6 *The Special Challenge of the Poorest Countries*

The threat that terrorism and weapons of mass destruction pose to international security has received growing attention in recent years.

What has not been sufficiently emphasized is that poverty and exclusion also foster violence; and that peace is the outcome of greater development and social justice.

As I recently stated in Geneva, hunger in itself is a weapon of mass destruction. It kills 24,000 people a day and 11 children every minute.

The international community has certainly moved forward, and took on specific commitments, within clearly defined time frames, at Monterrey and Johannesburg.

Those commitments must now be put into practice. The Millennium Development Goals must be achieved—this opportunity to truly advance in fostering international development must not be lost.

President Luiz Inacio "Lula" da Silva of Brazil
Speech before the conference "Making Globalization Work for All"
February 16, 2004

The discussion in chapter 5 on financial markets and the debt trap referred to emerging-market countries integrated into global capital markets that have built up a significant burden of public debt to private creditors. The situation in the poorer countries of Africa and parts of Asia and Latin America is quite different. There is no absolute and clear dividing line between the middle-income countries—whose long-term problems could be addressed by equitable growth-oriented domestic policies and a combination of some form of Stability and Growth type medium-term financing facilities, and a more proactive approach to restructuring unsustainable debt—and the least-developed countries, which do not yet have significant access to capital markets and some of which cannot even repay the very concessional debt they have accumulated over the past decades. Nonetheless, a distinction has been made for a long time and continues to exist between the poorer countries that qualify for highly concessional debt and middle-income countries that largely

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borrow at commercial terms. While this distinction is somewhat arbitrary and there are clearly borderline cases, the situation of the poorest countries is very different, and much worse, than that of the emerging-market, middle-income economies.

Continued Exclusion and Growth Failures in the Poorest Countries

Over the last three decades a whole category of countries that are both poor and often small has been essentially excluded from global growth.[1] Most of these countries are in Africa, but some are in Latin America and the Caribbean and some are in Asia. There is still a lot of extreme poverty in the emerging-market economies discussed above, but these economies are now linked to the global growth process and have a chance of benefiting from it if they can overcome some of their key structural problems. China and India, the two largest low-income economies that were not much richer than most of Africa two decades ago, have also been able to grow rapidly for a long period and have now reached average income levels well above those of the least-developed countries.

While more than two billion people in China and India are improving their living standards, be it at unequal speeds within these giant countries, hundreds of millions of people in the poor countries of Africa, but also in parts of Latin America and Asia, remain trapped in extreme poverty. The Heavily Indebted Poor Countries (HIPC)/Poverty Reduction Strategy Papers (PRSP) initiative, even after various "enhancements," has not been able to break the vicious cycle of poverty, low savings rates, and considerable debt burden in these countries, despite genuine efforts. These efforts have also been unable to forestall tendencies towards violent domestic strife and "state failure" in a large number of the poorest countries.[2] More of the same is simply not going to be enough to help the one

1. From 1980 to 1990, the least-developed countries had real GDP per capita growth of –0.2 percent, developing countries, 1.9 percent, and developed countries, 2.5 percent. From 1990 to 1999, respective growth rates were 1.1, 3, and 1.6 percent.

2. A team of World Bank experts led by Paul Collier concluded in *Breaking the Conflict Trap: Civil War and Development Policy* (2003) that economic forces such as entrenched poverty and heavy dependence on natural resource exports are more often the primary cause of civil wars than ethnic tensions and ancient political feuds. Their report asks for three sets of actions to prevent civil wars: more and better-targeted aid for countries at risk, increased transparency of the revenue derived from natural resources, and better-timed post-conflict peacekeeping and aid.

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billion or so people trapped in this vicious cycle and excluded from normal life on our planet.

The poorest countries are not integrated into global capital markets because of the small size of their financial systems, their lack of institutional development, and their still very weak infrastructure. They did accumulate a large burden of debt, but it is mostly to bilateral or public donors, including the Bretton Woods institutions themselves. In terms of GDP growth, the performance of the least-developed countries has been much worse than that of the emerging-market economies. It is true that their total population is only a fraction of the total developing country population because of the weight of giants such as India and China. Looking at poverty worldwide, the remarkable progress of India and China leads to optimistic assessments of the global fight against poverty. It must be remembered, however, that if we take India and China "out" of the numbers, progress in poverty reduction appears much less impressive. Indeed, if we look at the least-developed countries alone there has been almost no progress at all.[3]

Past Efforts

During the 2000 meeting of the United Nations General Assembly in New York, world leaders, spurred by concern over the situation in the poorest countries but also in an effort to target poverty reduction worldwide, solemnly adopted a set of global social objectives called the "Millennium Development Goals" (MDGs) that have provided a new political impetus to the global fight against poverty and underdevelopment.[4] Adoption of the MDGs was followed in early 2002 by the Monterrey Conference on Development, resulting in the Monterrey Consensus, largely based on the work of a Special Commission on Financing Development led by the former president of Mexico, Ernesto Zedillo, referring to an agreement of major donors to double the amount of concessional development assistance to support the achievement of the MDGs by 2015.[5]

3. See, for example, UNCTAD's *The Least-developed Countries Report 2002: Escaping the Poverty Trap;* a short overview of globalization from the IMF staff in 2000 entitled "Globalization: Threat or Opportunity?"; and the World Bank's *World Development Report 2000/2001: Attacking Poverty.*

4. There are MDGs ranging from eradicating extreme poverty and hunger to promoting gender equality and empowering women. The eight MDGs and related country-by-country indicators can be found at the UN MDGs website at www.un.org/millenniumgoals/.

5. The Zedillo Report is available at www.un.org/reports/financing/.

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In fact, the situation of the very poor and heavily indebted countries had been perceived as so bad that the World Bank and the International Monetary Fund (IMF) launched the HIPC initiative in the late 1990s. The HIPC initiative was not the first debt relief effort targeting very poor countries, but without a doubt it is the most comprehensive one. Debt relief efforts can be traced back to 1977–79, when, in an UNCTAD meeting, official creditors wrote off $6 billion in debt to 45 poor countries by eliminating interest payments, rescheduling debt service, untying compensatory aid, and offering new grants to reimburse old debts (Easterly 2002, 1678–79). In 1987, the Special Program of Assistance for Africa provided bilateral debt relief, International Development Association (IDA) credits for World Bank debt service relief, and funding for commercial buybacks to 21 African IDA-only borrowers that had debt service-to-exports ratios above 30 percent. Debt relief efforts continued with initiatives such as the Paris Club Toronto Terms (1988), Brady Plan (1989), IDA Debt Reduction Facility (1989), Paris Club Houston Terms (1990), Paris Club London Terms (1991), and Paris Club Naples Terms (1995).[6] By the mid-1990s, however, it was quite clear that traditional debt relief measures through the Paris Club or the other existing schemes were inadequate to alleviate the unsustainable debt burden of very poor countries.

The first HIPC program was negotiated in 1996. The HIPC initiative, for the first time in the history of development assistance, emphasized comprehensive reduction of debt-stock—not as a goal in itself, but as a tool to remove the disincentive effects of "debt overhang" on private investment and to achieve "debt sustainability." It was also novel because for the first time a debt relief initiative included the reduction of debt owed to the multilaterals such as the World Bank, the IMF, and the regional development banks. In 1999, the HIPC initiative was enhanced in order to provide a permanent exit from debt rescheduling and to target freed-up funds for social spending. The enhanced HIPC initiative also aimed to give more weight to social and poverty-related reforms during performance assessments.

By the beginning of 2004, 42 countries were HIPC eligible: 34 in Africa, 4 in Latin America, 3 in Asia, and 1 in the Middle East. To qualify for debt relief under the HIPC initiative, a country must satisfy three

6. See Birdsall and Williamson (2002, 23, box 2.2). The Paris Club Lyon Terms (1996) and Paris Club Cologne Terms (1999), the two most recent Paris Club initiatives, are debt relief agreements that are designed within the HIPC framework.

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criteria: it must be eligible for highly concessional IDA assistance from the World Bank[7] or from the IMF's Poverty Reduction and Growth Facility (formerly called the Enhanced Structural Adjustment Facility); its debt burden must be deemed unsustainable even after the country has exhausted all other debt relief options; and it must have established a track record of "good policies."

The HIPC is a two-staged initiative. The first stage is normally a three-year period during which the country works in coordination with the Bretton Woods institutions to establish a record of implementing economic reforms and poverty reduction policies. At the Bretton Woods annual meetings in 1999 it was agreed that nationally owned, participatory poverty reduction strategies should provide the basis for all World Bank and IMF concessional lending and for the HIPC initiative. The HIPC countries need to submit Poverty Reduction Strategy Papers to the Bretton Woods institutions that are prepared after consultation with civil society representatives and in which they describe their proposed economic and social policies and programs to reduce poverty. At the end of this initial stage is a decision point when it must be determined whether the country's debt level is sustainable. For those countries whose debt burden remains unsustainable, a debt relief package is prepared and committed to by creditors to be irrevocably implemented at the time of the completion point. While interim debt relief is provided by the Paris Club and multilaterals such as the World Bank between the decision and completion points, countries receive their full package of debt relief once they have implemented a set of key and predefined structural reforms. The country is entitled to debt relief of at least 90 percent from official bilateral creditors. In addition, multilateral creditors reduce the present value of their claims so as to achieve debt sustainability for the country in question.

The PRSP/HIPC initiative taken by the Bretton Woods institutions in the late 1990s, with prodding and encouragement from civil society, constituted an important and much needed effort to bring the poorest and most highly indebted countries into the world economy and to try to prevent their exclusion from the global growth process. Actual debt levels have been reduced very substantially.[8] While there has been progress in

7. The Gross National Income per capita threshold for IDA eligibility as of date is US$ 865.

8. The HIPC initiative will provide nominal debt service relief of about $41 billion ($25 billion in net present value terms). Taken together with other traditional debt relief mechanisms and additional voluntary bilateral debt forgiveness, 26 HIPC countries will see their

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some countries, the overall situation has unfortunately not really changed in terms of sustainable development and strong inclusion in the world economy. The majority of the poorest countries, most of them in Africa, are still essentially excluded from global growth.[9] The assessment in the spring of 2004 was that the majority of HIPC/PRSP countries will not attain the Millennium Development Goals by 2015, or even a decade later, unless they have access to much more foreign resources to complement their domestic savings. If these foreign resources are provided as debt, however, even concessional debt "à la IDA," most of these countries will again not be able to service that debt, even though their old debts have been reduced.

The obstacles facing the poorest countries are deeper and more intractable than the problems in the emerging-market economies. The latter do have functioning social and governance structures, and while they suffer from widespread poverty, weaknesses in governance, and market failures, as well as the excessive debt burden described in chapter 5, many of the emerging-market economies are making progress and are participating in global growth. Many of the poorest countries are in a much worse position and face the danger of almost complete exclusion from the world economy. Some positive energy was gathered thanks to the adoption of the Millennium Development Goals, the Monterrey Conference, and the PRSP initiative. When one looks at the results, however, it is very clear that as far as many of the poorest countries are concerned, progress has been minimal. Deep-seated structural and political problems persist, and if they are not addressed much more decisively, progress will be elusive.

State Failure

The really central problem is that too many of the countries in this category are either *failed states* or in *imminent danger of becoming failed*

debts fall on average, in net present value terms, by about two-thirds. Data for 26 HIPC countries that have reached "decision points" show substantial improvement. For example, from 1999 to 2003, debt service/exports decreased from 15 percent to 9 percent; debt service/fiscal revenue decreased from 21 percent to 13 percent; and social expenditure/debt service increased from 187 percent to 406 percent.

9. The average yearly GDP per capita (in constant prices) growth rate of 46 sub-Saharan African countries in 1996–2003 was 1.6 percent. However, when the two sub-Saharan countries with the highest growth rate during this period, Equatorial Guinea (22.5 percent) and Mozambique (6.4 percent), are excluded, the average rate drops to 0.5 percent. The GDP per capita data is taken from the World Economic Outlook database of the IMF.

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states. "Failure" here refers to failure of a government to provide security, prevent internal conflict, and provide even the most basic public services to its population. Over the last decade we have witnessed such failure or situations close to failure in countries such as Afghanistan, Tajikistan, Myanmar, Angola, Burundi, Rwanda, the Democratic Republic of Congo, Haiti, Liberia, Sierra Leone, Somalia, and Sudan. Countries as diverse as Georgia, Sri Lanka, Côte d'Ivoire, and Chad have come dangerously close to becoming failed states, while others in the Balkans such as Serbia, Bosnia, Albania, and Macedonia are still recovering from war and/or internal turmoil. As expressed in the report of the Commission on Weak States and US National Security (2004):

> In dozens of developing countries, the term state is simply a misnomer. Governments are unable to do the things that their own citizens and the international community expect from them: offer protection from internal and external threats, deliver basic health services and education, and provide institutions that respond to the legitimate demands and needs of the population.

The failed states or those close to failure constitute a tremendous challenge for a better globalization. Even in a relatively advanced region such as the Balkans, countries experiencing state failure have been unable to overcome their problems without outside intervention. In many parts of Africa the situation is of course much worse than in the Balkans. State failure is also an imminent threat in parts of Central Asia, the Caucasus, Southeast Asia, and the Middle East. In some ways, globalization and the end of the Cold War seem to have exacerbated the problem of potential state failure. Globalization has brought with it the vivid contrast between local poverty and images of what exists elsewhere, leading to bigger gaps between expectations and reality and, in that sense, making government more difficult. Moreover, with the end of the Cold War, the superpowers stopped offering unconditional support to various dictatorships in exchange for their alignment in the great ideological struggle that was taking place. This, in itself, is of course a good thing. But the neglect that ensued often led to the disintegration of the shaky power structures that had survived only with outside support, leaving a power vacuum and political chaos.

Afghanistan is a telling example. In the post–World War II period, the superpowers competed for Afghanistan. For a long period, the West dominated, and pro-Western regimes backed by the United States and Pakistan

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as a local ally were able to rule Afghanistan. Then came a Soviet-backed communist coup that installed a pro-Soviet regime. The West and Pakistan reacted by arming anti-Soviet forces, including extreme fundamentalists. Once the Soviets withdrew, however, and ceased to be a danger as the Soviet Union itself collapsed, the big powers basically ignored Afghanistan, which descended into lawlessness and state failure. This allowed the fundamentalist Taliban regime to take over in alliance with those who ended up causing September 11. Situations that are not very different are numerous in Africa, as dictators propped up by the Soviets or the Western powers collapsed without workable political alternatives emerging.

This phenomenon of state failure spreading in the poorest parts of the world must be stopped for the sake of the people of those countries and for the sake of a safer and better world. State failure and fundamental weaknesses in governance are the root causes explaining why a whole group of poor countries not only shows no signs of even slow convergence to world income averages, but actually experiences declines in per capita income. What is required is a "big push" in terms of resource deployment to support investment in these countries. Such an effort can only succeed, however, if it is accompanied by drastic improvements in governance and the arrest of the phenomenon of state failure.

The "Big Push" to Fight Exclusion and State Failure

In a *Financial Times* commentary on the World Commission on the Social Dimension of Globalization report entitled "A Fair Globalization: Creating Opportunities for All," and sponsored by the International Labor Organization (ILO), Martin Wolf expressed more openly than most the frustration felt by many:

> The world's 20 poorest countries are just about as poor today as they were 40 years ago. That can be changed only if they start to function quite differently from before, which will take a great deal of outside help. But it will also require radical domestic transformation. If the sovereignty of such dysfunctional states is protected, their peoples will remain impoverished. If their people are to be helped, the sovereignty of their states must be challenged.[10]

10. Martin Wolf, *Financial Times* (London), March 3, 2004, 19.

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Frustration led to bluntness in this paragraph, but honesty requires that one acknowledge the real problems. As hard as it is to achieve, the world urgently needs a *combination* of substantial foreign aid in the form of grants, perhaps at least twice the amount that is currently available, with a mechanism that ensures that these resources are actually put to good use.[11] There is really nothing that automatically leads to the inclusion in the world economy of countries that have been marginalized by history, geography, civil war, governance failures, and/or foreign power struggles on their soil. Globalization does not "work" for these countries. The linkages that exist between them and the growing parts of the world economy are insufficient. Some optimists seem to think that global growth will eventually "reach" these countries as it will reach the poorest parts of India and China. Unfortunately there is nothing inevitable about this. To make an extreme comparison: there is no reason for the growth of the world economy to benefit the moon! Where there are insufficient linkages, nothing happens. China and India can use the apparatus of the nation-state to "create" linkages between their own prosperous regions and their poor regions. Somalia or Sierra Leone can do very little on their own to create equivalent linkages between themselves and the dynamic parts of the world economy.

This exclusion poses a tremendous ethical challenge because there are hundreds of millions of human beings trapped in extreme poverty. Exclusion and state failure also pose a huge security challenge for the entire world, as has been demonstrated in the case of Afghanistan. The absence of significant economic linkages does not mean that terror networks cannot use failed states as bases—or that viruses carrying disease cannot reach the rest of the world.

What we need during the next 10 years that separates us from the target date set for the Millennium Development Goals is a really *big push* to help the people trapped in the poorest countries escape exclusion and join the world. These countries are in a vicious circle from which they cannot escape without substantial outside help. They are extremely poor, so it is

11. See the Zedillo Report (2001). Former Mexican president Ernesto Zedillo led the high-level panel that prepared the report in the context of the UN-sponsored International Conference on Financing for Development, which took place in Monterrey, Mexico, in 2002. There has been much analysis of the link between foreign aid and development. For a recent update with new evidence see Clemens, Radelet, and Bhavnani (2004), which also includes a list of the most important references.

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very hard for them to save. Private economic activity needs to be supported by much better infrastructure—but low savings means low investment and therefore the inability to create that infrastructure. Investment rates vary in the 15 to 25 percent range. The upper end of this range does not constitute a low investment rate given world averages, but more is required given the immense needs of these very poor countries. Physical investment alone is not enough, of course. Overall productivity growth requires an increase in skills, but there are insufficient resources for education. Poor health aggravates the productivity problem and continued poverty prevents improvements in health. Many of these countries are too small to create regions or poles of growth from which development could spread over time, as happened, for example, in China and India. On top of all this and partly because of extreme poverty and lack of education, many of these countries have horrendous governance problems. Many of them have borders that were rather arbitrarily drawn by the ex-colonial powers. As a result, there is little feeling of national identity; tribal, ethnic, or religious loyalties dominate and when combined with extreme poverty, lead to civil war and even genocidal violence of the kind recently experienced in Eastern Africa.

An important dimension of the problem relates to conditionality—the rules and conditions under which the resources are transferred. For a "big push" backed by substantial resources to succeed, there will have to be *more* conditionality rather than less, including sufficiently high standards in the areas of domestic governance, education, health, government budget composition, and political institutions. Of course, these conditions attached to aid must support local reform efforts and must reflect local conditions and priorities. But history demonstrates quite clearly that there is no point pouring resources into countries where a small group in power is able to waste these resources or where there is not a minimum of effective institutions. But who will monitor the reform process and enforce the conditionality? For the comprehensive conditionality required to be at all acceptable, the governance of the Bretton Woods institutions and of the whole international process with regard to the poorer countries will have to be perceived as much more legitimate. The central thesis of this book is that a better globalization requires more legitimate global governance. This is true also in the context of the poorest countries. Poverty reduction as well as success with policy reforms and with aid effectiveness depends on improved global governance and greater legitimacy.

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Global Resource Mobilization

The economic takeoff of these very poor countries will have to be designed in a global context with substantial grant aid resources so that sufficient investments in human and physical infrastructure can trigger a qualitative change in the growth process and unleash new hope and confidence. Linkages between the least-developed countries and the growing parts of the world economy will have to be encouraged and subsidized—both as regards human capital formation (training, education, temporary migration) and with respect to transport and communication. The existing *framework* created by the Heavily Indebted Poor Country/Poverty Reduction Strategy Papers initiative is appropriate as an *approach,* but it is insufficient in its *degree of ambition* and in the *amount of resources available* to make it work. As already argued in detail in the Zedillo Report, resources deployed worldwide in the fight against extreme poverty must be doubled, with most of these resources going to the poorest countries, if the MDGs are to be met.

A big push strategy to launch growth in the poorest countries will require substantial additional resources that must somehow be mobilized. The orders of magnitude involved here are much larger than the several billion dollars a year that would be required to finance the modest interest cost reduction for a group of highly indebted, emerging-market economies discussed in the preceding chapter. A resource mobilization target should be at least in the order of $30 billion a year in addition to existing programs. If this is added to, say, $5 billion a year for "blending" resources for middle-income countries, including the interest reduction cost of a Stability and Growth Facility (SGF), one arrives at a need to find an *additional* $35 billion a year for development aid.[12]

When discussing the alternative methods that could be used to raise these resources, one notices that most of the revenue sources proposed are tied to other, complementary objectives. The most "neutral" proposal is that of some form of income tax surcharge. Proposals such as a tax on armaments or a carbon tax are viewed as potentially useful not only for raising development funds, but also for discouraging global "bads," the

12. In 2002, the Zedillo Report provided the estimate that total development aid (including concessional aid to lower-middle-income countries) would need to double, rising by about $50 billion a year, for the Millennium Development Goals to be attained. A modest increase in existing official development assistance (ODA) programs has so far delivered perhaps $15 billion of the required $50 billion in the form of future commitments.

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arms race, and global warming. The regular creation of special drawing rights (SDRs) would allow "a more balanced distribution of seignorage power," to use the words of Griffith-Jones and Ocampo (2004). "In a world characterized by the use of the national currencies of major industrial countries as international monies, the accumulation of international reserves generates, in fact, a redistribution of income from developing countries to the major industrial countries."[13] As noted before in the context of the discussion on emerging markets, assuming 3 percent growth in the world economy and a constant ratio of global reserves to world GDP implies that reserves could grow by about $75 billion a year. If the world economy were to grow by 4 percent, reserves could increase by $100 billion a year. It is true that reserve accumulation by many Asian countries has been extremely rapid, and one could argue that in a world of more flexible exchange rates reserves should grow by less than GDP. Be that as it may, a partial funding of additional development resources through special drawing rights creation, while large in the context of aid programs, would still remain small in terms of creation of world liquidity and would not present an inflationary danger, although if the *entire* additional aid resources would have to be funded by SDR creation the overall macroeconomic impact would no longer be insignificant. Regular SDR allocations could have an additional benefit of allowing an expansion of world reserves not tied to the accumulation of assets denominated in one or two particular currencies, a process which is likely to be tied to global macroeconomic imbalances.

Another approach to raising additional resources that can be deployed for development and for meeting the MDGs is global taxation. Until very recently, proposals for global taxation were considered outlandish. In recent years, however, some world leaders, including some from developed countries, have signaled their willingness to consider such an approach. Generally, the approach taken is one where a global "public bad," such as pollution, financial volatility, or arms sales, would be taxed to raise resources to finance global public goods or the fight against poverty. Note that the revenues derived from taxing global "public bads" need not be earmarked to specific public goods any more than national taxes on cigarettes need to be spent exclusively on lung cancer treatment for the approach to be valid. The most popular proposals are a global tax

13. Griffith-Jones and Ocampo (2004, 30). A country that can issue money that others will hold as reserves actually gets "something for nothing."

on carbon emissions, armament sales, and short-term financial transactions (the Tobin tax). A carbon tax would be a very attractive form of international taxation. The tax could be collected relatively easily on the sale of coal, petroleum products, and natural gas. A tax of one and a half cents per gallon of fuel, if collected everywhere, could fund the entire $35 billion of additional resources mentioned above (Reisen 2004). A tax on the sale of armaments would unlikely be a great revenue collector, unless the tax rate was quite high. This in turn could lead to serious incentive problems encouraging illicit arms trafficking, which is already very significant. On the other hand, if the tax could be levied on production rather than cross-border sales, a very low rate could yield significant revenues. The "Tobin tax" is the oldest of the global taxes proposed. Even a very small tax of, say, 0.01 percent would raise substantial resources (close to $20 billion) if diversion of transactions could be prevented by all major money trading centers participating and by the imposition of sanctions on those who do not. It would also be necessary to design the tax in such a way that it could not easily be circumvented by swaps and forward contracts.

Instead of raising revenues by taxing global "public bads," it has also been proposed that resources be collected by modest "global" surcharges to existing taxes such as corporate profit taxes imposed on corporations working globally and having a minimum size. If such an approach were feasible, a very low surcharge could clearly produce the resources needed to raise the additional $35 billion required.

Finally, the government of the United Kingdom has recently proposed the creation of an International Financial Facility (IFF) that would be funded through long-term pledges by donors committing themselves to an annual flow of payments to the IFF. These commitments would be binding and provide the security based upon which investors would lend to the IFF, creating the upfront resources to the MDGs ahead of actual official development assistance (ODA) flows that will become available only over time.

Starting from development-focused special drawing rights allocations, each of these proposals would not by itself solve the resource mobilization problem. It may be difficult to rely on a steady demand for SDR-denominated reserves if the amounts are large. Global taxes may only be feasible or even desirable if the tax rates are very small. The legal systems of some countries do not allow the precommitment of resources required by the IFF, and in countries where such commitments are possible, the

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amounts would have to be limited for the commitments to be credible and politically feasible. That is why it would be best to consider a *package* of these proposals together: some regular issuance of SDRs to be allocated to development ($10 billion to $15 billion annually), some very small global taxes (raising another $10 billion to $15 billion), complemented by the IFF frontloading some of the ODA that will become available over time. The UN Economic and Social Security Council proposed in chapter 4 would be the ideal institutional vehicle to design this package and promote it in the national legislatures and the UN system.

Reform of the Management of the Poorest Countries Programs

Within the overall framework of the United Nations Economic and Social Security Council (UNESC) and the new arrangements proposed in chapter 4, it would also be desirable to revisit the management of the programs designed to support the poorest countries in the international system. At the Bretton Woods institutions, the efforts directed at the poorest countries are currently managed largely as part of these institutions' general operations. Both the Poverty Reduction and Growth Facility (PRGF) at the IMF and the International Development Association (IDA) operations at the World Bank are integral parts of the work of these institutions, although the financial resources raised for these programs have separate governance structures.[14]

14. Whereas the World Bank raises most of its funds on the world's financial markets, the IDA is funded largely by contributions from the governments of the richer member countries. Additional funds come from repayments of earlier IDA credits and from the World Bank's net income. Donors get together every three years to replenish IDA funds. The United States, Japan, Germany, France, the United Kingdom, Italy, and Canada were the major donors to the most recent IDA replenishment. But some middle-income countries that are currently eligible to borrow from the World Bank—namely Argentina, Brazil, the Czech Republic, Hungary, Korea, Mexico, Poland, Russia, the Slovak Republic, South Africa, Turkey, and Venezuela—are also IDA donors. Other contributors to the most recent IDA replenishment were Australia, Austria, Barbados, the Bahamas, Belgium, Denmark, Finland, Greece, Iceland, Ireland, Israel, Kuwait, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Saudi Arabia, Singapore, Spain, Sweden, and Switzerland. Donor representatives, also called IDA deputies, agreed to commit SDR 18 billion (about $23 billion) to poor IDA members over the next three years, beginning in 2002. For the first time in the IDA's history, these discussions have been opened up to IDA borrowers, whose representatives participated in all meetings. The IMF administers concessional lending under the Poverty Reduction and Growth Facility through the PRGF and PRGF/HIPC trusts. The PRGF trust borrows resources from central banks, governments, and official

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This integration of the work on and the management of poorest country programs with the rest of the programs at the Bretton Woods institutions has advantages as well as disadvantages. The most important advantage is that the poorest countries get better access to global knowledge and experience, because management and staff dealing with them have more global experience and responsibilities than would be the case if there was institutional separation between the poorest countries and the rest of the world. There are also disadvantages, however. Particularly at the IMF, the financial "size" of middle-income and emerging-market programs is huge compared to the resources going to the poorest countries. In the case of country programs in Argentina, Brazil, Turkey, or Korea, tens of billions of dollars were at stake compared to the hundreds of millions of dollars at stake in poorest country programs, a ratio of one to one hundred! Moreover, the large emerging-market economies have immediate systemic significance for the world financial system, which the poorest countries lack. It should not come as a surprise, therefore, that it is the emerging markets and the immediate systemic problems that attract the lion's share of top management attention at the IMF. And yet the human significance and the *long-term broader socioeconomic systemic importance* of what happens in the poorest countries are as important as what happens in the middle-income economies.

Finally, as discussed above, sustainable development for the poorest countries requires the availability of resources in greater amounts than in the past and in a form very close to grants, accompanied by very tough conditionality relating to domestic governance and the quality of public expenditures. For such resources to be made available and for such conditionality to be acceptable, a special focus on the poorest countries and special governance and management arrangements may be needed.

The following ideas might contribute to more focused management of poorest country programs and more acceptable governance and conditionality, while preserving the global nature of the Bretton Woods institutions and avoiding building additional walls between the poorest countries and the rest of the world when we are in fact trying to integrate

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institutions, generally at market-related interest rates, and lends them to PRGF-eligible countries. The difference between the market-related interest rate paid to PRGF trust lenders and the rate of interest of 0.5 percent per year paid by the borrowing members is financed by contributions from bilateral donors and the IMF's own resources (primarily by the investment income on the net proceeds from off-market gold sales in 1999 that were deposited in the IMF's PRGF/HIPC trust).

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them more fully into the world economy. The IMF should *retain* its role in these countries with the Poverty Reduction and Growth Facility and normal consultation and surveillance activities, but one of the IMF's three deputy managing directors should be appointed at the same time as the managing director by the UNESC and should have special coordinating responsibility for poorest country programs.[15] Once appointed, she or he would be, of course, fully part of the integrated management structure of the IMF, although the way the various departments are organized may need amendments to strengthen the focus on poorest countries. A similar arrangement is not necessary for the top management at the World Bank, because the nature of the Bank's business and the share of the IDA in total lending more naturally assure top-level senior management attention to the poorest countries. Both institutions, however, should introduce and enforce much more rigorous rotation and promotion procedures requiring and rewarding successful staff for their work on poorest countries programs.[16] This has been talked about for decades but has never been comprehensively implemented.

Another very important feature of reformed arrangements in relation to the poorest countries should be the use of *peer review* and *peer participation*, something already proposed by some poor country governments as well as by the United Kingdom. A significant number of young to mid-career staff recruited directly in the least-developed countries from government agencies and the private sector could be brought to the World Bank and the IMF on a strictly temporary basis (for example, three years not renewable in any way before a five-year period) and deployed both at headquarters and in field offices (excluding their own countries) as part of country teams working on poor country programs. For this to be significant and have a real impact both on the nature of the programs and their perception in the poorest countries, the numbers of such staff would have to be substantial and reach *at least* 20 percent of all staff working on these countries. During their assignment, a special period should be reserved for an intensive study and training program open also to other longer-term young staff members, ending with the awarding of diplomas

15. An oversight function for poor country programs was created at the IMF in 1999, but not at the top management level.

16. At the World Bank, for example, the technically more specialized staff who work in the global "networks" such as education, health, finance, etc. should be deployed across the globe in such a way as to work on the least-developed countries a specified percentage of their time over a given period, say at least 30 percent in a five-year period for everyone.

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to successful participants. A special budget allocation would be needed and fully justified to fund such a reform, which would have the double benefit of skill formation for young people from these countries, while adding to the effectiveness of Bretton Woods–supported programs.

Finally, the UNESC could create a special PRGF/IDA policy board made up of 20 to 25 senior members, with one-fourth being currently active policymakers in poorest countries, one-fourth eminent personalities from these countries, including representatives from the private sector, one-fourth policymakers from middle- and higher-income countries, and one-fourth coming from international nongovernmental organizations and academia. This board would have the job of preparing an annual review of conditionality and policy advice contained in PRGF/IDA programs, which would include evaluation of the recent past as well as recommendations for the future. This should be ongoing, not a once-and-for-all exercise. These recommendations would not be binding, as they should not interfere with the normal functioning of Bretton Woods management and board decisions, but they would clearly carry a great deal of moral weight and would certainly have an influence on how policy advice and conditionality are designed and implemented. Special prizes could be awarded by this policy board for successful projects and policy programs with real financial rewards and incentives for participants.[17]

Implemented jointly, these proposals or other arrangements close in spirit to those cited above could go a long way toward strengthening the legitimacy of Bretton Woods–supported programs and make more acceptable the unavoidable conditionality that will have to accompany the "big push" needed to free these countries from the debt and poverty trap that currently tends to exclude them from global growth. A judicious balance must be struck between respect for sovereignty of any member country, as well as respect for cultural differences, and the pressing need to enforce decent governance and protect populations from predatory and sometimes criminal behavior of local power holders, sometimes allied with outside financial interests. The effort of the international community toward the least-developed countries must not be sporadic, but systematic and sustained. It is not sufficient to send a few thousand troops to Haiti every five years or so—Haiti must be helped to become a self-sustaining and viable country. This will at times require that for

17. Such prizes are currently awarded inside the World Bank to particularly successful activities. Awards by an outside policy board would complement these internal awards and could become high profile events.

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certain periods the international community or regional organizations on behalf of the international community become a *custodian of sovereignty* in some of these failed states. This should not be viewed as some form of neocolonialism but as a reflection of the belief that African or Asian human beings need and deserve protection as much as people in Kosovo or in Bosnia. It is better to be honest about this and recognize reality rather than try to avoid it. Such a process can only work, however, within the framework of the United Nations providing strong legitimacy, and in a setting where citizens of the least-developed countries as a group play an important role themselves. This role should be clear and visible at all levels—inside the UNESC, on the PRGF/IDA policy board, in the management of the Bretton Woods institutions, and among the staff working on the poorest countries.