Meeting the Challenge of Development – An Action Agenda to Achieve the Millennium Development Goals

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Dr Faguet
Thank you very much for coming. Welcome to yet another event in Development Week at the LSE. Thanks to the Students Society for helping to organise, for taking the lead in organising all of these events.

I'm Jean-Paul Faguet from the Development Studies Institute, and I'm very, very pleased to introduce to you Dr Ian Goldin, Vice President for External Affairs at the World Bank. Dr Goldin is someone who spans the world's academia, real development action through development organisations and also the private sector. Before being at the World Bank, he is actually an LSE alumni, he did his MSc here before doing his PhD at Oxford. He's been Chief Executive of the Southern African Development Bank. He also worked as Director of Commodities at LMC, London; has been adviser to Nelson Mandela; has served in a number of other crucial capacities both in the developing world and the private sector. He's the author of 11 books and over 40 ref papers and development and economics journals. So without further ado, I give you Dr Ian Goldin.

[APPLAUSE]

Ian Goldin
Thank you very much and thank you to so many of you for being here. This is a quite a historic occasion for me personally because I was last in this room over 20 years ago doing my MSc. It's also a historical day for other reasons, and I'm sure many of you have been on Trafalgar Square today celebrating the campaign Make Poverty History. It's a tremendous time as people engage in politics in a way that will bring change to the world so that poverty is reduced.

I was last in Trafalgar Square with President Mandela when he came on a State Visit, some of you might remember, I think it was 1997. He wanted to raise awareness of development. Prior to that, of course, many of us had been in Trafalgar Square singing Free Nelson Mandela in the '80s, so being at LSE and having walked over from this lecture room many times to Trafalgar Square to join rallies against apartheid to free Nelson Mandela and now going back today to a Make Poverty History rally was particularly meaningful for me. So today is a very good day to talk about development and to try and give some dimensions that I hope complement the many others that you've had during this Development Week. I would like to congratulate Alan and the others who have put this week together because the key to making poverty history is that ideas are developed, that ideas churn. The one conviction that I feel stronger and stronger about as time goes by is that what really makes a difference, that which ends poverty and brings

development, is the power of ideas. That's why being engaged with students and talking around development ideas is essential as we build this constituency for change to Make Poverty History.

This is the year of development. Tomorrow the G7 finance ministers will be meeting to focus on particular issues. This is part of a broad campaign going through the whole year that is aiming to make very significant advances. The expectations are very high, and what is crucial in thinking about these expectations is that they are calibrated against what is possible. What is possible to achieve in one year? What has been achieved over the last 20-40 years, and where do we think we'll be in 2015 when the Millennium Development Goals are achieved?

The most striking thing in the realm of ideas, when one looks back, is just how much our understanding of development has changed. When I was a student here, people were talking about development as income poverty. It was mainly all about per capita GDP; it was about growth and income relationships. The broad concept of development we have today – the "development as freedom" in Sen's words -- relates to empowerment and individuals' right to define their own lives, and was not centre stage in the debate then. So one of the things we've had is an advance in this broader understanding of development, and that has gone with an evolution of course in the way that policy has evolved.

When I was a student at LSE, it was the Thatcher, Reagan, Kohl years. The private sector was seen as the solution, and the idea that states get out of markets was very much in the ascendancy. At the World Bank and in other institutions, it was the time of focusing on adjusting relative prices. Many countries experienced severe shocks as adjustment processes were implemented. Then, the ideology of getting your prices right was seen by many as the key to unleashing the private sector. Now the pendulum has swung, and we know that it's going to be governments that have to establish the enabling framework in order to ensure that the private sector can flourish. The private sector is the only part of the economy that can generate jobs; we are not relying on governments to regenerate employment and growth. We are relying on them to facilitate, to create the enabling environment for growth and job creation.

The broader understanding of development is reflected in the MDGs. Although these are very clearly defined targets around halving poverty by 2015, they are also around some key other dimensions of development on health, on education, on HIV. I think of these as a snapshot, as one way of measuring development but clearly not a full picture. It's not painted in; it's just the outline of some of the things that can be achieved, some of the targets to be achieved. What's key when we engage in this development agenda together with countries is that we need to ensure that these other dimensions which aren't captured like human rights, like gender empowerment in broader senses, are indeed part of the agenda. The MDGs carry with them the danger of simplification, as does of course all our campaigns and our work. What I'd like to do is, having put up this health warning, to continue to focus on just how much of these goals will be achieved.

When we think of the scale of the challenge and again emphasising this is the only way to measure it, we often refer to dollar a day measures. There have been long

debates as to whether the World Bank, which is the place which measures this, should drop this and whether this is doing a positive or negative service. I'll be happy to take questions on that and anything else during question time. We think these are useful numbers because they do capture the imagination and have some use, but they also of course are subject to many other variables, exchange rate shocks, measurement questions, purchasing power, parity versus normal exchange rate questions and so forth. But on that basis, we think about 1.1 billion people are living on under a dollar a day. About 2.7 billion people, which is well over half of all people living in developing countries, live on under two dollars a day. All those of you who are not on the dollar mentality but on the pound mentality will know that's about a coffee a day. You won't get a pint of beer for what most people live on. So that's the aggregate income indices we work with.

It is important when we look forward to 2015 to be both optimistic in the knowledge that these goals of halving this level of poverty are achievable, but also not to allow that optimism to dull the senses and to dull the campaigning and the action spirit in everyone because these goals will only be achieved if the work on all of these MDGs at every level -- globally, nationally, locally -- is accelerated.

For the world as a whole, we think that the income poverty goal will be achieved largely due to advances in India and China. For Africa, and I'll come back to this, this is going to be extremely difficult to achieve. It would require growth rates of something like 7% per year from now until 2015 to get near the income poverty reduction rate expected in the Millennium Development Goals. Africa currently has an average of around 3½%, so it's roughly a doubling of the growth rates in Africa that's required. Growth does not itself automatically translate into income reduction, but it's a broad indicator that allows us, with the elasticities, to think about some of the issues. Clearly redistribution is important. Many of the other dimensions to this also are important and we'll come back to those.

On some other dimensions of the Millennium Development Goals -- health, education, environment -- things at the aggregate level look much worse than on the poverty goals, and we don't think any region will achieve all the MDGs based on current trends. So the challenge is not to continue as we are. The challenge is to think differently, to ensure that there are new ideas, new ways of achieving these goals. I remind you, as I'm sure those of you who have attended other lectures in this series know, that these are not the most ambitious goals. We are not talking about the elimination of world poverty; we are talking about halving world poverty by 2015. Indeed some people have criticised the Millennium Development Goals for not being bold enough. So, even these relatively modest goals in terms of total poverty reduction are unlikely to be achieved in many key dimensions.

In thinking about how these goals may be achieved, how poverty may be halved by 2015, what is extremely encouraging is both the looking back at some of the achievements made and trying to draw lessons from them, and also very importantly, the new sense of togetherness. A new sense of shared understanding has come about between the countries concerned that are going to be in the driving seat, the developing countries themselves, the international community and the bilaterals and institutions like the World Bank and others, and this was reflected in the compact of the Millennium Declaration in 2000 and the Monterrey Conference that followed.

This compact has, as we understand it, a number of key elements. First is that developing countries themselves are the only people in the end who can determine their own futures and history. This is not externally driven. Countries have to do it for themselves, and a growing majority are undertaking and committed to undertake the necessary sort of reforms.

Secondly, if they commit to undertake these reforms, the rest of the world, the rest of the global community will be supportive of the reforms, and they'll be supportive in a number of key dimensions. First, by establishing a global macro environment that is conducive to growth; second, by trade reforms that will be conducive to growth; and third, through very significant increases in aid that will support these processes, including debt relief.

The one dimension that is not mentioned in any of these compacts which I would suggest is important is of course migration. It's very interesting how we know that migration historically, looking back, has been the main way that people have escaped poverty. Those of you who are in the room whose parents or great grandparents were migrants will know this. A third of Europe migrated in the 18th century and 19th century. There were huge migrations of poor people across Africa and huge migrations in other parts of the world. That is not new. It's been around as long as globalisation of communities and movement of communities has been around. This was an important way that people escaped poverty.

The establishment of nation states, the carve up of Africa through colonialism, the increasing sophistication of border controls that really only happened about a hundred years ago, passports being introduced, and now the increasing sophistication and additional layers of security have really stopped that traditional way of people moving towards where jobs and opportunity are, escaping persecution. I would suggest that anyone interested in development needs to keep their eyes and their mind on migration and the migration debates and support more movement. A small movement in the WTO discussions on temporary movement of migration is likely to lead to much greater welfare gains than in many other areas that rich countries can do.

So the key elements that were agreed in this compact then are: from the rich countries, a conducive macro, trade reform and increased aid. How have the rich countries done on these?

Starting with the rich countries, has the global macro, has the macro management of the world been conducive to growth in developing countries? We've gone through a period of stability. The average growth rates projected out of the developed countries, of the rich countries, is about 2½% for the next 10 years and an average growth rate of over 4% for developing countries. Developing countries are both more stable in their growth rates and at higher levels on average over this projected period, and that's very important. It's good for the world economy of course, but it also means that the global weight will change so that by 2030, we will move from about a quarter to about a third of global GDP being developing country. By that time, certainly on a PPP basis, China will be the biggest economy in the world. Many of you will still be young when that happens. With changes in global macro balances will hopefully come some changes in global governance.

On the global macro level, we are relatively sanguine, with one major caveat and that of course is these historically unprecedented twin deficits. In the US on the fiscal side, on the external trade balance, and also a worrying tendency towards fiscal deficits and other deficits in the European Union and other major economies. Now why is this important for development? The traditional model of development, as you all know, is that at lower levels of development, you should be absorbing the world’s savings; your expectations of high growth should allow you to be absorbing a high level of savings that you can mobilise domestically. At the higher levels of development, the reverse should be taking place, in other words, your savings should be exceeding your consumption in different dimensions.

The irony for developing countries, the worrying dimension of these deficits, particularly in the United States, is the south/north transfer of capital. When the developing countries should be on average absorbing very large amounts of capital, they are as a group exporting capital. On the global macro front this is a worrying tendency. What we are all looking to is a careful measured unwinding of these positions which doesn't destabilise the global system.

So macro is one dimension. How are the rich countries doing on trade? Trade remains the most damaging of the policies, the most economically illiterate as you will know if you study it, the most politically short sighted, the most environmentally destructive, and the most socially ineffective form of intervention of the rich countries in the economy. The fact that rich world farmers are protected in different forms to the tune of about 300 billion dollars a year, which is six times aid, is really very difficult to explain logically. The fact that most of those subsidies go to a very small number of farmers, that this is not protection for one's imagined goat farmers in Provence in the south of France, this is protection for very mechanised, chemical intensive agriculture on average. It's the cotton farmers in the US, the sugar farmers in Europe and so forth. It has an immensely destructive effect, not only on the social fabric and environment in the rich countries. The reason we care about it is not because it's not our mandate to care about the poor in rich countries; the reason we care about it is because it has an absolutely pernicious effect on the ability of poor people in developing countries to escape their poverty.

The cost to West Africa or the cotton regimes is probably about 250 million dollars, huge amounts of money. More important than these direct costs which we can measure is the indirect impact. The effects of these policies are to make investment in diversification out of the traditional commodities much more difficult. In my previous job, for example, as the Chief Executive of the Development Bank of Southern Africa, we covered 14 countries. We invested in something like 20 projects designed to help agriculture in rural communities and get out of traditional agriculture -- fish farming on Lake Kariba, flower farming in Tanzania, vegetable farming in Kenya and so on. None of these projects was able to break into the European Union market because of the phyto-sanitary restrictions, because of the costs of legal entry and securing tariff lines. As a result these projects all ended up serving smaller export markets and domestic markets.

We had a project for camel cheese production in Mauritania for the desperately poor camel farmers. It was unable to work because we couldn't get the European Union

to agree market entry even though the cheese won prizes at competitions. This incoherence between aid and trade is something that we all need to campaign about, and I hope that when Peter Mandelson comes and speaks to you, he will highlight his ideas in this area and you can talk to him directly about this. It is extremely important.

The current OECD policies push down commodity prices because they increase the pressure on farmers in developing countries to remain in sectors where they have access and minimise their diversification. The subsidies in the rich country choke demand because, for example, Coca Cola no longer uses sugar, it uses high fructose corn syrup. Manufacturers are substituting synthetics for over-priced cotton in protected markets. The effect on consumers in rich countries is negative, too. It's highly regressive; poor people spend a higher share of their income on basic foodstuffs, and these, on average, are three or four times the world price of the basic food products which are protected.

It's very difficult economically to explain these distortions. The way politicians explain protectionism is that they are doing good for the countryside. They are doing good for small farmers. One needs to go and look at the evidence carefully to see whether that's the case. We believe a far more effective way of supporting small farmers in the rich countries is through income support, through non-trade distorting production support and so on. So on trade, huge amounts need still to be achieved by many of the rich countries. Once those things are achieved, we create market opportunities in the world; that is a necessary but not sufficient condition for growth. Anyone that still thinks that trade opportunity automatically translates into growth needs to begin to unpack all the other barriers that remain – the lack of infrastructure, the lack of skills, the customs facilities and all the other restraints. But in the medium term with these sorts of complementary investments, trade reform is the most important thing the rich countries can do to help lift the average growth rates of developing countries.

Aid. Aid has gone down as a share of GDP. The rich countries all committed about 30 years ago to develop 0.7% of their gross national income to aid. They currently average 0.23% of their gross national income on aid. This has gone down from about 0.33% ten years ago. At a time when the rich countries have never been better able to afford it, because they have never been richer, at a time that the poor countries have never been better governed, it is a scandal that the levels of aid have fallen. There is no excuse for not doubling aid or increasing aid. It's affordable and it is important. It is the case that much aid in the past was wasted. The Congo received 10 billion dollars in aid while its per capita GDP halved over the period 1960 to 1995. Not surprisingly there is a great deal of cynicism about aid.

We believe that scepticism is fundamentally a view trapped in the past, that aid now particularly since the end of the Cold War aid is effective. During the Cold War, aid was more often than now diverted for political purposes, for non-economic purposes, not to where poor people lived and not to countries that could use the money effectively. With the end of the Cold War, with the Millennium Development Goals, with donors increasingly singing the same song, aid is much more effective. Donors spend a lot of time making sure that we co-ordinate and are not tripping over each other, that the Tanzanian Ministers don't have to fill in 2,400 quarterly reports like

they had to fill in five years ago, that they are not spending their days visiting projects and putting flags of different nations on their projects but rather getting on with their jobs of running their governments.

There has been great improvement in aid effectiveness. Aid is better targeted and with that, we believe that aid is probably three times more effective than it was 10 years ago in terms of its impact on poverty reduction and growth. There is really no excuse for aid not to be increased. Of course aid to regimes that cannot use it is not a great idea. We often know who the crooks are, we know when aid goes to Swiss bank accounts, and clearly those people should not get more aid. But where aid is going to be mobilised behind governments that are doing the right thing, it should be increased very rapidly and certainly that is part of the campaign of Making Poverty History.

The British Government is in the lead on many of these matters and has committed, if current trends continue, to increasing its commitment to the 30-year old commitment of 0.7% in the year 2013. I think four European governments have already achieved this, and encouraging other donors to follow these examples is important.

Where should the money come from? There is a debate on this topic at the moment. Everything from aviation taxes, capital flight taxes, transaction taxes, energy taxes, all sorts of other taxes. The UK proposal, the International Financing Facility, is in essence a forward purchase of aid commitments. All of these are great ideas. The bottom line though is that aid flows fast. We know that if governments have the will, they can find the money. Over a trillion dollars a year is spent on military; huge amounts are spent when nations see it as geo-politically urgent. Overcoming poverty is geo-politically urgent at the global level, and so it’s very important that aid money is found and is found now.

Of course the postponing of this not only postpones achievement of the goals but every minute really does count. During the course of this lecture, something like 19 children a minute will die of preventable diseases. Development is really time critical, and being able to get money out and being able to get things to where they will be used effectively is vital. So the aid dimension is important and particularly aid which is supportive of other reforms which lead to growth and poverty reduction.

Where does debt fit into this? This has become a hot topic in recent months. It was with Jubilee, and Jubilee achieved a huge amount including pushing in support of the HIPC Initiative, the Highly Indebted Poor Countries Initiative. That has been a relative success; something like 54 billion dollars of aid has been written down in that process, and as a share of GDP, countries have managed to greatly reduce the amount of money they spend on debt servicing. The share has gone down from something like 25% of government revenue in those countries being spent on debt relief to 18%. Any saving on debt relief, if the governments are managing their affairs wisely, can be applied to more productive purposes, like to investments in education and health.

We believe there is an urgent need for more debt relief, but we do insist on a number of things in this dimension. The first is that this is funded, in other words, that if

people believe in debt relief, they have to pay for it. They cannot expect it just to come from a cancellation of obligations particularly to institutions that are recycling that debt. The World Bank is a bank. We survive by getting back the money and countries depend on us for future lending, which requires that we do receive the money. We are moving towards a more concessional model where higher shares of our money that we give to poor countries will be more concessional. Maybe 30% of the money will be grants in future years, but this requires an income stream and asset base which are guaranteed by income flows.

So the first question is where is the money going to come from? We believe that it needs to be additional. It cannot simply be diverted from existing aid commitments so that, for example, the global fund for HIV/AIDS suffers because the money is being allocated to debt relief, or that our lending, our concessional lending, to a country suffers because of debt relief. So consideration one is to make sure that it's funded.

The second is to make sure that it goes to countries that will use it wisely. We know from the past that money, if it's used wisely, does support poverty reduction in growth, but there are still countries where money may not be used wisely. Ideally, debt relief should be used in support of budget support programmes in a broad framework that supports poverty reduction and growth.

Thirdly, of course we need to be mindful of the moral hazard and the capital markets dimensions of debt relief. The moral hazard is that many countries have spent many years and with great hardship repaying their debts. What is the signalling effect to all these countries of just writing off debts now to, in a sense, latecomers or those who haven't over the years so effectively managed their debts? This is a big issue. For example, the South African Government, even in relation to the apartheid era debts has indicated it does not seek debt relief. These are important considerations.

Another dimension of this is the capital markets, where we hope the future access to money will come from. These markets depend on signalling as well regarding behaviour on debt. It is unlikely that they are going to issue new capital to countries that they don't believe will repay their debts. The question is whether the lower level of debt incurring from debt relief will offset the negative perceptions associated with writing off debt.

These are all manageable issues. Mechanisms are being devised to manage them. We can talk about them in Q & A, but these are some of the complexities if one begins to unpack the debt relief debate.

So I've talked about trade, I've talked about aid, I've talked about debt, I've talked a little bit about migration and the global macro. Let me now turn to what developing countries themselves need to do. Any amount of opportunity created by rich countries only makes sense if the developing countries themselves are managing their affairs in a way that will not only ensure growth but that the growth benefits poor people.

The really overwhelming good news to emerge from developing countries over the past 25 years is not only that this is happening but that it's happened at absolutely

unprecedented rates in global history. Over the last 30 years, life expectancy at birth has increased by about 20 years. That is incredibly impressive. It most probably took 20,000 years before that for an equivalent increase in life expectancy to be achieved. There has been an absolute leap-frogging in one critical dimension of measurement of development, the increase of life expectancy by 20 years, absolutely phenomenal.

Illiteracy among adults over the last 30 years has decreased from about 47% to around 30% -- also a huge step change and unprecedented in history to have that sort of step change. Life expectancy at birth has also virtually doubled in most of the developing world over this period. These are some of the dimensions of success.

Also critical is that the number of people living on under dollar a day has gone down over the last 20 years from about 1.5 billion to about 1.1 billion. As far as we know, over at least the past 200 years, absolute poverty has increased, with population increases around the world. So there has been this reversal in absolute poverty. It is a huge source of encouragement that these things can happen. Anyone that is sceptical about poverty reduction and sceptical about development really hasn't looked at the history books and hasn't looked at the statistics. Things are done, things are achieved, there's real very good news out there. That's why it's really important to fight even harder to do more because it can be done.

In Africa, which remains by far the most troubling region, there's also been much that's achieved, although per capita income in Africa had not increased over the 40 years up to the year 2000. Since 2000, it has begun to increase, and this is critically important for the world and for poverty reduction. Africa is where poverty appears to be in many dimensions the most resilient to efforts to change, but there are many other dimensions of good news from Africa. Not only are a number of African countries including Mozambique, Lesotho, Botswana and others amongst the highest growth countries in the world, growing at around 8%, 9%, 10%, competing with China for first place amongst global growth, but there have been some other huge step changes in the last 20 years in Africa. Obviously the transformation of South Africa is something that we will think about in this context, but something like two thirds of the African countries have moved from being autocratic to democratic over the last 30 year period. This is a step change historically.

On the macro front, the average inflation rate was around 14% 20 years ago. The average inflation rate is 5% now. That is another step change, and it is sustainable although there will remain some variations around the trend. So there's good news.

The Africa Commission that Tony Blair has convened complements the African wide initiative NEPAD. NEPAD aims to drive through the changes in Africa and to achieve growth rates of 7%. On some other dimensions of development, there are very worrying signs. One out six African dies before the age of five, and life expectancy at birth has declined from 52 years in 1990 to 45 years now, mainly due to the ravages of HIV/AIDS. For anyone interested in achieving the MDGs, these are extremely severe backward movements.

So it's right that there is a particular focus on what Africa needs. It's right that there is a particular focus in supporting African governments and African leaders who are

making the sorts of reforms that will drive change and these are changes on multiple dimensions. For the most part, developing countries have moved beyond the first generation changes on the macro front. Latin America, Asia and Eastern Europe on average are in good macro shape and now are focused on other economic reforms. I don't think anyone believes in the Washington Consensus anymore. That really is history. Certain building blocks of that sort of understanding, particularly on the macro stability front and getting your macro in balance, are vital and we think some rich countries could learn that lesson, too. Clearly the macro stability is something which is there, and there are very few countries, interestingly enough for us at the World Bank and people like myself who engage in these conversations, there are very few places where we have conversations around the macro which are in any way tough. Our conversations often focus on how revenue should be spent and increasing the revenue side. So macro remains important.

Then there is really a question of the hardware and software of development. The hardware is infrastructure. Anyone that has been in a developing country knows this is where many of the impediments come. Infrastructure along all its dimensions -- transport, communications, power, water, ports, and airports -- is absolutely key. The amount of money required is way in excess of the amount of money available or currently allocated. This will require an increase of investment and infrastructure in developing countries on average of around 3-5% of GDP over the next 10 years to achieve the MDGs. This is a very significant investment.

There was a period in which people believed that the majority of these investments would come from the private sector. I think that illusion has long vaporised. There is no way the private sector is going to fund the majority of infrastructure needs for developing countries. In certain sectors like telecommunications, certain parts of the power sector, urban distribution, some independent generation, the private sector is still investing, and there has been an upswing in private sector interest again after a decline over the last few years in investing in infrastructure, but this is very small compared to the needs and particularly in Africa, particularly in rural communities, it's going have to be governments that fund infrastructure. They are going to have to fund it in increasingly innovative ways. That means not only working in partnerships with the private sector and trying maybe to absorb some of the risks, but also of course with international community. This is where aid is important, to provide this sort of concessional finance to make affordable much of this infrastructure. So infrastructure, hardware, is absolutely critical.

Equally important is the software. Software is everything from developing the education systems, the skills, health systems and the health capacity to the governance and management of the economy. We've been doing a whole lot of very interesting surveys which, if you go to the World Bank website, you'll see on investment climate. What drives private investment in employment creation? Invariably there are issues that governments can influence and make a difference on, not only by providing the hardware so that people have power and transport and so on, but also through the software.

The investment climate surveys show that there is a huge variation between countries. In some countries, it costs something like 2% of an average annual income to start a business and it can be done at a one stop shop in one day. In

other countries, and if you go to the website you'll see them all listed, it takes two years and five times an average per capita income to start a business. Now clearly that has a very different incentive effect on legal entry.

What I would like to emphasise in this area is that it is critical not only to think about what will attract foreign investors, but what will make domestic investors, one’s own population, invest in the country. The statistics are that something like 1.5 trillion dollars goes to domestic investments from domestic people in developing countries, and about 150 billion dollars is foreign investment. Foreign investment is concentrated in a small number of countries. Foreign investment is nice to have but for most countries, it is not what is going to drive job creation, employment and so on. It's very important at the margin, but it’s 10% at most, and for most countries only 2-3%, of the story of what's going to drive employment creation, although with foreign investment, it can come as a bundle -- technology, skills and many other things.

So the real question for governments in developing countries is how they make their own people invest in long term assets, in employment opportunities, entrepreneurial activity in their own countries. Here we need to worry about migration and the brain drain and capital flight. You know the statistics, the headline statistics: more African doctors outside Africa than in Africa; more teachers... The flight of capital is not measured of course because most of it is not reported, but it is estimated to be extremely significant, like 10 billion dollars a year.

Now driving much of this is also of course incoherence between aid and domestic investment dimensions. It really doesn't make sense for rich world governments to be investing in education facilities in developing countries and then to be recruiting their skilled nurses and doctors and so on. The UK Government is trying to do something about this, but these are the sorts of coherence issues that are absolutely vital in developing human potential and improving the software of development. Governance is also vital --the rule of law, honesty, integrity, transparency. It’s particularly important in those countries that are highly dependent on mineral and extractive industries, where it’s relatively easy to transfer the benefits of investment outside the country. These are important dimensions that developing countries are focusing on.

The overwhelming majority of developing countries are doing the right thing, and that is why you have seen an increase in growth and poverty reduction in developing countries.

There is a small group of developing countries who are mired in conflict and who are in their policies making themselves poorer, and those are countries that are the most troublesome. Conflict is one particular sort of issue and post conflict and how one prevents countries falling into conflict or engaging in conflict with other countries. There is a lot to be learnt from history, but one of the things that can be learnt is that there is a very close relationship between peace, security and development. People with hope who think they will be employed and their kids will be employed and treated decently in society are far less likely to blow each other up or blow up their neighbours than those people who have absolutely no hope, who have no

participation in society, no power in society, and look forward to a lifetime of unemployment and misery.

So one dimension is hope and its relationship to development. More broadly we know that the way the economies are managed is extremely important in terms of the ability of those countries to manage tensions, overcome conflict. It is no accident that the majority of conflicts are in regions where groups have been able to capture rents. Rents from commodities, rents from mineral extraction, rents from particular sectors to fund conflict to buy arms. These things need to be managed at the local level, national level and at the global level. Again it's a question of coherence, coherence between different dimensions of policy, coherence between national and global governance.

We also know that some of the biggest advances that will be made will come in these dimensions. The biggest threat to development in the world is war. The biggest threat to people is that sort of dimension of conflict that takes the floor from beneath where they stand. Global governance, local governance around conflict prevention, cannot be separated from any discussion of development.

So too cannot other threats to development. Climate change is something that is critical. I attended a meeting recently of small island states that literally are threatened by this in every dimension, and of course it greatly increases the risks to rural populations. We know that the poor are most vulnerable. They are most vulnerable to climatic change. We know that the sorts of change that are happening to the climate will increase the variability of rain, not necessarily make it less but also on fewer days, harder downfalls and so on. For example, we are talking to the Indian Government about major infrastructure investments in water, irrigation and so on now, and now need to execute modelling of what climate change will do to India and its dramatic impact on the poor.

Allied to this is the need for global funding for new technologies. New technologies for plants that are not only richer in different nutritional dimensions but able to resist climate stress. The CGIAR, the global consortium around agricultural research (and this is not about the GM debate for those who want to pounce on me on that dimension), this goes back for 45 years, and it is vital that it is funded. These are global public goods, and they become more important the more vulnerable people are to global threats.

Let me end with a reference to the need for development to take place at absolutely all levels. It needs to take place at the national level. It needs to take place at the global level, and everyone has a responsibility in every level of their work, in their communities, in their countries, in their global politics and when you sit in the UK. Even if you are from another place, there are hundreds of ways in which you can engage in your daily lives to support development. Most important of all of these things, and I'm not saying this simply because I'm at LSE, if you go to my papers that I've written, you will see this is a consistent theme -- the power of ideas.

What is it that explains why some countries have managed to move, some aid systems are better than others, some institutions evolve over time? It's because of the contesting, the fighting around ideas, that constant churning in the evolution of

ideas. Although we think we have many of the answers now, we will hopefully find, otherwise we will really have to worry, that these ideas will be replaced by newer and better ideas. What makes development happen? The areas of research where our understanding is particularly weak include the institutional reform area, the capacity building ideas, the ideas around migration I've referred to, ideas around the impacts of big global processes like climatic change.

We are just beginning to begin to get our hands around these and other ideas that are central to our collective future. The more that we invest in research, the more that people like yourselves focus on development issues, the more optimistic I think we can be about development. Thank you.

[APPLAUSE]

Dr Faguet
Thank you very much Dr Goldin. We still have about 15 minutes for questions. There is another group coming in at 3.30 so we need to wrap this up by 3.25 so they can come in.

Question 1
I would like to ask about the relationship between the World Bank and the developing countries more especially about the future of conditionalities for example. I've heard about swaps where the World Bank funds a whole sector of the government instead of single projects. Could you perhaps talk about what the World Bank is going to do to further increase the ownership of the relevant governments?

Question 2
I think this one is related to the other one; it's again about the relationship between the World Bank and developing countries. With Jim Wolfensohn retiring this year, do you see any prospect that the next head of the World Bank might simply be one of President Bush's old chums and might actually be chosen transparently and might not be an American citizen?
[CLAPPING]

Ian Goldin
I would clap if I wasn't a staffer at the World Bank. [CLAPPING]

On the second point, not much hope now. There is a website called worldbankpresident.org which if you are interested in these matters you can look at. There is a global carve up as you know of the financial system, particularly the Bretton Woods institutions, and in it the Europeans get the Fund, the IMF, and the Americans -- and that is to say I'm following the same trap I always don't like, which is the USA, not the South Americans or even Canada -- get the call on the World Bank President, and the rest of the world fights over the WTO. This really remains in place, and because the Europeans recently insisted that they have the head of the IMF, they perpetuated that process. Having insisted that the Europeans get the IMF, I think the US is likely to insist on the Bank. Now many of us dream and maybe some dreams will come true, but I think it's unlikely.

The really important thing, and the Guardian and other papers have written some really interesting editorials in recent weeks on this issue, is the criteria for the job. I don't think the nationality is the most important thing; the most important thing is the quality of the woman or the man that's in the job, and that's obviously what we need to keep the focus on. This is something that staff has absolutely nothing to do with other than reading the website like everyone else.

The question of the relationship between the Bank and the governments – this is a very positive evolving process. Mainly in recent years, especially in the poorest countries, with the PRSP processes, the Bank is very much now aligned with governments and other donors. It has many, many advantages; it has the efficiency advantages, it has the coherence advantages, and it has the very significant advantage of basically supporting budgets in delivering goods. Because money is fungible, it really does lead to a coherent view across the economy as well as between the different aid donors of what's happening.

Within the Bank, we are also trying to ensure more coherence. It's a Bank Group, so we have the International Finance Corporation, the Multilateral Investment Guarantee group within the Bank Group, too. Across the different institutions, we are working to ensure that we are playing off the same sheet, and that's led to I think a very significant improvement as well. There is a long way to go. I don't for a second want to sound complacent, and that is one of the reasons why it's so important to have a leader that continues to drive change in the institution. There is a long way to go, but where it works, it really is working much better than the way it used to work. I hope that answers your question; catch me afterwards if it didn't.

Question 3
The awareness of the perverse nature of agricultural subsidies has been on the agenda for quite a long time now. From having worked in the agricultural sector in the UK in trying to work on the sustainability side here, I'd be really interested to know, while I'm fully against subsidies, but I welcome practical ideas about how they can be eliminated without huge economic problems over here.

Question 4
Thank you for your talk. It was extremely interesting and quite optimistic I thought. It sounds like you should congratulate yourselves for what the Western Governments have achieved over the last 20/30 years. I thought it was very interesting what you said about the need for hope and the importance in countries where there is conflict to give hope to people, to improve their chances of developing, and I wondered how you reconcile, you and how the Bank reconciles this with the cynical determination of certain Western countries to destabilise the Middle East and the obvious effects on the rest of the south of the world.

Ian Goldin
You've put me in a difficult position. We can again have a conversation afterwards. The Bank is owned by a 184 different countries, so we don't comment on any individual countries actions, and if I have, I wasn't being effective in my job, but both of these questions obviously go to the heart of rich countries' policies.

On how to remove agricultural subsidies, I've never really understood why they continue. The agricultural population accounts for something like 2%, maybe 3% of the electorate and of the economic activity. It really is a fantasy that urban voters are voting for, and when they vote for these subsidies, it's through lack of knowledge. The average person in the EU is paying most probably £500 a year more than any should be for food. That's at the cost of poor people in poor countries. This is just not appreciated, understood, campaigned around in an effective way.

One sort of answer, and this is the most cynical answer, is in economic processes basically in market economies, there is an evolution and the movement off agriculture is part of that. What happened to the coal miners in the UK? What happened to the textile workers and if you constantly prohibit sectors from declining? The only reason I feel strongly about this is because of the impact on the rest of the world. So they've chosen to defend in the most expensive way the sector that has the biggest effect on poor people in the rest of the world.

What we know from the decline of the coal industry, from the steel industry and from many other industries is that when Governments want to do it, they do it. Those by the way, certainly the coal industry, represented more working people at a time than benefit now in significant ways from these subsidies. They did it through a whole series of different means, through providing a safety net, through re-skilling on jobs, through different diversification strategies, and I think that's more possible in the countryside.

The important thing I think is to get behind the numbers. Who actually benefits from these subsidies? Is it the people we imagine? Is it the small farmers? I've seen evidence that suggests that these subsidies push small farmers off the land because they capitalise the land. They go for large scale mechanised production and so on. So what are these subsidies actually doing? Who are they supporting? How many people get them? There are websites in the US that have this information, and you see the farmers that get millions of dollars even though they live in New York. That's one sort of question. That information doesn't exist as transparently in Europe as far as I'm aware.

So one question that governments should know is who gets the subsidies? Then you can begin to target the impact of the withdrawal. The second is to think of the secondary things you can do. Clearly there's rural tourism, managing the countryside to improve the environment, organic farming, etc. etc. One can imagine all those sorts of things for the people you want to target. If our objective is to make the countryside beautiful, to keep the number of people living in the countryside because we believe it's the right thing for society, because we want to keep the countryside beautiful because it's good for the environment, and of course to produce agriculture that is competitive, then that's what they should do -- but not at the cost of poor people in developing countries. All rich countries have the right to put their tax money wherever they want to put it, but our concern is the impact on the rest of the world.

The question of the coherence of policies on the Middle East I'll rather pass on, but clearly it's absolutely vital that the investment in peace is made. That is in ensuring that governments support opportunities for peace when they arise, to create

employment and to support reformers within the region who are investing in peace. The opportunity to deliver something, particularly to be able to deliver jobs and hope to people, that is a very large part of what we engage in. We engage in very significant investments in the West Bank, for example, and Gaza in basic infrastructure, water, sanitation, and in other dimensions that we hope will create opportunity. These things can only be as good as the overall enabling environment, and clearly if there's war, it's difficult to do anything.

Question 5
What's the relationship between continuing to prioritise growth and counteracting global warming? Surely this is something that the world has never faced before and perhaps requires some new thinking.

Ian Goldin
Yes, I think that's absolutely right. It does require new thinking. Clearly there is a very long debate, and I see we have run out of time, so it’s impossible to get into these things, but the projections and the associations of energy intensity and growth in energy consumption based on what is needed to overcome poverty will inevitably lead to much higher emissions. Of course, the debate is A) how does one reduce the energy intensity of that growth, how does one ensure a much greater use of renewables, and our funding for renewables is going to double in the coming years; and (B) what sort of bargain at the global level does one create around that. You will be as familiar as I am with developing countries’ insistence that their growth is not stopped to pay for past emissions. I see that as absolutely one of the most difficult intellectual issues that we face in the development community. How do we achieve the poverty reduction and growth that we believe is absolutely critical in a way that will be mitigated to the absolute maximum through new mechanisms, new technologies and less intensive in terms of energy ways? It's absolutely essential and it’s related to other questions.

We know one of the greatest causes of death is indoor air pollution from coal, for example, and those sorts of questions are clearly related to how one moves off coal and what does one move to and so on.

I just want to clarify one number that I gave you, which is wrong, while I have been talking: 800 people have died from preventable diseases, not 8000. That's 19 people a minute

Dr Faguet
I'm afraid we have to wrap it up so thank you very much to Dr Goldin.

[APPLAUSE]