Overview

International cooperation at a crossroads

Aid, trade and security in an unequal world

Every hour more than 1,200 children die away from the glare of media attention

The year 2004 ended with an event that demonstrated the destructive power of nature and the regenerative power of human compassion. The tsunami that swept across the Indian Ocean left some 300,000 people dead. Millions more were left homeless. Within days of the tsunami, one of the worst natural disasters in recent history had given rise to the world's greatest international relief effort, showing what can be achieved through global solidarity when the international community commits itself to a great endeavour.

The tsunami was a highly visible, unpredictable and largely unpreventable tragedy. Other tragedies are less visible, monotonously predictable and readily preventable. Every hour more than 1,200 children die away from the glare of media attention. This is equivalent to three tsunamis a month, every month, hitting the world's most vulnerable citizens—its children. The causes of death will vary, but the overwhelming majority can be traced to a single pathology: poverty. Unlike the tsunami, that pathology is preventable. With today's technology, financial resources and accumulated knowledge, the world has the capacity to overcome extreme deprivation. Yet as an international community we allow poverty to destroy lives on a scale that dwarfs the impact of the tsunami.

Five years ago, at the start of the new millennium, the world's governments united to make a remarkable promise to the victims of global poverty. Meeting at the United Nations, they signed the Millennium Declaration—a solemn pledge "to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty". The declaration provides a bold vision rooted in a shared commitment to universal human rights and social justice and backed by clear time-bound targets. These targets—the Millennium Development Goals (MDGs)—include halving extreme poverty, cutting child deaths, providing all of the world's children with an education, rolling back infectious disease and forging a new global partnership to deliver results. The deadline for delivery is 2015.

There is more to human development than the MDGs. But the goals provide a crucial benchmark for measuring progress towards the creation of a new, more just, less impoverished and less insecure world order. In September 2005 the world's governments will gather again at the United Nations to review developments since they signed the Millennium Declaration—and to chart a course for the decade to 2015.

There is little cause for celebration. Some important human development advances have been registered since the Millennium Declaration was signed. Poverty has fallen and social indicators have improved. The MDGs have provided a focal point for international concern, putting development and the fight against poverty on the international agenda in a way that seemed unimaginable a decade ago. The year 2005 has been marked by an unprecedented global campaign dedicated to relegating poverty to the past. That campaign has already left its imprint in the form of progress on aid and debt relief during the summit of the Group of Eight (G-8) major industrial economies. The

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lesson: powerful arguments backed by public mobilization can change the world.

Yet as governments prepare for the 2005 UN summit, the overall report card on progress makes for depressing reading. Most countries are off track for most of the MDGs. Human development is faltering in some key areas, and already deep inequalities are widening. Various diplomatic formulations and polite terminology can be found to describe the divergence between progress on human development and the ambition set out in the Millennium Declaration. None of them should be allowed to obscure a simple truth: the promise to the world's poor is being broken.

This year, 2005, marks a crossroads. The world's governments face a choice. One option is to seize the moment and make 2005 the start of a "decade for development". If the investments and the policies needed to achieve the MDGs are put in place today, there is still time to deliver on the promise of the Millennium Declaration. But time is running out. The UN summit provides a critical opportunity to adopt the bold action plans needed not just to get back on track for the 2015 goals, but to overcome the deep inequalities that divide humanity and to forge a new, more just pattern of globalization.

The other option is to continue on a business as usual basis and make 2005 the year in which the pledge of the Millennium Declaration is broken. This is a choice that will result in the current generation of political leaders going down in history as the leaders that let the MDGs fail on their watch. Instead of delivering action, the UN summit could deliver another round of high-sounding declarations, with rich countries offering more words and no action. Such an outcome will have obvious consequences for the world's poor. But in a world of increasingly interconnected threats and opportunities, it will also jeopardize global security, peace and prosperity.

The 2005 summit provides a critical opportunity for the governments that signed the Millennium Declaration to show that they mean business—and that they are capable of breaking with "business as usual". This is the moment to prove that the Millennium Declaration is not just a paper promise, but a commitment to change. The summit is the moment to mobilize the investment resources and develop the plans needed to build the defences that can stop the tsunami of world poverty. What is needed is the political will to act on the vision that governments set out five years ago.

The 2005 *Human Development Report*

This Report is about the scale of the challenge facing the world at the start of the 10-year countdown to 2015. Its focus is on what governments in rich countries can do to keep their side of the global partnership bargain. This does not imply that governments in developing countries have no responsibility. On the contrary, they have primary responsibility. No amount of international cooperation can compensate for the actions of governments that fail to prioritize human development, to respect human rights, to tackle inequality or to root out corruption. But without a renewed commitment to cooperation backed by practical action, the MDGs will be missed—and the Millennium Declaration will go down in history as just one more empty promise.

We focus on three pillars of cooperation, each in urgent need of renovation. The first pillar is development assistance. International aid is a key investment in human development. Returns to that investment can be measured in the human potential unleashed by averting avoidable sickness and deaths, educating all children, overcoming gender inequalities and creating the conditions for sustained economic growth. Development assistance suffers from two problems: chronic underfinancing and poor quality. There have been improvements on both fronts. But much remains to be done to close the MDG financing gaps and improve value for money.

The second pillar is international trade. Under the right conditions trade can be a powerful catalyst for human development. The Doha "Development Round" of World Trade Organization (WTO) talks, launched in 2001, provided rich country governments with an opportunity to create those conditions.

Four years on, nothing of substance has been achieved. Rich country trade policies continue to deny poor countries and poor people a fair share of global prosperity—and they fly in the face of the Millennium Declaration. More than aid, trade has the potential to increase the share of the world's poorest countries and people in global prosperity. Limiting that potential through unfair trade policies is inconsistent with a commitment to the MDGs. More than that, it is unjust and hypocritical.

The third pillar is security. Violent conflict blights the lives of hundreds of millions of people. It is a source of systematic violations of human rights and a barrier to progress towards the MDGs. The nature of conflict has changed, and new threats to collective security have emerged. In an increasingly interconnected world the threats posed by a failure to prevent conflict, or to seize opportunities for peace, inevitably cross national borders. More effective international cooperation could help to remove the barrier to MDG progress created by violent conflict, creating the conditions for accelerated human development and real security.

The renovation needs to take place simultaneously on each pillar of international cooperation. Failure in any one area will undermine the foundations for future progress. More effective rules in international trade will count for little in countries where violent conflict blocks opportunities to participate in trade. Increased aid without fairer trade rules will deliver suboptimal results. And peace without the prospects for improved human welfare and poverty reduction that can be provided through aid and trade will remain fragile.

The state of human development

Fifteen years ago the first *Human Development Report* looked forward to a decade of rapid progress. "The 1990s", it predicted optimistically, "are shaping up as the decade for human development, for rarely has there been such a consensus on the real objectives of development strategies." Today, as in 1990, there is also a consensus on development. That consensus has been powerfully expressed in the reports of the UN Millennium Project and the UK-sponsored Commission for Africa. Unfortunately, the consensus has yet to give rise to practical actions—and there are ominous signs for the decade ahead. There is a real danger that the next 10 years, like the last 15 years, will deliver far less for human development than the new consensus promises.

Much has been achieved since the first *Human Development Report*. On average, people in developing countries are healthier, better educated and less impoverished—and they are more likely to live in a multiparty democracy. Since 1990 life expectancy in developing countries has increased by 2 years. There are 3 million fewer child deaths annually and 30 million fewer children out of school. More than 130 million people have escaped extreme poverty. These human development gains should not be underestimated.

Nor should they be exaggerated. In 2003, 18 countries with a combined population of 460 million people registered lower scores on the human development index (HDI) than in 1990—an unprecedented reversal. In the midst of an increasingly prosperous global economy, 10.7 million children every year do not live to see their fifth birthday, and more than 1 billion people survive in abject poverty on less than $1 a day. The HIV/AIDS pandemic has inflicted the single greatest reversal in human development. In 2003 the pandemic claimed 3 million lives and left another 5 million people infected. Millions of children have been orphaned.

Global integration is forging deeper interconnections between countries. In economic terms the space between people and countries is shrinking rapidly, as trade, technology and investment link all countries in a web of interdependence. In human development terms the space between countries is marked by deep and, in some cases, widening inequalities in income and life chances. One-fifth of humanity live in countries where many people think nothing of spending $2 a day on a cappuccino. Another fifth of humanity survive on less than $1 a day and live in countries where children die for want of a simple anti-mosquito bednet.

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At the start of the twenty-first century we live in a divided world. The size of the divide poses a fundamental challenge to the global human community. Part of that challenge is ethical and moral. As Nelson Mandela put it in 2005: "Massive poverty and obscene inequality are such terrible scourges of our times—times in which the world boasts breathtaking advances in science, technology, industry and wealth accumulation—that they have to rank alongside slavery and apartheid as social evils." The twin scourges of poverty and inequality can be defeated—but progress has been faltering and uneven.

Rich countries as well as poor have an interest in changing this picture. Reducing the gulf in wealth and opportunity that divides the human community is not a zero-sum game in which some have to lose so that others gain. Extending opportunities for people in poor countries to lead long and healthy lives, to get their children a decent education and to escape poverty will not diminish the well-being of people in rich countries. On the contrary, it will help build shared prosperity and strengthen our collective security. In our interconnected world a future built on the foundations of mass poverty in the midst of plenty is economically inefficient, politically unsustainable and morally indefensible.

Life expectancy gaps are among the most fundamental of all inequalities. Today, someone living in Zambia has less chance of reaching age 30 than someone born in England in 1840—and the gap is widening. HIV/AIDS is at the heart of the problem. In Europe the greatest demographic shock since the Black Death was suffered by France during the First World War. Life expectancy fell by about 16 years. By comparison, Botswana is facing an HIV/AIDS-inflicted fall in life expectancy of 31 years. Beyond the immediate human costs, HIV/AIDS is destroying the social and economic infrastructure on which recovery depends. The disease is not yet curable. But millions of lives could already have been saved had the international community not waited until a grave threat developed into a fully fledged crisis.

No indicator captures the divergence in human development opportunity more powerfully than child mortality. Death rates among the world's children are falling, but the trend is slowing—and the gap between rich and poor countries is widening. This is an area in which slowing trends cost lives. Had the progress of the 1980s been sustained since 1990, there would be 1.2 million fewer child deaths this year. Sub-Saharan Africa accounts for a rising share of child deaths: the region represents 20% of births worldwide and 44% of child deaths. But the slowdown in progress extends beyond Sub-Saharan Africa. Some of the most highly visible globalization "success stories"—including China and India—are failing to convert wealth creation and rising incomes into more rapid decline in child mortality. Deep-rooted human development inequality is at the heart of the problem.

Debates about trends in global income distribution continue to rage. Less open to debate is the sheer scale of inequality. The world's richest 500 individuals have a combined income greater than that of the poorest 416 million. Beyond these extremes, the 2.5 billion people living on less than $2 a day—40% of the world's population—account for 5% of global income. The richest 10%, almost all of whom live in high-income countries, account for 54%.

An obvious corollary of extreme global inequality is that even modest shifts in distribution from top to bottom could have dramatic effects on poverty. Using a global income distribution database, we estimate a cost of $300 billion for lifting 1 billion people living on less than $1 a day above the extreme poverty line threshold. That amount represents 1.6% of the income of the richest 10% of the world's population. Of course, this figure describes a static transfer. Achieving sustainable poverty reduction requires dynamic processes through which poor countries and poor people can produce their way out of extreme deprivation. But in our highly unequal world greater equity would provide a powerful catalyst for poverty reduction and progress towards the MDGs.

What are the implications of the current global human development trajectory for the MDGs? We address this question by using country data to project where the world will be in relation to some of the main MDGs by

2015. The picture is not encouraging. If current trends continue, there will be large gaps between MDG targets and outcomes. Those gaps can be expressed in statistics, but behind the statistics are the lives and hopes of ordinary people. Human costs can never be captured by numbers alone. But our 2015 projection provides an indication of the scale of the costs. Among the consequences for developing countries of continuing on the current path:

- The MDG target for reducing child mortality will be missed by 4.4 million avoidable child deaths in 2015—a figure equivalent to three times the number of children under age 5 in London, New York and Tokyo. Over the next 10 years the gap between the target and the current trend adds more than 41 million children who will die before their fifth birthday from the most readily curable of all diseases—poverty. This is an outcome that is difficult to square with the Millennium Declaration's pledge to protect the world's children.
- The gap between the MDG target for halving poverty and projected outcomes is equivalent to an additional 380 million people living on less than $1 a day by 2015.
- The MDG target of universal primary education will be missed on current trends, with 47 million children still out of school in 2015.

These are simple forward projections of current trends—and trends are not destiny. As the financial market dictum puts it, past performance is not a guide to future outcomes. For the MDGs that is unambiguously good news. As the UN Secretary-General has put it: "The MDGs can be met by 2015—but only if all involved break with business as usual and dramatically accelerate and scale up action now." Some of the world's poorest countries—including Bangladesh, Uganda and Viet Nam—have shown that rapid progress is possible. But rich countries need to help meet the start-up costs of a global human development take-off.

As governments prepare for the 2005 UN summit, the 2015 projection offers a clear warning. To put it bluntly, the world is heading for a heavily sign-posted human development disaster, the cost of which will be counted in avoidable deaths, children out of school and lost opportunities for poverty reduction. That disaster is as avoidable as it is predictable. If governments are serious about their commitment to the MDGs, business as usual is not an option. The 2005 UN summit provides an opportunity to chart a new course for the next decade.

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Why inequality matters

Human development gaps within countries are as stark as the gaps between countries. These gaps reflect unequal opportunity—people held back because of their gender, group identity, wealth or location. Such inequalities are unjust. They are also economically wasteful and socially destabilizing. Overcoming the structural forces that create and perpetuate extreme inequality is one of the most efficient routes for overcoming extreme poverty, enhancing the welfare of society and accelerating progress towards the MDGs.

The MDGs themselves are a vital statement of international purpose rooted in a commitment to basic human rights. These rights—to education, to gender equality, to survival in childhood and to a decent standard of living—are universal in nature. That is why progress towards the MDGs should be for all people, regardless of their household income, their gender or their location. However, governments measure progress by reference to national averages. These averages can obscure deep inequalities in progress rooted in disparities based on wealth, gender, group identity and other factors.

As shown in this Report, failure to tackle extreme inequalities is acting as a brake on progress towards achieving the MDGs. On many of the MDGs the poor and disadvantaged are falling behind. Cross-country analysis suggests that child mortality rates among the poorest 20% of the population are falling at less than one-half of the world average. Because the poorest 20% account for a disproportionately large share of child mortality, this is slowing the overall rate of progress towards achieving the MDGs. Creating the conditions under which the poor can catch up as part of an

Some 130,000 young Indian lives are lost each year because of the disadvantage associated with being born with two X chromosomes

overall human development advance would give a dynamic new impetus to the MDGs. It would also address a cause of social injustice.

Multiple and interlocking layers of inequality create disadvantages for people throughout their lives. Income inequality is increasing in countries that account for more than 80% of the world's population. Inequality in this dimension matters partly because of the link between distribution patterns and poverty levels. Average income is three times higher in high-inequality and middle-income Brazil than in low-inequality and low-income Viet Nam. Yet the incomes of the poorest 10% in Brazil are lower than those of the poorest 10% in Viet Nam. High levels of income inequality are bad for growth, and they weaken the rate at which growth is converted into poverty reduction: they reduce the size of the economic pie and the size of the slice captured by the poor.

Income inequalities interact with other life chance inequalities. Being born into a poor household diminishes life chances, in some cases in a literal sense. Children born into the poorest 20% of households in Ghana or Senegal are two to three times more likely to die before age 5 than children born into the richest 20% of households. Disadvantage tracks people through their lives. Poor women are less likely to be educated and less likely to receive antenatal care when they are pregnant. Their children are less likely to survive and less likely to complete school, perpetuating a cycle of deprivation that is transmitted across generations. Basic life chance inequalities are not restricted to poor countries. Health outcomes in the United States, the world's richest country, reflect deep inequalities based on wealth and race. Regional disparities are another source of inequality. Human development fault lines separate rural from urban and poor from rich regions of the same country. In Mexico literacy rates in some states are comparable to those in high-income countries. In the predominantly rural indigenous municipalities of southern poverty belt states like Guerrero literacy rates for women approximate those in Mali.

Gender is one of the world's strongest markers for disadvantage. This is especially the case in South Asia. The large number of "missing women" in the region bears testimony to the scale of the problem. Disadvantage starts at birth. In India the death rate for children ages 1–5 is 50% higher for girls than for boys. Expressed differently, 130,000 young lives are lost each year because of the disadvantage associated with being born with two X chromosomes. In Pakistan gender parity in school attendance would give 2 million more girls the chance of an education.

Reducing inequality in the distribution of human development opportunities is a public policy priority in its own right: it matters for intrinsic reasons. It would also be instrumental in accelerating progress towards the MDGs. Closing the gap in child mortality between the richest and poorest 20% would cut child deaths by almost two-thirds, saving more than 6 million lives a year—and putting the world back on track for achieving the MDG target of a two-thirds reduction in child death rates.

More equitable income distribution would act as a strong catalyst for accelerated poverty reduction. We use household income and expenditure surveys to simulate the effect of a growth pattern in which people in poverty capture twice the share of future growth as their current share in national income. For Brazil this version of pro-poor growth shortens the time horizon for halving poverty by 19 years; for Kenya, by 17 years. The conclusion: when it comes to income poverty reduction, distribution matters as well as growth. That conclusion holds as much for low-income countries as for middle-income countries. Without improved income distribution Sub-Saharan Africa would require implausibly high growth rates to halve poverty by 2015. It might be added to this consideration that a demonstrated commitment to reduce inequality as part of a wider poverty reduction strategy would enhance the case for aid among the public in donor countries.

Scaling up national simulation exercises using a global income distribution model highlights the potential benefits of reduced inequality for global poverty reduction. Using such a model, we ask what would happen if people living on less than $1 a day were to double their share of future growth. The result: a decline of one-third—or 258 million people—in the projected number of people living on less than $1 a day by 2015.

Exercises such as these describe what outcomes are possible. Working towards these outcomes will require new directions in public policy. Far more weight should be attached to improving the availability, accessibility and affordability of public services and to increasing poor people's share of the growth. There is no single blueprint for achieving improved outcomes on income distribution. For many countries, especially in Sub-Saharan Africa, measures are needed to unlock the productive potential of smallholder agriculture and rural areas. More universally, education is one of the keys to greater equity. Socially transformative fiscal policies that provide security and equip the poor with the assets needed to escape poverty are also vital.

None of this implies that achieving greater equity in human development is easy. Extreme inequalities are rooted in power structures that deprive poor people of market opportunities, limit their access to services and—crucially—deny them a political voice. These pathologies of power are bad for market-based development and political stability—and a barrier to achieving the MDGs.

International aid—increasing the quantity, improving the quality

International aid is one of the most effective weapons in the war against poverty. Today, that weapon is underused, inefficiently targeted and in need of repair. Reforming the international aid system is a fundamental requirement for getting back on track for the MDGs.

Aid is sometimes thought of in rich countries as a one-way act of charity. That view is misplaced. In a world of interconnected threats and opportunities aid is an investment as well as a moral imperative—an investment in shared prosperity, collective security and a common future. Failure to invest on a sufficient scale today will generate costs tomorrow.

Development assistance is at the heart of the new partnership for development set out in the Millennium Declaration. As in any partnership there are responsibilities and obligations on both sides. Developing countries have a responsibility to create an environment in which aid can yield optimal results. Rich countries, for their part, have an obligation to act on their commitments.

There are three conditions for effective aid. First, it has to be delivered in sufficient quantity to support human development take-off. Aid provides governments with a resource for making the multiple investments in health, education and economic infrastructure needed to break cycles of deprivation and support economic recovery—and the resource needs to be commensurate with the scale of the financing gap. Second, aid has to be delivered on a predictable, low transaction cost, value for money basis. Third, effective aid requires "country ownership". Developing countries have primary responsibility for creating the conditions under which aid can yield optimal results. While there has been progress in increasing the quantity and improving the quality of aid, none of these conditions has yet been met.

When the Millennium Declaration was signed, the development assistance glass was three-quarters empty—and leaking. During the 1990s aid budgets were subject to deep cuts, with per capita assistance to Sub-Saharan Africa falling by one-third. Today, the aid financing glass is approaching half full. The Monterrey Conference on Financing for Development in 2001 marked the beginning of a recovery in aid. Since Monterrey, aid has increased by 4% a year in real terms, or $12 billion (in constant 2003 dollars). Rich countries collectively now spend 0.25% of their gross national income (GNI) on aid—lower than in 1990 but on an upward trend since 1997. The European Union's commitment to reach a 0.51% threshold by 2010 is especially encouraging.

However, even if projected increases are delivered in full, there remains a large aid shortfall for financing the MDGs. That shortfall will increase from $46 billion in 2006 to $52 billion in 2010. The financing gap is especially large for Sub-Saharan Africa, where aid flows need to double over five years to meet the estimated

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Tied aid remains one of the most egregious abuses of poverty-focused development assistance

costs of achieving the MDGs. Failure to close the financing gap through a step increase in aid will prevent governments from making the investments in health, education and infrastructure needed to improve welfare and support economic recovery on the scale required to achieve the MDGs.

While rich countries publicly acknowledge the importance of aid, their actions so far have not matched their words. The G-8 includes three countries—Italy, the United States and Japan—with the lowest shares of aid in GNI among the 22 countries on the Organisation for Economic Co-operation and Development's Development Assistance Committee. On a more positive note the United States, the world's largest aid donor, has increased aid by $8 billion since 2000 and is now the world's largest donor to Sub-Saharan Africa. The setting of more ambitious targets is another welcome development. However, donors do not have a good record in acting on aid targets—and some major donors have failed to move from setting targets to making concrete and binding budget commitments. The next 10 years will have to mark a distinct break from the past 15 years if the MDGs are to be achieved. Since 1990 increased prosperity in rich countries has done little to enhance generosity: per capita income has increased by $6,070, while per capita aid has fallen by $1. Such figures suggest that the winners from globalization have not prioritized help for the losers, even though they would gain from doing so.

The chronic underfinancing of aid reflects skewed priorities in public spending. Collective security depends increasingly on tackling the underlying causes of poverty and inequality. Yet for every $1 that rich countries spend on aid they allocate another $10 to military budgets. Just the increase in military spending since 2000, if devoted to aid instead, would be sufficient to reach the long-standing UN target of spending 0.7% of GNI on aid. Failure to look beyond military security to human security is reflected in underinvestments in addressing some of the greatest threats to human life. Current spending on HIV/AIDS, a disease that claims 3 million lives a year, represents three day's worth of military spending.

Questions are sometimes raised about whether the MDGs are affordable. Ultimately, what is affordable is a matter of political priorities. But the investments needed are modest by the scale of wealth in rich countries. The $7 billion needed annually over the next decade to provide 2.6 billion people with access to clean water is less than Europeans spend on perfume and less than Americans spend on elective corrective surgery. This is for an investment that would save an estimated 4,000 lives each day.

Donors have acknowledged the importance of tackling problems in aid quality. In March 2005 the Paris Declaration on Aid Effectiveness set out important principles for donors to improve aid effectiveness, along with targets for monitoring progress on new practices. Coordination is improving, there is less use of tied aid, and more emphasis is being placed on country ownership. But good practice lags far behind declared principle. Aid delivery still falls far short of pledges, undermining financial planning for poverty reduction. At the same time the specific form that conditionality takes often weakens national ownership and contributes to disruptions in aid flows. Donor reluctance to use national systems adds to transaction costs and weakens national capacity.

Tied aid remains one of the most egregious abuses of poverty-focused development assistance. By linking development assistance to the provision of supplies and services provided by the donor country, instead of allowing aid recipients to use the open market, aid tying reduces value for money. Many donors have been reducing tied aid, but the practice remains widely prevalent and underreported. We conservatively estimate the costs of tied aid for low-income countries at $5–$7 billion. Sub-Saharan Africa pays a "tied aid tax" of $1.6 billion.

In some areas the "new partnership" in aid established at the Monterrey conference still looks suspiciously like a repackaged version of the old partnership. There is a continuing imbalance in responsibilities and obligations. Aid recipients are required to set targets for achieving the MDGs, to meet budget targets that are monitored quarterly by the International Monetary Fund (IMF), to comply with a bewildering array of conditions set by donors and to deal with donor practices that raise transaction costs and reduce the value of aid. Donors, for their part, do not set targets for themselves. Instead, they offer broad, non-binding commitments on aid quantity (most of which are subsequently ignored) and even broader and vaguer commitments to improve aid quality. Unlike aid recipients, donors can break commitments with impunity. In practice, the new partnership has been a one-way street. What is needed is a genuine new partnership in which donors as well as recipients act on commitments to deliver on the promise of the Millennium Declaration.

This year provides an opportunity to seal that partnership and forge a new direction in development assistance cooperation. Donor countries need first to honour and then to build on the commitments made at Monterrey. Among the key requirements:

- *Set a schedule for achieving the aid to GNI ratio of 0.7% by 2015 (and keep to it).* Donors should set budget commitments at a minimum level of 0.5% for 2010 to bring the 2015 target within reach.
- *Tackle unsustainable debt.* The G-8 summit in 2005 produced a major breakthrough on debt owed by the heavily indebted poor countries (HIPCs). However, some problems remain, with a large number of low-income countries still facing acute problems in meeting debt service obligations. Final closure of the debt crisis will require action to extend country coverage and to ensure that debt repayments are held to levels consistent with MDG financing.
- *Provide predictable, multiyear financing through government programmes.* Building on the principles set out in the Paris Declaration on Aid Effectiveness, donors should set more ambitious targets for providing stable aid flows, working through national systems and building capacity. By 2010 at least 90% of aid should be disbursed according to agreed schedules through annual or multiyear frameworks.
- *Streamline conditionality.* Aid conditionality should focus on fiduciary responsibility and the transparency of reporting through national systems, with less emphasis on wide-ranging macroeconomic targets and a stronger commitment to building institutions and national capacity.
- *End tied aid.* There is a simple method for tackling the waste of money associated with tied aid: stop it in 2006.

Unlike aid recipients, donors can break commitments with impunity

Trade and human development—strengthening the links

Like aid, trade has the potential to be a powerful catalyst for human development. Under the right conditions international trade could generate a powerful impetus for accelerated progress towards the MDGs. The problem is that the human development potential inherent in trade is diminished by a combination of unfair rules and structural inequalities within and between countries.

International trade has been one of the most powerful motors driving globalization. Trade patterns have changed. There has been a sustained increase in the share of developing countries in world manufacturing exports—and some countries are closing the technology gap. However, structural inequalities have persisted and in some cases widened. Sub-Saharan Africa has become increasingly marginalized. Today, the region, with 689 million people, accounts for a smaller share of world exports than Belgium, with 10 million people. If Sub-Saharan Africa enjoyed the same share of world exports as in 1980, the foreign exchange gain would represent about eight times the aid it received in 2003. Much of Latin America is also falling behind. In trade, as in other areas, claims that global integration is driving a convergence of rich and poor countries are overstated.

From a human development perspective trade is a means to development, not an end in itself. Indicators of export growth, ratios of trade to GNI and import liberalization are not proxies for human development. Unfortunately, this is increasingly how they are treated. Participation in trade offers real opportunities for raising living standards. But some of the greatest models of openness and export growth—Mexico and Guatemala, for example—have been

The world's highest trade barriers are erected against some of its poorest countries

less successful in accelerating human development. Export success has not always enhanced human welfare on a broad front. The evidence suggests that more attention needs to be paid to the terms on which countries integrate into world markets.

Fairer trade rules would help, especially when it comes to market access. In most forms of taxation a simple principle of graduation applies: the more you earn, the more you pay. Rich country trade policies flip this principle on its head. The world's highest trade barriers are erected against some of its poorest countries: on average the trade barriers faced by developing countries exporting to rich countries are three to four times higher than those faced by rich countries when they trade with each other. Perverse graduation in trade policy extends to other areas. For example, the European Union sets great store by its commitment to open markets for the world's poorest countries. Yet its rules of origin, which govern eligibility for trade preferences, minimize opportunities for many of these countries.

Agriculture is a special concern. Two-thirds of all people surviving on less than $1 a day live and work in rural areas. The markets in which they operate, their livelihoods and their prospects for escaping poverty are directly affected by the rules governing agricultural trade. The basic problem to be addressed in the WTO negotiations on agriculture can be summarized in three words: rich country subsidies. In the last round of world trade negotiations rich countries promised to cut agricultural subsidies. Since then, they have increased them. They now spend just over $1 billion a year on aid for agriculture in poor countries, and just under $1 billion a day subsidizing agricultural overproduction at home—a less appropriate ordering of priorities is difficult to imagine. To make matters worse, rich countries' subsidies are destroying the markets on which smallholders in poor countries depend, driving down the prices they receive and denying them a fair share in the benefits of world trade. Cotton farmers in Burkina Faso are competing against US cotton producers who receive more than $4 billion a year in subsidies—a sum that exceeds the total national income of Burkina Faso. Meanwhile, the European Union's extravagant Common Agricultural Policy (CAP) wreaks havoc in global sugar markets, while denying developing countries access to European markets. Rich country consumers and taxpayers are locked into financing policies that are destroying livelihoods in some of the world's poorest countries.

In some areas WTO rules threaten to systematically reinforce the disadvantages faced by developing countries and to further skew the benefits of global integration towards developed countries. An example is the set of rules limiting the scope for poor countries to develop the active industrial and technology policies needed to raise productivity and succeed in world markets. The current WTO regime outlaws many of the policies that helped East Asian countries make rapid advances. WTO rules on intellectual property present a twin threat: they raise the cost of technology transfer and, potentially, increase the prices of medicines, posing risks for the public health of the poor. In the WTO negotiations on services rich countries have sought to create investment opportunities for companies in banking and insurance while limiting opportunities for poor countries to export in an area of obvious advantage: temporary transfers of labour. It is estimated that a small increase in flows of skilled and unskilled labour could generate more than $150 billion annually—a far greater gain than from liberalization in other areas.

The Doha Round of WTO negotiations provides an opportunity to start aligning multilateral trade rules with a commitment to human development and the MDGs. That opportunity has so far been wasted. Four years into the talks and nothing of substance has been achieved. The unbalanced agenda pursued by rich countries and failure to tackle agricultural subsidies are at the core of the problem.

Even the best trade rules will not remove some of the underlying causes of inequality in world trade, however. Persistent problems such as weak infrastructure and limited supply capacity need to be addressed. Rich countries have developed a "capacity-building" aid agenda. Unfortunately, there is an unhealthy concentration on building capacity in areas that rich countries consider strategically useful. Some long-standing problems do not even figure on the international trade agenda. The deep crisis in commodity markets, especially coffee, is an example. In Ethiopia falling prices since 1998 have reduced the average annual income of coffee-producing households by about $200.

The emergence of new trading structures poses new threats to more equitable trade in agriculture. Supermarket chains have become gatekeepers to agricultural markets in rich countries, linking producers in developing countries to consumers in rich countries. But smallholder farmers are excluded by the purchasing practices of some supermarkets, weakening the links between trade and human development. Creating structures to facilitate the entry of small farmers into global marketing chains on more equitable terms would enable the private sector to play a crucial role in the global fight against poverty.

Strengthening the connection between trade and human development is a long-haul exercise. The Doha Round remains an opportunity to start that exercise—and to build the credibility and legitimacy of the rules-based trading system. Viewed in a broader context the round is too important to fail. Building shared prosperity requires multilateral institutions that not only advance the public good, but are seen to operate in a fair and balanced way.

The WTO ministerial meeting planned for December 2005 provides an opportunity to address some of the most pressing challenges. While many of the issues are technical, the practical requirement is for a framework under which WTO rules do more good and less harm for human development. It would be unrealistic to expect the Doha Round to correct all of the imbalances in the rules—but it could set the scene for future rounds aimed at putting human development at the heart of the multilateral system. Among the key benchmarks for assessing the outcome of the Doha Round:

- *Deep cuts in rich country government support for agriculture and a prohibition on export subsidies.* Agricultural support, as measured by the producer support estimates of the OECD, should be cut to no more than 5%–10% of the value of production, with an immediate prohibition on direct and indirect export subsidies.
- *Deep cuts in barriers to developing country exports.* Rich countries should set their maximum tariffs on imports from developing countries at no more than twice the level of their average tariffs, or 5%–6%.
- *Compensation for countries losing preferences.* While rich country preferences for some developing country imports deliver limited benefits in the aggregate, their withdrawal has the potential to cause high levels of unemployment and balance of payments shocks in particular cases. A fund should be created to reduce the adjustment costs facing vulnerable countries.
- *Protection of the policy space for human development.* Multilateral rules should not impose obligations that are inconsistent with national poverty reduction strategies. These strategies should incorporate best international practices adapted for local conditions and shaped though democratic and participative political processes. In particular, the right of developing countries to protect agricultural producers against unfair competition from exports that are subsidized in rich countries should be respected in WTO rules.
- *A commitment to avoid "WTO plus" arrangements in regional trade agreements.* Some regional trade agreements impose obligations that go beyond WTO rules, especially in areas such as investment and intellectual property. It is important that these agreements not override national policies developed in the context of poverty reduction strategies.
- *Refocusing of services negotiations on temporary movements of labour.* In the context of a development round less emphasis should be placed on rapidly liberalizing financial sectors and more on creating rules allowing workers from developing countries improved access to labour markets in rich countries.

OECD agricultural support should be no more than 5%–10% of production value

The interaction between poverty and violent conflict in many developing countries is destroying lives on an enormous scale

Violent conflict as a barrier to progress

In 1945 US Secretary of State Edward R. Stettinius identified the two fundamental components of human security and their connections: "The battle of peace has to be fought on two fronts. The first front is the security front, where victory spells freedom from fear. The second is the economic and social front, where victory means freedom from want. Only victory on both fronts can assure the world of an enduring peace." It was this reasoning that led the United States to play a central role in founding the United Nations.

Sixty years later, and more than a decade after the end of the cold war appeared to mark the start of a new era of peace, security concerns again dominate the international agenda. As the UN Secretary-General's report *In Larger Freedom* argues, we live in an age when the lethal interaction of poverty and violent conflict poses grave threats not just to the immediate victims but also to the collective security of the international community.

For many people in rich countries the concept of global insecurity is linked to threats posed by terrorism and organized crime. The threats are real. Yet the absence of freedom from fear is most marked in developing countries. The interaction between poverty and violent conflict in many developing countries is destroying lives on an enormous scale—and hampering progress towards the MDGs. Failure to build human security by ending this interaction will have global consequences. In an interdependent world the threats posed by violent conflict do not stop at national borders, however heavily defended they may be. Development in poor countries is the front line in the battle for global peace and collective security. The problem with the current battle plan is an overdeveloped military strategy and an underdeveloped strategy for human security.

The nature of conflict has changed. The twentieth century, the bloodiest in human history, was defined first by wars between countries and then by cold war fears of violent confrontation between two superpowers. Now these fears have given way to fears of local and regional wars fought predominantly in poor countries within weak or failed states and with small arms as the weapon of choice. Most of the victims in today's wars are civilians. There are fewer conflicts in the world today than in 1990, but the share of those conflicts occurring in poor countries has increased.

The human development costs of violent conflict are not sufficiently appreciated. In the Democratic Republic of the Congo deaths attributable directly or indirectly to conflict exceed the losses sustained by Britain in the First World War and Second World War combined. In the Darfur region of Sudan nearly 2 million people have been displaced because of conflict. The immediate victims of these and other conflicts periodically make it into the international media spotlight. But the long-run human development impact of violent conflict is more hidden.

Conflict undermines nutrition and public health, destroys education systems, devastates livelihoods and retards prospects for economic growth. Of the 32 countries in the low human development category as measured by the HDI, 22 have experienced conflict at some time since 1990. Countries that have experienced violent conflict are heavily overrepresented among the group of countries that are off track for the MDGs in our projections for 2015. Of the 52 countries that are reversing or stagnating in their attempts to reduce child mortality, 30 have experienced conflict since 1990. The immensity of these costs makes its own case for conflict prevention, conflict resolution and post-conflict reconstruction as three fundamental requirements for building human security and accelerating progress towards the MDGs.

Part of the challenge posed by human insecurity and violent conflict can be traced to weak, fragile and failing states. Compounded failures to protect people against security risks, to provide for basic needs and to develop political institutions perceived as legitimate are standing features of conflict-prone states. In some cases deep horizontal inequalities between regions or groups are a catalyst for violence. External factors also play a role. The "failure" of states such as Afghanistan and Somalia was facilitated by the willingness of external powers to intervene in pursuit of their own strategic goals. Imports of weapons and the capture by narrow interest groups of the flows of finance from the sale of natural resources help to sustain and intensify conflict. Political leadership in conflict-prone states is a necessary condition for change, but not a sufficient one. Rich countries also need to provide leadership.

New approaches to aid are a starting point. Weak and fragile states are not just underaided in relation to their ability to use finance effectively, but they are also subjected to high levels of unpredictability in aid flows. Evidence suggests that aid flows are 40% lower than would be justified by the institutions and policy environment. The nature and sequencing of aid is another problem. Too often donors make large commitments of humanitarian aid in immediate post-conflict periods without following through to support economic recovery in subsequent years.

Mineral and other natural resource exports do not create violent conflict. Neither do small arms. But markets for natural resources and small arms can provide the means to sustain violent conflict. From Cambodia to Afghanistan and countries in West Africa exports of gems and timber have helped finance conflict and weaken state capacity. Certification schemes can close off opportunities for export, as demonstrated by the Kimberley certification process for diamonds. Small arms claim more than 500,000 lives a year, the majority of them in the world's poorest countries. Yet international efforts to control the deadly trade in small arms have had limited impact. Enforcement remains weak, adherence to codes is voluntary, and large legal loopholes enable much of the trade to escape regulation.

One of the most effective ways in which rich countries could address the threats to human development posed by violent conflict is by supporting regional capacity. The crisis in Darfur could have been diminished, if not averted, by the presence of a sufficiently large and well equipped African Union peacekeeping force—especially if that force had a strong mandate to protect civilians. During the peak of the crisis there were fewer than 300 Rwandan and Nigerian troops monitoring what was happening to 1.5 million Darfuris in an area the size of France. Building regional capacity, in areas from the creation of effective early warning systems to intervention, remains a pressing requirement for human security.

If prevention is the most cost-effective route for addressing the threats posed by violent conflict, seizing opportunities for reconstruction runs a close second. Peace settlements are often a prelude to renewed violence: half of all countries coming out of violent conflict revert to war within five years. Breaking this cycle requires a political and financial commitment to provide security, oversee reconstruction and create the conditions for the development of competitive markets and private sector investment over the long haul. That commitment has not always been in evidence.

While the MDGs have provided a focus for progress towards "freedom from want", the world still lacks a coherent agenda for extending "freedom from fear". As the UN Secretary-General's report *In Larger Freedom* has argued, there is an urgent need to develop a collective security framework that goes beyond military responses to the threats posed by terrorism, to a recognition that poverty, social breakdown and civil conflict form core components of the global security threat. Among the key requirements for reducing that threat:

- *A new deal on aid.* Starving conflict-prone or post-conflict states of aid is unjustified. It is bad for human security in the countries concerned—and it is bad for global security. As part of the wider requirement to achieve the aid target of 0.7% of GNI, donors should commit themselves to a greater aid effort, with greater predictability of aid through long-term financing commitments. Donors should be more transparent about the conditions for aid allocations and about their reasons for scaling down investments in conflict-prone countries.
- *Greater transparency in resource management.* As parties to the natural resource markets that help finance conflict and, in some cases, undermine accountable government,

Starving conflict-prone states of aid is bad for global security transnational companies involved in mineral exporting should increase transparency. The international legal framework proposed by the UK-sponsored Commission for Africa to allow for the investigation of corrupt practices by transnational companies overseas—as already practised under US law—should be developed as a priority.

- *Cutting the flow of small arms.* The 2006 Small Arms Review Conference provides an opportunity to agree on a comprehensive arms trade treaty to regulate markets and curtail supplies to areas of violent conflict.
- *Building regional capacity.* For Sub-Saharan Africa an immediate priority is the development, through financial, technical and logistical support, of a fully functioning African Union standby peacekeeping force.
- *Building international coherence.* The UN Secretary-General's report calls for the creation of an International Peace-Building Commission to provide a strategic framework for an integrated approach to collective security. As part of that approach a global fund should be created to finance on a long-term and predictable basis immediate post-conflict assistance and the transition to long-term recovery.

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When historians of human development look back at 2005, they will view it as a turning point. The international community has an unprecedented opportunity to put in place the policies and resources that could make the next decade a genuine decade for development. Having set the bar in the Millennium Declaration, the world's governments could set a course that will reshape globalization, give renewed hope to millions of the world's poorest and most vulnerable people and create the conditions for shared prosperity and security. The business as usual alternative will lead towards a world tarnished by mass poverty, divided by deep inequalities and threatened by shared insecurities. In rich and poor countries alike future generations will pay a heavy price for failures of political leadership at this crossroads moment at the start of the twenty-first century.

This Report provides a basis for considering the scale of the challenge. By focusing on three pillars of international cooperation it highlights some of the problems that need to be tackled and some of the critical ingredients for achieving success. What is not in doubt is the simple truth that, as a global community, we have the means to eradicate poverty and to overcome the deep inequalities that divide countries and people. The fundamental question that remains to be answered five years after the Millennium Declaration was signed is whether the world's governments have the resolve to break with past practice and act on their promise to the world's poor. If ever there was a moment for decisive political leadership to advance the shared interests of humanity, that moment is now.