



## **The Future of the World Bank: A CGD Symposium September 23, 2005**

### **The Missing Mandate: Global Public Goods**

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[TRANSCRIPT PREPARED FROM A TAPE RECORDING]

**MR. MacDONALD:** Michael, would you come up and get your wire on. Our final panel is on global public goods and we have only one speaker and that's because everybody agrees. No. Quite seriously, I'm sure there are a multiplicity of opinions on this, but we're very pleased to have Michael Kremer with us. It's my privilege to be able to introduce him.

Among other things, he is the person behind the idea of an advanced market commitment on vaccines which is at the core of the initiative that the Center for Global Development is pushing, and among the many things that we've been involved in, it's the one that I think has one of the greatest potentials to save lives and improve lives, and so I'm delighted with that.

Michael is a professor of economics at Harvard and senior fellow at the Brookings Institution, and I'm proud to say, a nonresident fellow at the Center for Global Development. He received the MacArthur fellowship in 1997. Michael, the floor is yours. Thank you for joining us today.

**MR. KREMER:** Thank you very much. International organizations like The World Bank have typically had very limited resources relative to national governments. That raises the question of how can they use those resources most effectively and there are many answers. One is they should assist the poorest countries. If we're talking about African governments, these resources aren't necessarily that small relative to what governments have.

A second answer is to leverage resources by using them to influence the way governments spend their money. That's the idea of conditionality. That's an idea that's fallen into a lot of disrepute, and therefore is being renamed.

But I think that there are many cases in which that actually can work. But I'm not going to focus on either of those. I'm going to focus on another area in which

international institutions can focus, which is looking at things where governments can't or won't have incentives to do things on their own because they're addressing problems that go beyond a single country, beyond borders, global public goods.

Now from an economic point of view, global public goods are goods where a large share of the benefits go outside the country.

So let me give some examples. An investment in reducing carbon emissions. That helps prevent global warming, that doesn't just benefit the country involved, it benefits all countries, or at least all countries which would be hurt by global warming.

Another example would be helping eradicate polio. There's not much polio left in the world, it's concentrated in a few countries. If polio could be eradicated, then other countries could eliminate polio immunization, eventually, from their normal public health practices. That would save other countries hundreds of millions of dollars a year.

Now if you take that economic definition as the large share of the benefits going beyond the country, it's clear that the global public goodness of a particular investment is on a continuum.

There'll be other investments where some of the benefits, but not all of the benefits flow outside the country. So an example of that would be, say, a port improvement or road improvement in Kenya.

Uganda, Rwanda, get many of their goods by--they travel through Kenya, so if the port in Mombassa's improved, some of the benefits will flow to Kenya, some will flow to Uganda and Rwanda.

That's further down the spectrum from something like carbon emissions where almost all the benefits would go outside of Kenya's borders, but it might deserve some international subsidy.

Going further, you could think about something like control of AIDS. Many times, when people talk about global public goods, I think they're not really using a strict economic definition like the one I'm discussing.

They mean anything to address a global problem is, in some sense, a global public good. I'm going to resist that definition. Most of the benefits--if Kenya starts some program to educate its teenagers about HIV/AIDS, or to try and fight other STDs in sex workers, most of the benefits of that are going to go to Kenya. Yes, there are going to be some Kenyans who are going to have sex with some Ugandans, and some of the benefit will go to Uganda, but overwhelming, the benefits will go to Kenya.

That's very important, and may be very worth doing under one of these other headings, but I don't think it's really a global public good.

So let me talk--the other thing I want to note is that the concept of global public goods is very separate from the concept of distributional benefit between rich and poor.

There's some global public good which are truly global public goods but they benefit rich countries. Somebody comes up with a better cell phone--well, cell phones are actually a bad example. But we could think of some things that technologies that primarily serve rich countries. Improvements in those could be a global public good but mostly for rich countries.

If we're thinking about what The World Bank should concentrate on, I think it makes a lot of sense to focus on global public goods and to focus on those global public goods where a very large share of the benefit goes to poor countries.

So let me mention some examples. First is technologies for the poor. There are certain technologies which are needed in poor countries, are needed across a range of poor countries but aren't so much needed in rich countries; are much less needed. So an example would be health technologies like a malaria vaccine, like research on ways to fight schistosomiasis. These would affect many poor countries but no poor country has sufficient incentive to put a lot of money into research on its own.

So this is where it makes sense for--another example would be agricultural technologies, things like cassava, for example.

So in these areas, I think it would make sense for the Bank to think about how it can help. There are two basic approaches and I think we need to use both, have a combined strategy. The first is to find research out front and that's something that the CGIR system does for agricultural technologies and the Bank has used part of its profits to help support that, and I think it should continue to do so. I think there's similar things that could be done in health.

The other, if you think about the R&D system that we have in rich countries, it really relies on a combination of out front funding for things like the National Institutes of Health but also relies on the prospect of a market to motivate research by private companies, and that market is missing for many technologies needed by developing countries, both in health and in agriculture.

So that's an area where I think The World Bank could potentially, through some innovative financing mechanisms, make a difference. If they could make a commitment to make loans or to make grants to help countries finance purchase of certain goods, like a purchase of a malaria vaccine, for example, they might be able to structure something that would help create a market for these products, that would create an incentive for private firms to invest.

They mention that this type of investment, investment in technology, either on the direct funding of R&D or in creating a market for technology, both of these avoid what many people see as the problems of aid.

Again, this is another, like conditionality, this is the conventional wisdom, which is very widespread, which I think may be overstated. But there's a widespread that aid is a failure, that countries are corrupt, they use the money badly, and that it helps prevent reform in countries and so on.

Well, if you really believe that, then maybe you don't like giving money to Kenya to build roads. But you might well like giving money to research institutes to develop a malaria vaccine. It's hard to see why that's going to prevent reform in Kenya. You're probably also likely to support creating a market for a malaria vaccine as well. So I think that's one--investments in technologies that will benefit the poor is one very important area.

A second area is helping develop knowledge about what works in terms of public policy. I think one thing we've seen is that knowledge is a nonrival, it's a public good, and there are a number of examples in which developing countries have figured out ways of doing things and these have spread, and benefited other developing countries.

We heard the discussion of progress in Mexico, recently, conditional cash transfer program. Mexico developed this program and they did a very careful evaluation with a treatment group and a comparison group. Eventually it was extended to all the villages, but while it was being phased in, some groups were treated and some weren't, it was random, the order of phase-in, so they were able to evaluate the program.

They found quite positive effects. It was then adopted by many other countries, and it was the evidence base that was developed by the Mexicans that helped allow that. So that's an example in which the knowledge about what works, developed by a largely innovative project and then carefully evaluating it, helped benefit--had benefits that went beyond borders.

Now what's sad about this case is this was basically done by the Mexicans themselves. The IDB played a role and The World Bank has played a fantastic role in helping extend those.

But the basic idea of doing this very careful evaluation was done by the Mexicans. This is something that, because they had visionary leadership there, they were able to do. But that's going to be rare. Typically, and understandably, countries are reluctant to invest a lot of resources in doing a very careful evaluation of an innovative idea that will benefit not just them but benefit other countries that could take it up. So this is an area where there's a potential global public good argument.

In the U.S., when we were looking into welfare reform, there was an understanding that the current system wasn't working that well and that states should be allowed to experiment.

One part of the legislation was the states did very carefully evaluate that. That was put in by Moynihan, was a big--was the person largely responsible for that. So states

could experiment but they had to evaluate it and that information had to be made available to other states.

Well, you could imagine The World Bank doing something similar, creating some sort of innovation fund. There'd be resources available with a large grant element to countries that were doing something truly innovative and were willing to subject it to a randomized evaluation with treatment groups and comparison groups, much like in a medical trial. I think that this would be an area that the Bank might want to get into.

I just wanted to respond a little bit to comment that came up about look, 90 percent of the problem is making sure the road got built, or that the textbooks got delivered. You know. Okay. Sure, I would like to know whether the textbooks had any effect; but that's sort of secondary.

I think that's taking things a bit too far. I think it's certainly--if we want to have accountability, it's going to be very important to make sure the road got built and the textbooks got delivered. That's for sure.

But I don't think we should neglect the second part, and let me just give an example. You know, if you think--one thing that you might think has got to work is textbooks in a poor country without many textbooks.

I was involved in an evaluation of a program which provided textbooks in Kenya, in a situation where there's one textbook for every 17 pupils prior to the intervention. You might think look, why evaluate this? We know that it's got to be good to provide textbooks.

Well, what we found was the textbooks, for the typical student, textbooks made no difference in terms of learning. The benefit was entirely to those students who have scored very well on the pretest, the top quarter of students. Why?

Well, this probably had to do with the way the curriculum was structured, with the fact that English is the language of instruction in all Kenyan schools, but it's the third language for most pupils. There were a lot of pupils who just weren't able to benefit from these textbooks.

It's important to know that, not only to think about, you know, which textbooks to give, but to think about the educational system as a whole.

So let me just mention a couple of other areas, other than investing in innovation and evaluation and investing in technology. First, I alluded to earlier, which is a road network for Africa. Now much of the benefits of this will be within countries but there'd be substantial benefits outside of countries, and arguably, Africa, because it's so poor, is an area where we're not just concerned about global public goods, there's a straight distributional argument for assistance.

I think that's an idea that maybe should be looked into. One critical thing would be provisions for a continued role of international institutions, with international accountability at least, in maintenance of these and in keeping overloaded trucks off the road. If you just give money to countries to build road networks, then heavy trucks are going to go on them, heavy trucks ruin roads, there's not going to be a sufficient incentive to prevent that because much of the cost of that falls on other countries, and anyway, governments are--the people supposed to be preventing that will just take bribes, in many cases.

So having a road network could be of tremendous economic importance for many African countries and the benefits would go outside individual countries. So it would make sense to have international involvement but you have to have some mechanism in place for some international oversight of the governance of that road and the maintenance.

The other area, even more speculative, is refugees. Now accepting refugees is something where the benefits obviously go beyond borders and we have an international system for that, international treaties which recognize in some sense, this isn't something one country can do on its own, and each country would rather that the other country take the refugees.

But I think the current system is problematic, in many ways, including the security implications. The current system provides a lot of AIDS refugees in camps, and it provides asylum to sort of a small group of refugees who can prove they're political refugees, under legalistic rules. I think that creates a lot of problems. Helping refugees when they're in camps concentrates them in a particular area, makes it harder for them to work in the normal economy, leaves them plenty of time and incentive to engage in politics, and often in violent political activities.

So we've seen this perhaps most tragically, most recently, with Rwandan refugees in Congo. We saw that in Afghanistan. We saw that with the Palestinians. Now this isn't purely people are making a mistake. There are certain cases where it's on purpose. I mean, one of the reasons it was--if you wanted to maintain pressure on Israel, that it may have been strategically useful to have Palestinians in refugee camps rather than resettled throughout the Arab world and dispersed.

But there are certainly some cases and so in those cases, if there's--it's not sort of a technical reform, it's a matter of some grand political bargain. But I think there are other cases and perhaps the Rwandans in--the Hutu militias and other refugees that fled to Congo might be an example. It's not a matter of great power politics and deliberately wanting refugee communities to be maintained as refugee communities.

**MR. MacDONALD:** Michael, how we doing on time?

**MR. KREMER:** I'm finishing up.

An alternative would be support for the international community and perhaps the Bank could have a role in supporting countries that will take refugees, especially non-neighboring countries, the refugees could be dispersed. So if we think of the Congo situation, suppose that incentives had been provided to Kenya, to other African countries, South Africa, Mozambique, even, to take some of these refugees and to let them integrate into the society.

Well, if these refugees hadn't been in Congo running their own government there but had been dispersed throughout the region to countries with stable governments where they wouldn't be threatening Rwanda so much, maybe we wouldn't have had the invasion of the Congo and the disastrous consequences.

What's the role of the Bank on global public goods? Let me just say that they were very limited when they could only make loans, because why should a country take a loan to finance something that's going to provide global benefits, if it has to repay it?

Now they still had the loans available but that wouldn't do much good if, really, most of the benefits went outside the country.

Now the Bank has another instrument; it has grant instruments. It can and I believe it should be using that instrument to encourage global public goods. It can fund an Indian research institute working on malaria through that, and the Indians will have every incentive to accept that money.

So I think there's an opportunity for The World Bank in these four areas-- technologies, innovation fund, possibly roads for Africa, and even more speculatively, assistance for countries that will take refugees and allow them to integrate into the society. Thanks.

[Applause.]

**MR. MacDONALD:** As we did with some of the others, if somebody wants to make a question for the record, we're going to do that. Because of the time constraints, I think I won't give you an opportunity to respond, Michael, but thank you for those very stimulating and concise remarks.

If there's nobody with a burning question, Nancy, I will ask you to provide the closing remarks.