2001

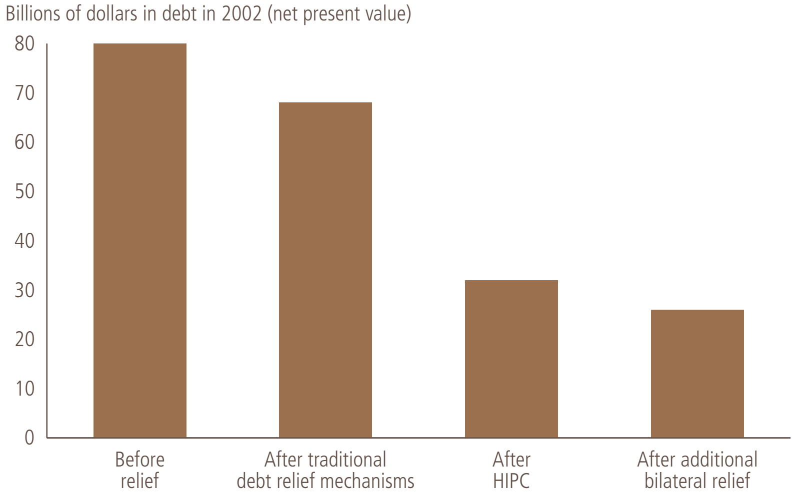
ODA as a percentage of donors' GNI



Source: OECD, DAC.

Figure 6 $51 billion less in debt for 27 heavily indebted poor countries

Billions of dollars in debt in 2002 (net present value)



Source: HIPC Unit.

The way forward

part 3

Where will the next decade take us? What will we need to do to increase the chances of approaching our development goals? We have seen that real progress is possible. But current trends point toward a real risk of dangerous imbalances. Driven by widening income gaps, unsustainable energy use, and rapid urbanization, these imbalances could threaten economic progress and feed social conflict. Avoiding that possibility will require scaling up the partnership for development. Despite supportive rhetoric, action is lagging. And there are signs that short-term preoccupations are distracting attention from the big development issues.

This must change. Developing countries need to continue improving their policies and governance. Developed countries need to follow through on their commitments to further liberalize trade, increase aid, and deepen debt relief. And the development community will likely need to go beyond even the current agenda, most notably in global governance.

Projecting forward: The world in 2015 and 2030

Population dynamics: Slower growth and a rapid demographic transition

Projections a decade or more out are notoriously imprecise, even in demographics. But population projections come with the greatest certainty, because of the fairly steady evolution of life expectancy. The world's population is currently projected to rise from 6.1 billion in 2001 to 7.1 billion in 2015 and 8 billion in 2030—roughly 1 billion people every 15 years. Almost all the increase will be in developing countries, as industrial country growth slows to nearly zero, and almost all will be in cities. As a result, the developing country share in world population will rise from 84.5 percent to 87.4 percent—with roughly a quarter in East Asia and Pacific, a quarter in South Asia, and nearly a seventh in Sub-Saharan Africa by 2030.

On average in developing countries, annual population growth will slow from 1.3 percent to 0.8 percent by 2030, with declines across the board. In Sub-Saharan Africa annual growth should slow from 2.2 percent to 1.4 percent. And some countries in Europe and Central Asia, including the Russian Federation, are already confronting absolute population declines. China's population control program has already constrained population growth, with annual growth to be halved again over the next 25 years—from 0.6 percent to 0.3 percent.

This is not the nightmare population explosion foreseen by some analysts in the 1970s. And yet the addition of 2 billion more people will bring new strains to some countries. But as population growth declines rapidly in other countries, changes in dependency ratios—the number of nonworking people supported by the average worker—will create opportunities and burdens.

How could these demographic trends benefit many developing countries? A smaller birth rate, combined with a rising working-age population, will lower the percentage of household resources that need to be devoted to nonworking household members. For developing countries as a whole, the under-15 dependency ratio will fall from a high of 77 per 100 workers in 2001 to 55 in 2030.[60] Even such high-dependency regions as Sub-Saharan Africa should see a large decline (from 126 per 100 workers to 82).[61] This holding at bay of elderly dependency opens a window of opportunity for developing countries over most of the next 25 years.

The elderly dependency ratio in developing countries will rise only slightly until 2015, from 13.4 per 100 workers to 14.5, and then increase to 21.7 by 2030. The total developing country dependency ratio, including the assumed third of the working-age population not formally in the labor force, is expected to fall for most of the next quarter-century, an opportunity for developing countries to increase savings and raise productivity. Even so, in Brazil, China, Russia, Vietnam, and the EU accession countries, the overall dependency ratio is expected to begin rising much sooner—by 2010 or 2020. Dealing with this rapid demographic transition will be a challenge, as countries need to put in place social protection systems for their growing elderly populations.

The flip side of falling dependency ratios over the near term: the many jobs that developing countries need to create. Labor supply growth is now at peak rates in developing countries: more than 3 percent a year in the Middle East and North Africa, 2.6 percent in Sub-Saharan Africa, 2.3 percent in South Asia, and 2.0 percent in Latin America and the Caribbean. With lower labor force growth rates in East Asia and Pacific and Europe and Central Asia, the average for all developing countries is 1.8 percent. For the developing world, this translates into the net creation of some 35–40 million new jobs each year—some 22–23 million in Asia and 7 million in Sub-Saharan Africa.[62] The required employment growth rate will slow modestly by 2015—to around 1.4 percent on average—before halving to 0.7 percent by 2030.[63] If countries fall short in creating jobs, unemployment rates may be high, wages falling, and youth disaffected, with social discontent and security threats.

Global economic balance: The growing share of the developing world

Economic projections are even more uncertain than those of population. Back in the 1960s, it would have been impossible to predict the global economic slowdown of the 1970s—and the persistent productivity effects of the economic turmoil of those years. But to develop workable strategies for action, it is important to give our best estimates of the shape of things to come. Under that best estimate—the World Bank's baseline scenario—the developing world will continue to expand its share of the world economy.

The global economy would grow from $35 trillion in 2005 to $75 trillion in 2030, with a steady growth rate of 3 percent a year (at 2001 market exchange rates and prices). Developing country growth would average close to 5 percent a year, with industrial country growth at around 2.5 percent.[64] Under this scenario, the GDP share of the developing world climbs substantially between 2005 and 2030—from just over a fifth of global output to a third—with a sharp rise in China's global output (from 4 percent to 9 percent). At this market exchange rate measure, the United States would remain the largest economy throughout 2005–30, though developing countries in aggregate would overcome the United States sometime between 2025 and 2030.[65]

The flip side of falling dependency ratios over the near term: the many jobs that developing countries need to create

Using PPP exchange rates, which correct for the variations across countries in the prices of nontradable goods, generally gives us a better measure of the output of countries. Corrected for PPP, the global economy grows from $54 trillion in 2005 to $143 trillion in 2030, an annual growth rate of 4 percent.[66] The developing country share of the world economy, 46 percent in 2005 in PPP terms, would rise to 61 percent by 2030. China's output alone would amount to 22 percent of global output, a significant increase from 13 percent today. Indeed, China's PPP output would overtake Europe's around 2015 and the United States's by 2020.

These PPP-based projections should be used with great caution, however. They assume constant PPP exchange rates throughout the period. But it is quite likely that rapidly growing economies like China will have systematically different trends in their PPP exchange rates than the now-developed economies. So the figures should be more a reminder that market exchange rates understate the incomes of the developing world, less a firm projection.

Economic convergence and divergence

At market exchange rates in 2001 the average income per capita in developing countries was only 5 percent of the average income in high-income countries—$1,260 versus $25,850. Under our baseline scenario, there will be some slight convergence over time, with the parity ratio (per capita income relative to the average per capita income in high-income countries) reaching 5.7 percent in 2015 and 7.0 percent in 2030. There will be significant variation across countries and regions. China, which ranks below the developing country average at only 3.5 percent in 2001, would see a rise to 6.0 percent of the industrial country average in 2015 and 9.2 percent in 2030. Some regions could see a slight widening of the income gap—with parity ratios projected to fall from 14.6 percent of the industrial country average in 2001 to 14.4 percent in 2030 in Latin America and the Caribbean and from 1.8 percent to 1.7 percent for Sub-Saharan Africa.

The dollar amounts separating the poorest and richest countries will rise inexorably

Broadly similar trends are observed in PPP-adjusted figures. The overall parity index was 14.3 percent of the industrial country average. In the base case, it would climb to 17.8 percent in 2015 and 22.7 percent in 2030. Focusing on China, it would rise from 14.9 percent of the industrial country average in 2001 to almost 40 percent. But the PPP adjustments do not change the lack of convergence for Sub-Saharan Africa and Latin America and the Caribbean (keeping in mind that PPP-adjusted figures do not take into account likely changes in relative prices across countries).

There can be no doubt that the absolute (real) dollar amounts separating the poorest and richest countries will rise inexorably throughout the forecast period. Most notably, the absolute per capita income gap between the poorer countries in Sub-Saharan Africa (those outside the Southern African Customs Union) and the average developed country will increase steadily—in current PPP-adjusted dollars, from $26,000 in 2001 to more than $52,000 in 2030. At the same time, the share of the world population in Africa is expected to rise.

Poverty

The growth patterns just described above would lead to a continuation of the poverty trends seen in the past decade: global progress, but with poor performance in major regions of the developing world. The Millennium Development Goal for income poverty is to halve the global $1 a day poverty rate, from about 28 percent in 1990 to 14 percent in 2015. Under the World Bank's baseline growth scenario, the world would meet that target, with the rate falling from 22 percent in 2001 to 12.5 percent in 2015. And by 2030, the extreme poverty rate is expected to be around 7 percent of the developing world's population, about 500 million people.

Despite the global progress, Latin America and the Caribbean and Sub-Saharan Africa are projected to miss the MDG poverty target, Africa by a wide margin.[67] By 2030 Latin America and the Caribbean will barely achieve its 2015 target, and Sub-Saharan Africa will still be off, though closing in. All these projections assume that the elasticities of poverty to income remain constant. If developing country labor markets cannot absorb the many new entrants in the next few years, so that the real wage falls, the poverty elasticity is likely to fall too, making it harder to reach the poverty goal.

Urbanization

By 2015 nearly four-fifths of the world's largest cities will be in the developing world, many of them megacities with more than 5 million people.[68] In short, rapid urbanization will continue to be a major feature of the developing country experience over the next quarter-century, although the rate of urbanization will slow everywhere except in Sub-Saharan Africa, and rural-urban migration will continue to be important.[69]

Urbanization can bring many advantages. Firms can benefit from agglomeration of being close to other firms, giving them better access to technology and pools of trained workers. Urban areas are typically centers of innovation, with diversity breeding new ideas. And higher population densities often allow more efficient delivery of public services. Yet urbanization can bring large costs, in social problems and environmental spillovers. Developing countries need to control these costs even as they deal with all the other concerns raised by these projections.[70]

Educational attainments and health improvements

Progress in educational attainment, including preschool, is expected to continue over the next two decades, but it is far too slow to reach the

MDGs for education, particularly for universal primary completion by 2015. According to a recent study, of 38 countries analyzed that have enrollment rates below 80 percent, all will have to expand their educational systems at "historically unprecedented growth rates" to reach even 95 percent enrollment by 2015.[71]

The same study analyzed the prospects of meeting the MDG of reducing infant mortality by two-thirds between 1990 and 2015. It concludes that the prospects for this goal are only slightly brighter than for primary completion. Looking back, it shows that of 109 countries, 33 reduced infant mortality by two-thirds between 1975 and 2000. The poorest countries were not in that group. Indeed, only one country that started out with an income of below $1,600 in 1975 would have met the target. The authors conclude that "widespread achievement of the fourth MDG has no recent precedent in poor countries."[72]

World Bank projections for meeting the social goals are consistent with these historically based inferences. For universal primary completion, the large majority of countries in South Asia and Sub-Saharan Africa are rated as "unlikely" or "very unlikely" to reach the goal by 2015. For child mortality, the situation is even less encouraging: Latin America and the Caribbean and even East Asia and Pacific join South Asia and Sub-Saharan Africa in having a large majority of countries unlikely to meet the goal.

Advances could be tremendous even in countries that fall short of the goal. For example, if Chad were to raise its completion rate from less than 20 percent in 2000 to 50 percent in 2015, that would have to be a development success. So would a reduction of child mortality by half in a country with a stagnant economy. But the goals were intended to challenge the development community, not to accept historical precedents as what is possible. So the fact that the world is falling so far short of these key goals should raise alarm.

Energy consumption

Energy demand in developing countries is expected to grow roughly twice as fast as in developed countries—about consistent with GDP growth. Energy efficiency will improve slightly more in developing countries than in developed countries, primarily because developing countries will continue a relatively rapid shift toward services, which are less energy-intensive than manufacturing. For the world this implies energy consumption growth of between 2.8 and 3.0 percent a year. That growth is substantially above the 1.8 percent forecast a few years ago by the International Energy Agency, a rate already found to be much too high, since it would be twice the Kyoto target by 2010.

Without global action, constraining the growth of carbon dioxide emissions will continue to be a great challenge, as will ensuring stable and adequate supplies of energy to feed growing demand. The same likely applies to forests and water.

Energy demand in developing countries is expected to grow roughly twice as fast as in developed countries

Conflict and failing states

In the 1990s, 46 countries were involved in conflict, primarily civil. This included more than half of the poorest countries (17 of 33). Moreover, the rate of conflict has risen in recent decades for the developing world as a whole, even as it has fallen for middle-income countries as their incomes have risen.

For most of the world's population, development has reduced risks. But a significant minority of people in low-income countries have not shared in development, and for them the risks have been increasing. If these two opposing forces persist, the world will find itself stuck with a self-sustaining incidence of civil war, determined predominantly by the large and persistent pool of nondeveloping, low-income countries. These countries will account for a small and diminishing share of global income. But they will be responsible for a high share of the regional and global spillovers from civil war.[73] Without much faster development in the poorest regions, civil conflict is likely to continue to be a major feature of the development landscape over the next quarter-century.

Official development assistance

Projecting development assistance is risky, because it depends heavily on the geopolitical situation and the domestic political environments in donor and recipient countries. There

Present trends require an unprecedented global rate of employment creation

are at least two different ways of reaching projections. One is to assess the aid needed to meet a particular set of development targets. We have already noted the estimates of the scale of the increase in aid likely to meet the MDGs—roughly a doubling of annual aid flows to some $100 billion, even if recipient countries continue to improve their policies and institutions in ways that promote growth.

A second approach is to project future ODA levels, as opposed to needs, by basing forecasts on recent history. The aid per capita that a country receives has been shown to depend on the country's population (larger countries receive more aid overall but less aid per capita), on its level of per capita income (wealthier countries receive less aid per capita), and on the quality of its policies, institutions, and governance (proxied by its CPIA score). We can therefore use predictions of population and income growth, combined with the historical statistical relationships with aid, to project aid levels.

If current historical relationships between aid and key variables hold, and even assuming that recipient-country CPIA scores do not improve, total aid will continue to rise slowly through 2030.[74] So even if the development community were to fail to invest enough to meet the MDG needs—in our view, a grave mistake—donors should not suppose that the need for aid will gradually wither away. It is even less likely to do so in view of the fact that the implicit poverty line behind today's aid allocation is bound to increase with average world affluence.

Summary

Even with progress on some of the global indicators, the imbalances between regions and countries will deepen.

- The absolute gap in per capita income between the world's poorest countries (mostly in Africa) and the wealthiest will double by 2030, while the share of population in poorer African countries is expected to rise. This may be cause for great concern.
- Present trends require an unprecedented global rate of employment creation. If developing country economies are not productive enough to create labor demand that meets the supply, this additional labor force will have to be absorbed only at a falling relative wage. This will reduce the rate at which growth reduces poverty, because the poverty elasticity hinges on the wages paid to unskilled labor.
- Poverty defined on the current basis of $1 a day will fall substantially, but even in 2030 some 500 million people will still be living below that extreme poverty line. So poverty will not disappear from the agenda.
- Environmental problems will become more acute, and the toll from HIV/AIDS will be huge in the medium run, in Africa and in other regions.

On current trends, it is reasonable to fear that aid from developed countries to the rest of the world will fall short of what is needed for rapid economic and social development.

The agenda for the next decade

With global flows of information now much faster, the world's people know much more about what is going on everywhere. The world's poorest people know about progress in the more advanced economies, and they observe the growing absolute gap between them and the world's middle and upper classes. People have always cared about their relative status, not just their absolute standard of living. These comparisons were once made in communities, with the economic success of one person opening the eyes of others, providing an impetus for progress. What has changed is that the community is now global, and development anywhere affects the path and likelihood of development elsewhere.

Widening gaps and better information may have serious implications for peace and security in the world. It is unlikely that that fully informed people will remain totally passive in the face of growing disparities in standards of living. Such disparities feed radicalism of all types, some leading to movements to disrupt national and international orders. Civil conflicts arising from the lagging development are immensely costly for countries. When they spill over national borders and make peace-enforcement interventions and reconstruction by the international community necessary, they are also costly for the international community.

Radicalism can even lead to popular support for some international terrorist movements in countries lagging behind, where such movements have some cultural resonance. Lagging development can also lead to failing and failed states, some becoming havens for terrorists or drug traffickers. In short, growing absolute gaps seem likely to sow disorder and conflict, both nationally and internationally, with the damage spreading through developing and developed countries.

Minimizing these risks requires moving toward a global community, not as people observing each other warily and enviously across borders, but as world "citizens" working together to improve the lot of the entire community. And moving toward a global community requires moving toward true global governance, with world leaders concerned about people everywhere, not just the residents in the wealthiest and most powerful countries. Not doing so is likely to breed insecurity, increasing what the rich, the less rich, and even the poor countries spend each day on defense rather than development and poverty reduction. It is also likely to cause retreats to nationalism or regionalism, when globalism should be the goal.

The window of opportunity

In the face of these challenges and major risks is a window of opportunity. Several factors have combined to open that window:

- The end of the Cold War in the early 1990s made donors more willing to focus on development goals, not just geopolitical goals, in the developing world. It allowed a political opening in many developing and transition economies, increasing the possibilities that reform programs would have popular legitimacy and support.
- Progress in the past decade improves the prospects for action. We understand better the determinants of economic development, and we have made progress toward delivering on a partnership for development, through reforms and improvements of international aid and through promises of freer trade and other international economic flows. The world is not at peace, but the international cooperation to preserve peace seems full of hope.
- Some of the forecasts here improve the prospects for successful action. In many countries, the demographic transition will offer a decade or more of low dependency ratios, as the share of young dependents falls, before the senior population shoots up. Having a higher percentage of the population of working age will offer countries the opportunity to save, invest, and stride forward before that demographic window starts closing.

Yet there is the danger that all this will seem hopeless tomorrow. Each of these factors may have a limited shelf life. Geopolitics is once again beginning to affect aid allocation and delivery, as the global war on terror separates allies from less cooperative countries. The resolve to follow through on commitments on aid and trade risks fading, as leaders who made them move on. Reformers in some developing countries may find it difficult resisting pressure from their political opposition, given the growing development gaps. And if political instability follows, development will be even less likely. At the same time, poor progress on governance in many developing countries may sow mistrust of their intentions for developed countries, making catch-ups by the poorest countries less and less probable. The demographic window of opportunity will soon be closing, even if it is some years away yet in most countries. And some of the global risks on the physical state of the planet or the security of people may materialize, closing the window of opportunity toward a truly better world.

The need for reform in global governance

Will we let this window of opportunity close without any real attempt to move toward more effective global governance? Taking those steps will require political commitment by world leaders—the G-8, of course, but increasingly the G-20 developing nations as well—if we are to create a true "world community."

Growing gaps seem likely to sow disorder and conflict, both nationally and internationally

A few simple policies must be implemented for the world to take advantage of the window of opportunity before it closes

We have a framework to deal with poverty reduction and global environmental challenges. What we do not have is a world executive committee that has global legitimacy, representing the interests of the vast majority, dealing with longer term strategic issues. Such a world body would have three main tasks: to think seriously about these internationally issues, to monitor what happens, and to crack the whip when progress is not forthcoming and selfish national or parochial interests threaten to delay progress for the common good. The G-8 is too narrow a forum for this task. The G-20, or a similar institution working within a permanent frame ensuring that initiatives are followed through, would be a more adequate vehicle.

This is not the place to discuss the details of a new international architecture or to imagine what global governance would look like in practice, but our discussion of trends and possibilities argues strongly that it is needed.

Urgent tasks

We have no illusions that these changes in global governance will come about quickly or easily. In the meantime, the development community must take steps to continue to make progress on development partnership. Barring an enormous increase in development resources and in the pace of policy and institutional change, it is unlikely that most MDG targets will be reached in all regions by 2015. So, there is an urgent need to scale up our development efforts. The main directions for these efforts are not new, and the World Bank has relentlessly advocated them in recent years.

A few simple policies must be implemented for the world to take advantage of the window of opportunity before it closes. They might be thought of as the *at least* list. The world should *at least* accelerate the Doha process to open markets to developing country trade and create a true development round. Developed countries should *at least* fulfill their recent aid commitments. Developing countries should *at least* continue to improve governance. Rather than being viewed as extremely ambitious targets, these steps are the bare minimum that the development community should deliver on, while it works toward a better system of global governance.

We close this paper by listing, in summary form, the various tasks on this *at least* list. All of them have been analyzed in numerous documents by the World Bank and in other international development agencies.[75]

Governance and institutions. The prime challenge here is for the developing countries. Progress has been accomplished, but more is needed to build capacity, to fight corruption, to improve investment climate, to deliver social services in an efficient and effective way, and to empower the whole population.[76] More, the progress in the developing world must be uniform.

Trade. The resolution at the recent WTO assembly in Geneva is encouraging. It kept the negotiations from breaking down, but it is only a first step. Developed countries must open all their markets to developing countries, particularly their agricultural markets. And developing countries must make further progress toward free trade.

ODA flows. The Monterrey commitments must be met. Despite the promises, progress remains modest. Previous projections and current estimates suggest that roughly a doubling of aid in the coming years is necessary to have a chance of reaching the MDGs. Not committing this increased aid is likely to jeopardize all efforts toward the goals in developing countries.

Debt. The HIPC initiative contributed to a drastic reduction in the level of the debt of low-income countries that reached their decision points. Yet, there may be circumstances where the remaining debt will severely constrain future development. And too many countries have not yet reached their decision points. Under way is a debate on whether the debt should be reduced further, and possibly totally forgiven, with grants replacing loans in future aid flows.

Environment. To progress, we need smart uses of limited resources, such as the Global Environment Facility working with developing country institutions to implement new approaches that have proven effective in pilot programs. For climate change and biodiversity loss, with planning horizons of 10–20 years, we need to develop collaborative learning networks enabling governments, multilaterals, NGOs, and private firms to develop common views of critical problems, and coordinated approaches to address them. We can build on such partnerships as the CEO Forum on Forests, which verifies compliance with forestry management standards that protect the livelihoods of the poor; the World Bank's Prototype Carbon Fund, which is establishing mechanisms for trading greenhouse gas emission reductions under the Kyoto Protocol; and the World Wildlife Fund Forest Alliance, which focuses on reducing the loss and degradation of forests.

Global learning

The Shanghai Conference, in May 2004, drew lessons from successful development efforts and showed that global learning is needed to reach the MDGs. China, India, Uganda, and Vietnam have truly reduced poverty on a large scale. In each case, the acceleration of economic growth, sustained for more than a decade, was the driving force. And in each there were deliberate institutional and policy reforms to stimulate growth. The Shanghai Learning Process was predicated on the notion that countries can learn from each other, but that no simple recipe can be pulled off the shelf to stimulate growth. Technology transfers will be particularly important in this regard. But each country needs to learn through trial and error what works.

Communities have reduced poverty using innovative interventions in education, health, targeted transfers, water supply, sanitation, electricity, microfinance, and other important service areas. The creation of processes and projects to improve service delivery can lead to widespread adoption and adaptation—and to poverty reduction in the broad sense. Experience shows that scaling up successful processes requires a learning-by-doing approach. The Shanghai Learning Process was aimed at stimulating such an approach worldwide. Global learning is also learning to be global.

Global learning is also learning to be global

Looking ahead, we have an opportunity to change the world for today's youth, who now make up half the population of developing countries—to create a world where we can share the promises of faster development and much less poverty.

Notes

1 This summary draws on Stern, Dethier, and Rogers (forthcoming) as well as on World Bank (2004c).
2 McNamara (1973), p. 27.
3 Arndt (1987) provides an excellent account of the history of the development concept.
4 World Bank (1990). At the World Bank, the change was spearheaded by the publication of the *World Development Report* on poverty in 1990, which included the first standardized global estimates of the prevalence of poverty, and by a strong shift in the institution's emphasis after the arrival of James D. Wolfensohn as president in 1995.
5 This summary is taken from Ranis (2004).
6 See in particular Sen (1999, 2002).
7 For a more extensive discussion, see Stern, Dethier, and Rogers (forthcoming).
8 Narayan (2000).
9 World Bank (2000b).
10 United Nations, Economic and Social Council, Commission on Human Rights (2002).
11 Here, instruments are seen broadly, to include any types of state action and institutions—economic policies and programs, of course, but also social intervention and political institutions.
12 See the accounts by Arndt (1987); Stiglitz (1998); Adelman (2001); and Stern (2001).
13 For a more detailed discussion, see World Bank (2004a, 2004f).
14 For an analysis of the relationship between institutions and development see Bardhan (1997a, 1997b); Acemoğlu, Johnson, and Robinson (2001); and Rodrik (2003, forthcoming).
15 Irma Adelman explores this tendency toward monocausalism as one of three main fallacies of development theory (Adelman 2001). Vines's discussion of Adelman's piece offers a simpler taxonomy, similar to the one presented in this paper (Vines 2001).
16 The term was coined by John Williamson (1990). Williamson noted later that he originally intended the list to be descriptive rather than prescriptive, as it was actually interpreted (see Williamson 1997).
17 On the mechanisms defining this trap, see World Bank (2003a).
18 Note that this proposition does not necessarily hold if poverty reduction is measured in absolute terms.
19 For Indonesia see Bourguignon, Ferreira, and Lustig (forthcoming).
20 This is the well-known model mechanism put forward by Kaldor (1961).
21 This argument is central in Chenery and others (1974).
22 See, for example, O'Rourke and Williamson (1999); Tirole (2002); and World Bank (2002a).
23 For evidence, see World Bank (1998a) and World Bank (2004f).
24 World Bank (1998a).
25 See Burnside and Dollar (2000, 2004); Collier and Dollar (2002); and Easterly, Levine, and Roodman (2003).
26 See for example Devarajan, Dollar, and Holmgren (2001).
27 See for example Corbo and Fischer (1995); Mosley (2001); World Bank (2001a, 2003e); Vreeland (2003); Bird (2004); Dreher (2004); and Easterly (forthcoming).
28 See for instance Devarajan and Swaroop (1998).
29 Dollar and Levin (2004).
30 The Country Policy and Institutional Assessment (CPIA) index for each country is the unweighted average of the country's scores on 20 indicators of policy and institutional quality. These indicators are grouped into four categories: economic management (management of inflation and macroeconomic imbalances, fiscal policy, management of public debt, management and sustainability of the development program), structural policies (trade policy; foreign exchange regime; financial stability; financial sector depth, efficiency, and resource mobilization; competitive environment for the private sector; goods and factor markets; and policies and institutions for environmental sustainability), policies for social inclusion and equity (gender, equity of public resource use, building human resources, social protection and labor, and monitoring and analysis of poverty outcomes and impacts), and public sector management and institutions (property rights and rule-based governance; quality of budgetary and financial management; efficiency of revenue mobilization; quality of public administration; and transparency, accountability, and corruption of the public sector).
31 A recent study by Clemens, Radelet, and Bhavnani (2004) also reviews the role of aid in fostering growth in low-income countries. The authors focus on the portion of ODA distributed as budget support or financing "real sector" investments (such as infrastructure). They determine that such aid has had on average a positive impact on growth across all low-income countries.
32 World Bank (2003c) and Rogerson (2004).
33 For evidence, see Development Committee (2004b).
34 See for example Kaufmann, Kraay, and Zoidó-Lobatón (1999, 2002); World Bank (2000a); and Dethier (2003).

35 World Bank (1998a).
36 Individual countries' CPIA scores have not been released in the past, but they are likely to become progressively more public in the near future.
37 Francis Fukuyama, in a recent book on state-building, relates governance reforms to technical, leadership, and social capital factors (Fukuyama 2004).
38 UNESCO (1990), Article I.1.
39 Nogues and Finger (2001).
40 For most of the indicators here, we focus particularly on changes since 1990, but we often use 1980 as a base year to check whether the last few years correspond to a break or on the contrary to the continuation of a long-run trend. At the same time, it is true that, in the public's mind, 1990 plausibly marks a major change, the beginning of globalization.
41 World Bank (2004c), figure 1.22.
42 Note, however, that the median per capita income growth rate among developing countries did increase between the 1980s and 1990s, by between one and two percentage points (see World Bank 2004b).
43 World Bank (2004c).
44 The second decile had slightly positive income growth due to strong performance relative to adjacent deciles. Economically speaking, global incomes are diverging rapidly, both in relative and absolute terms. Countries in the top decile had on average 16 times the income gap of $19,000 (in 1995 prices and using purchasing power parity corrections). In 2002 they had 22.7 times more, with a gap of $26,800.
45 While figure 3 shows the number of countries, figure 4 shows the shares of the world's population, assuming that each person earns the average income of the country where he or she resides.
46 Based on a slightly higher (but by no means generous) poverty line of $2 per day, the developing country poverty rate fell from 62 percent to 55 percent, while the absolute number in poverty rose slightly (from 2.69 billion to 2.73 billion).
47 See World Bank (1998a) and Becker, Philipson, and Soares (2003).
48 From Statistical Information Management and Analysis, modifying Barro and Lee (1993).
49 From Stern, Dethier, and Rogers (forthcoming).
50 Updated from Goldin, Rogers, and Stern (2002).
51 See World Bank (2003b).
52 World Bank (2003a). "Rich countries" here means OECD countries.
53 See Development Committee (2004b).
54 Development Committee (2004b), p. 54. The rating categories for the European Bank for Reconstruction and Development are less comparable, but ratings have risen in all four categories (financial institutions, enterprises, infrastructure, and markets and trade), all of which encompass aspects of institutions and governance.
55 Military expenditures in high-income countries accounted for 2.3 percent of GDP on average in 2001. The world average is also 2.3 percent of GDP. The United States spent 3.1 percent of GDP on military spending in 2001, Russia 3.8 percent, China 2.3 percent, and Europe (EMU countries only) 1.8 percent.
56 Development Committee (2004b), p. 171.
57 Development Committee (2004a).
58 Data from World Bank, Debt Department (PRMDE).
59 Development Committee (2004b), p. 177.
60 Employment is measured by the size of the working age population adjusted by two-thirds—an assumed labor force participation rate.
61 The numbers for Sub-Saharan Africa are highly speculative given HIV/AIDS.
62 Based on the growth of the working-age population adjusted by two-thirds for the assumed labor force participation rate.
63 Particularly alarming is the situation in the Middle East and North Africa, which, in the first two decades of the 21st century, will need to create 100 million jobs, implying a doubling of current employment (World Bank 2004d).
64 This is based on the 2004 classification of income groups for countries. Industrial countries include the Asian newly industrializing economies—Hong Kong (China), Republic of Korea, Singapore, and Taiwan (China).
65 The United States accounted for 32 percent of world output (GDP) in 2002 (World Bank 2004e).
66 This growth rate assumes no change in the PPP rates over time. As some of the emerging economies converge toward per capita incomes at the level of high-income countries, PPP rates would also likely converge. However, this is not taken into account in these projections.
67 Europe and Central Asia and the Middle East and North Africa will also miss the MDG poverty target, but from a much lower level.
68 World Bank (1999). World Bank (2002b) shows a rise from about 42 percent to about 54 percent, presumably reflecting different definitions, but in any event the change is similarly large.
69 World Bank (2002b).
70 For details, see World Bank (2002b).
71 All these conclusions are from Clemens, Kenny, and Moss (2004).
72 Clemens, Kenny, and Moss (2004), pg. 19.
73 World Bank (2003a), p. 5–6.
74 Assumed elasticity of ODA with respect to GDP per capita, population, and CPIA score are –0.1, –0.45, and 1.71, respectively, with a constant of 6.74. Under these assumptions, and with CPIA assumed to be constant, ODA to IDA-eligible countries (those in the calculation) rises by some 6 percent over that period.
75 See Development Committee (2004b).
76 See World Bank (2003d, 2004f).

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