Chapter 4

LINKING COUNTRIES' INTERNATIONAL POLICIES TO POVERTY

Linking Debt Relief to Poverty Reduction

Harnessing Trade for Poverty Reduction

Making Aid Work for the Poor

Countries should link their poverty programmes to their international economic and financial policies—a connection rarely made.

In a world of increasing economic integration the success of the poverty reduction programmes of countries depends critically on their international economic and financial policies. Such programmes need to be linked not only with national policies, as discussed in chapter 3, but also with countries' international policies—which can have a decisive impact on poverty.

The gap between poverty programmes and national policy-making on trade and finance, however, remains wide—and unrecognized. The same is true of policy-making by multilateral institutions. External debt is now being clearly linked to poverty, but that is not the case with trade. In industrial countries one hears little outrage about the continuous decline in official development assistance—or the new justification for the cutbacks as a way to finance debt relief. The drop in aid runs counter to proclamations from donors about an international campaign against poverty—unless the aid still provided is tremendously focused and effective. It appears to be neither. Meanwhile, integration proceeds apace.

Every day more than $1.5 trillion is exchanged in the world's currency markets, and every year nearly a fifth of the world's goods and services are traded. Foreign direct investment topped $400 billion at the end of the 1990s. But the benefits of these global economic transactions are being spread inequitably among countries and, within them, between rich and poor. About a fifth of developing countries receive four-fifths of total private capital flows, and official development assistance, which is supposed to counterbalance the effects of market forces, is now a third lower than in 1990 in real terms—and shows no prospects of recovering.

The growth of developing countries was modest during the 1990s—a result of the slowdown in world trade, declining commodity prices and heavy debt burdens. Fifty-five countries—mostly in Sub-Saharan Africa and Eastern Europe and the CIS—have registered declining income.

Poverty trends have been on a roller-coaster, pushing back the prospects for halving global income poverty by 2015. Rough estimates by the World Bank of income poverty—based on an international poverty line of $1 a day per person (in 1985 purchasing power parity prices)—show that the number of poor was on the rise from 1987 to 1993, then began dropping until 1996 and, since then, has been edging up again. As monitored by UNDP, using its own, broader definition, human poverty remains pervasive and persistent—and sharply on the rise in some countries, particularly those most affected by the HIV/AIDS epidemic.

LINKING DEBT RELIEF TO POVERTY REDUCTION

For many of the poorer developing countries the prospects for poverty reduction depend crucially on reducing their external debt. The boards of the World Bank and the International Monetary Fund (IMF), at their annual meetings in September 1999, endorsed measures to provide faster, deeper and broader debt relief to the 41 heavily indebted poor countries (HIPCs) and to strengthen the links between debt relief and poverty reduction.

These measures, known as the Enhanced HIPC Initiative, aim to relieve up to 70% of the approximately $127 billion debt that these countries owe. That is roughly $65 billion more in debt relief, in nominal terms, than that offered by the original HIPC Initiative in 1996.

Table 4.1 ***Budget Allocations to Basic Social Services and Debt Service by Selected Heavily Indebted Poor Countries, 1992–97***

Debt relief could free fiscal resources to allow countries to invest in basic social services.

	BASIC SOCIAL SERVICES (%)	DEBT SERVICE (%)
Benin	9.5	10.8
Bolivia	16.7	9.8
Cameroon	4.0	36.0
Côte d'Ivoire	11.4	35.0
Honduras	12.5	21.0
Kenya	12.6	40.0
Nicaragua	9.2	14.1
Niger	20.4	33.0
Tanzania	15.0	46.0
Uganda	21.0	9.4
Zambia	6.7	40.0

Source: UNICEF and UNDP 1998.

Table 4.2 ***Debt and Exports of Selected Heavily Indebted Poor Countries***

Many poor countries cannot earn enough from exports to pay off their debts.

	RATIO OF TOTAL DEBT TO GNP (%) *1997*	RATIO OF TOTAL EXTERNAL DEBT TO EXPORTS (%) *1995–97*	AVERAGE ANNUAL GROWTH OF EXPORT VALUE (%) *1990–96*
Benin	77	342	–14.0
Burkina Faso	54	423	–16.0
Ghana	89	352	4.0
Mali	119	524	6.2
Mauritania	235	488	11.2
Mozambique	233	1,217	3.3
Uganda	56	478	29.1
Yemen	77	155	•

• Not available.

Source: World Bank 1999a.

The original HIPC Initiative sought to enable the heavily indebted poor countries—four-fifths of them in Sub-Saharan Africa—to achieve sustainable debt and escape from the constant rescheduling of debt they could not repay. The implicit assumption was that debt relief would free fiscal resources to allow these countries to improve human development (table 4.1). Development gains were badly needed: more than 40% of their people were income-poor, the average life expectancy was 52 years, 34% of children under age five suffered from malnutrition and 43% of adults were illiterate.

Because of its external debt, Burkina Faso—one of the assessment countries—had few options left to boost its spending on basic social services (see the country profile). About a third of its export earnings went to servicing debt, and these earnings were declining.

The benefits of the original HIPC Initiative proved to be limited. Three years after its introduction, only four countries (Bolivia, Guyana, Mozambique and Uganda) received debt relief, and three others (Burkina Faso, Côte d'Ivoire and Mali) expected to receive it. Together, these seven countries would have received about $3 billion in debt relief—out of the $127 billion owed by all 41 countries.

The Enhanced HIPC Initiative will offer deeper debt relief and extend relief to more countries by lowering eligibility requirements, such as a country's debt-to-export ratio or its debt-to-fiscal revenue target (table 4.2). One beneficiary of the lowered requirements is Mali, expecting to receive $834 million in debt relief (see the country profile). The initiative will provide faster debt relief by reducing debt service payments (rather than debt stock) after a country completes its first structural adjustment programme (three years after rather than the original six). And it will allow strong performers to gain relief sooner, and offer "front-loading" of debt relief for others case by case.

Changing Policies at the IMF and World Bank

To ensure a strong link between debt relief and poverty reduction, the Enhanced HIPC Initiative seeks to make debt relief an integral part of broader efforts to implement outcome-oriented poverty reduction strategies. For this purpose countries will elaborate—with assistance from the Bank and the IMF (and others as appropriate)—a Poverty Reduction Strategy Paper, which will take explicit account of poverty reduction goals while establishing the country's macroeconomic framework.

The strategy will provide the IMF with the central policy framework for all lending operations of its Enhanced Structural Adjustment Facility, now to be named the Poverty Reduction and Growth Facility. The World Bank will use the strategy in conjunction with its Comprehensive Development Framework to promote progress towards the international development goals for reducing poverty.

Concerns of Indebted Countries

Freeing resources for poverty reduction is a step in the right direction. But many of the indebted countries doubt—with good reason—that the debt relief will go far enough.

Projected reductions in debt servicing might be too small to make a real difference for some countries. Take Mozambique, another of the assessment countries. Before the original HIPC Initiative its annual debt service payments were $153 million a year. The original initiative reduced them to $98 million. The new initiative reduces them further to $73 million. But even this lower amount exceeds Mozambique's spending on basic health and education. For most countries effective debt relief depends on front-loading—on reducing much of their debt soon after they become eligible. Moreover, relief is also contingent on bilateral donors' providing the financing—a commitment from which some are backing away.

Some countries are badly in need of faster debt relief. Hit by Hurricane Mitch in late 1998, Honduras, another HIPC, is in no position to repay its debt. Its debt burden is 208% of its exports, and its debt service accounts for 55% of government expenditures. According to some estimates, the hurricane caused $3.1 billion in direct damage to the economy. The international response has been to argue for a moratorium on Honduras's debt service and for granting it early entry into the Enhanced HIPC Initiative. Some creditor countries, such as Norway, have provided unilateral debt relief. UNDP has helped provide a set of short-term emergency interventions in the wake of the disaster and has sent advisory missions to help the country qualify for debt relief.

A MAJOR CONCERN OF HEAVILY INDEBTED COUNTRIES IS THAT DEBT RELIEF SHOULD NOT JUSTIFY CORRESPONDING REDUCTIONS IN OFFICIAL DEVELOPMENT ASSISTANCE.

A major concern of heavily indebted countries is that debt relief should not justify corresponding reductions in official development assistance. But six bilateral creditors have already allocated more than 10% of their development budgets for financing debt reduction—one of them more than 30%. The countries are also wary of new conditionalities. The obligation to maintain internal and external macroeconomic balances has already restricted their ability to target resources to poverty reduction.

UNDP's Continuing Support to Debt Relief

As an intergovernmental institution, UNDP can play an impartial role in building the capacity of countries to implement their poverty reduction strategies. UNDP has provided more than 100 countries funding and technical assistance to prepare poverty profiles, review fiscal policies and formulate national poverty programmes. UNDP has also funded social sector reviews, under the auspices of the 20/20 Initiative, for 25 countries. These efforts have already been geared to helping countries follow through on the poverty reduction commitments that they made at the Social Summit.

Since UNDP plays a central role in aid coordination, it is also well positioned to broaden participation to include United Nations agencies and funds, bilateral donors and civil society organizations in helping countries prepare their poverty reduction strategies. Consultative Groups and Round Tables provide appropriate forums for broad discussions of these strategies.

UNDP has begun assisting countries in meeting the conditions implied by their Poverty Reduction Strategy Papers. It is helping the government of Nicaragua to produce a preliminary draft of its national poverty reduction strategy, and the governments of Mali, Mauritania and Tanzania to formulate indicators for monitoring poverty.

HARNESSING TRADE FOR POVERTY REDUCTION

Despite an increasing export orientation, many of the poorer developing countries remain unable to penetrate major export markets. As a result, they lack the foreign exchange to purchase many essential imports—a major reason for their indebtedness and a contributor to their widespread poverty.

If poor countries are to benefit from the opportunities offered by global trade, the rules and institutions governing it must be transparent and fair. And poor countries must have the capacity to negotiate more favourable agreements, such as during the rounds of the World Trade Organization (WTO).

These developing country concerns were not addressed at the WTO meeting in Seattle in late 1999, which was convened to lay the groundwork for a new round of international trade negotiations. Lack of attention to these concerns was a major reason for the Seattle meeting's failure to produce concrete results. Consider the current WTO trade rules governing agriculture.

The WTO Agreement on Agriculture

Under the existing WTO agreement on agriculture, countries are obliged to lower tariffs, convert quotas to tariffs and reduce subsidies to their agricultural sectors. But developing countries argue that industrial countries have used both tariff and non-tariff barriers to restrict access to their agricultural exports—leading to annual losses in export earnings of $700 billion. And industrial countries continue to charge higher tariffs on processed than on non-processed foods, frustrating developing country efforts to add value to agricultural exports.

Developing countries also maintain that existing WTO exemptions on subsidies allow rich countries to provide direct income support to agricultural producers. Under these exemptions governments can provide unlimited support to general services—including subsidies to infrastructure, research and marketing. In 1995 these subsidies in rich countries amounted to $46 billion.

Under conditions of unfair competition, developing countries fear that their population's food security—its access to enough food to meet nutritional needs—will be jeopardized when they lower all barriers to agricultural trade. Who will bear the immediate brunt of this liberalization? The rural poor—the marginal farmers and landless labourers relying on small-scale agricultural production for their livelihoods. These concerns have led many developing countries to call for a moratorium on further liberalization of agricultural markets.

They have argued that unforeseen fluctuations in international prices could compel many poor countries to borrow to pay for food imports, worsening their balance of payments, increasing their external debt or making them more dependent on food aid. Indonesia, which depends on imported food—20 million tonnes of rice a year, two-thirds of the world rice trade—found itself, in the midst of its economic crisis, with inadequate supplies of locally produced food and a severely devalued rupiah that sent the price of imported rice skyrocketing. According to some estimates, more than 100 million Indonesians joined the ranks of the poor as a consequence.

If trade expansion is to begin benefiting the poorer developing countries, the international rules of the game must be made more fair. Eliminating protectionism that is biased against developing countries should be a high priority. The international costs of protectionism—to everyone—are huge. The cost of protecting agricultural production in industrial countries amounted to a staggering $353 billion in 1998, seven times official development assistance.

As a standard procedure, those proposing further liberalization of agricultural trade should demonstrate the potential impact on poverty and food security before the proposals are considered for multilateral negotiation.

A Stronger Bargaining Position for Poor Countries

Much more also needs to be done to strengthen the bargaining position of developing countries in international negotiations, such as for a world trade agreement. They have much less power than industrial countries, in part because they have fewer human and technical resources to deploy in negotiations. Tellingly, during the WTO's analysis and information exchange process—on the agreement on agriculture—South Africa was the only African country to make a submission. Most Sub-Saharan African countries are still trying to implement the agreements reached in the previous Uruguay Round.

One way to bolster the negotiating capacity of developing countries is by promoting regional coalitions, ensuring not only greater bargaining power but also some economies of scale in deploying scarce technical expertise.

To produce more equitable results, the WTO and similar global governance structures should become more transparent and participatory. That is particularly important at a time when industrial countries and many multilateral institutions are exhorting developing countries, in the name of good governance, to be more accountable to their citizens.

UNDP's Support to Poverty-Reducing Trade

UNDP favours a Millennium Round of trade negotiations that will help open markets to developing country exports—critical for improving the prospects of meeting international poverty reduction targets.

UNDP is assisting developing countries in building national and regional technical capacity to negotiate trade-related agreements and to benefit from the opportunities offered by trade expansion. With five other agencies, it is cosponsoring a programme—the Integrated Framework for Technical Assistance for Trade and Trade-Related Issues and Least Developed Countries—that has played an important role in helping poor countries, such as the Gambia and Haiti, to prepare for donor meetings on trade policy issues.

Box 4.1 Strengthening the Bargaining Position of Poor Countries—Four Proposed Actions

Poor countries and poor people have little voice or influence in today's global policy-making forums. The most important and influential actor is the G-7, whose members control the Bretton Woods institutions through voting rights, and the United Nations Security Council by occupying three of the five permanent seats. There is no developing country equivalent to the G-7 or OECD—with similar resources, consultation and policy coordination. But there have been many efforts to develop collective third world positions through such bodies as the G-15, the G-24 and the G-77.

UNDP's *Human Development Report 1999* proposed four actions that could be rapidly set in motion to strengthen the bargaining position of poor countries:

- ***Provide legal aid.* WTO dispute settlement mechanisms can be fair only when all the parties to a dispute have access to expert services to argue their case. An independent legal aid centre is needed to assist poor countries. That has already become a reality, announced at the WTO meeting in Seattle in late 1999.**
- ***Appoint an ombudsman* to respond to grievances and investigate injustices.**
- ***Support policy research.* OECD countries arrive at multilateral forums with a battery of policy research to formulate and defend their positions.**
- ***Rely more on regional solidarity and regional institutions.* Poor countries can make their own resources go further by developing common positions in negotiations and developing mutual financial support in crises.**

UNDP's programme Globalization, Liberalization and Sustainable Human Development, implemented in partnership with UNCTAD, helps build national capacity and international coalitions to prepare for negotiations at global trade forums. In 1998 the programme organized an international workshop on a range of issues, such as the multilateral investment framework and the implementation of the Uruguay Round agreements, to assist least developed countries in preparing for the WTO meeting in Seattle.

UNDP's regional programme for trade capacity building in Sub-Saharan Africa is designed to build the governments' capacity to develop strategic trade policies in consultation with the private sector, and to help policy-makers obtain trade-related information and support services. UNDP has also strengthened the institutional capacity of the Economic Cooperation Organization—which includes Afghanistan, Azerbaijan, the Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan and Uzbekistan—to foster regional economic cooperation through increased trade and investment.

UNDP's *Human Development Report 1999* proposed four concrete actions to help bolster the bargaining position of poor developing countries in such international forums as the WTO (box 4.1).

MAKING AID WORK FOR THE POOR

Development cooperation can play a vital role in promoting poverty reduction. But official development assistance has sunk to low levels. Meanwhile, most multilateral and bilateral donors claim to be focusing their remaining aid resources on such priority objectives as poverty reduction. But a revealing study by the Development Assistance Committee's Informal Network on Poverty Reduction (1999)—aimed at helping donors focus more effectively on poverty—has found that donors, although more committed than ever to poverty reduction, need to do much more to translate their commitments into action.

The study deals with many issues relevant to UNDP's work. For some time UNDP has been undertaking reforms to become more results-oriented—to focus more on the impact of its development assistance. Its new Strategic Results Framework—part of its Multiyear Funding Framework—attempts to systematize this effort.

Initial results from use of the new framework suggest that UNDP needs to emphasize micro-interventions less and national policies more and to integrate both into support for comprehensive national poverty programmes. In some cases UNDP's support to such programmes has been too narrow, contributing to the narrowing of the programmes to targeted interventions. It has given little assistance, for example, to pro-poor macroeconomic policies.

The DAC study reports that almost all of the 25 development agencies it covers identify poverty reduction as their overarching goal or as one such goal. For UNDP, the World Bank and such bilateral donors as Canada, Denmark, the Netherlands, Sweden and the United Kingdom, poverty reduction is the overriding goal. For others, such as Germany, Japan and the European Commission, it is one among others. For a third group,

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which includes France, and the United States, poverty reduction is not an overriding goal.

Most of the agencies have not developed operational guidelines or incentive structures to encourage their staff to make poverty reduction a priority. Instead, they allow a permissive management culture to hold sway—leaving country directors and department heads free to decide how to manage the poverty issue. And the widespread pressure to disburse aid rapidly works as a disincentive to focusing on poverty reduction—which can be time consuming.

Some agencies seem to have elevated poverty reduction to a crusade that is too noble, complex and protracted to pursue in practice. As a result, many of their country assistance strategies do not give poverty any more priority than other development objectives.

Few agencies have carried out a systematic analysis of the causes of poverty, to find out why some people are more vulnerable than others to poverty or why some move in and out of it. And few of the agencies' programmes target interventions to the poorest regions or groups. Among the reasons they give: the targeting would not be politically sustainable, or governments lack the administrative capacity for targeting.

More troubling is that the great majority of the agencies lack monitoring systems to hold themselves accountable to their declared poverty objectives. They can present no convincing evidence on how their interventions have benefited the poor. They also lack information systems to provide feedback on their activities and lessons from their successes or failures.

Although agencies have broadened their approach to anti-poverty policies and programmes, most lack a clear understanding of how to help create pro-poor macroeconomic policies or governance institutions. Although most agencies now agree that growth should be pro-poor or broad-based, few have clarified the policy implications of this stance. For example, agencies rarely tackle inequality—certainly not unequal distribution of productive assets such as land.

Most agencies desire working partnerships with developing country counterparts, such as the government or civil society organizations. But they have not yet determined how to make these partnerships more equal and reciprocal.

Agencies still struggle to avoid the charge of aid conditionality. Sidestepping traditional forms of conditionality, some have opted to work only with counterparts with whom they share a common purpose. To increase national ownership, donors' country assistance strategies could be tailored to support nationally determined poverty reduction strategies—rather than the other way around—but agencies have been slow to adopt this approach.

Although partnership should imply donor funding of government-led plans, a common complaint from donors is that few governments have the commitment and the capacity to move into the driver's seat. So donors often grab the wheel. But agencies are partly to blame, because most still rely heavily on the project approach. Often funded and managed outside regular government channels, this approach has been criticized for dispersing government efforts, undermining national ownership and jeopardizing sustainability.