

Millennium Development Goals at Midpoint: Where Do We Stand and Where Do We Need to Go?¹

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List of Acronyms

ACP	African, Caribbean and Pacific (regions)
AERC	African Economic Research Consortium
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AusAID	Australian Agency for International Development
CDD	Community Driven Development
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee (of the OECD)
DFID	UK Department for International Development
DHS	(US Aid) Demographic and Health Surveys
EBA	'Everything But Arms'
EPA	Economic Partnership Agreements
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GSP/EBA	Generalised System of Preferences/Everything But Arms
HIPC	Heavily Indebted Poor Country
ICP	International Comparison Program
IDA	International Development Association
IFI	International Financial Institutions
JMP	Joint Monitoring Program
LICUS	Low Income Countries Under Stress
LSMS	(World Bank) Living Standards Measurement Study
MAMS	(World Bank) Millennium Development Goals Simulations
MDGs	Millennium Development Goals
MICS	(UNICEF) Multiple Indicator Cluster Survey
NGOs	Non-governmental organisation
ODA	Official Development Assistance/Aid
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
RPED	Regional Programme on Enterprise Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
US	United States
USAID	United States Agency for International Development
UNCTAD	United Nations Conference on Trade and Development
WSS	Water Supply and Sanitation
WTO	World Trade Organization

Executive Summary

The Millennium Development Goals have been a force for good in the world. They have directed world attention to the plight of the poorest. They have helped reverse the downward trend in Official Development Assistance in the 1990s. They have led to expanded funding in particular for health and education programmes. And they have provided a framework within which countries can plan their social and economic development and donors can provide effective aid.

The world is on track to halve global poverty by 2015, which is the first development goal. Midway to the horizon and from 2000 to 2005, more than 120 million people have escaped poverty. Likewise, about 2 million lives have been saved by reducing child mortality, 30 million additional families have access to water, 30 million additional children are going to school, and boys and girls are in equal numbers in school in many countries where gaps used to be very large.

MDGs within reach globally, but most countries will fail most goals

Progress has been highly uneven, however. Global income poverty has been reduced, largely thanks to rapid growth in the giant countries of Asia, including China, India, Indonesia, and Vietnam. In many more countries, poverty reduction has been too slow, or poverty even increased, mostly because of stagnation, slow growth and/or rising inequality. Things look worse when it comes to the education and health MDGs, where progress has been slower. As a result, most developing countries are projected not to meet most MDGs. Despite a recent up-turn in growth since 2000, Sub-Saharan Africa remains the lagging region with respect to both income and non-income MDGs. Thus, the picture is of huge diversity in country performance, within and between regions.

The impact of growth on poverty has been smaller than expected, because of rising inequality in the majority of developing countries since 1990. In addition, there is surprisingly little correlation of progress in the different MDGs. Although necessary, growth alone cannot do the work. Other aspects of development policies matter.

Analyzing MDG progress at the country level

Country by country, progress against the MDGs is shaped by three factors: how far they participate in global growth; how far their own policies contribute to shared growth and poverty reduction; and, for the poorest countries, how much and how well aid is delivered and used. We find causes for concern in all three areas. Furthermore, the immediate growth outlook for developing countries is less positive than for at least a decade, with the slowdown of the global economy together with oil and food price shocks. This affects the economic prospects for poor countries, may reduce capital, investment, and migratory flows benefiting developing countries, and also risks undermining support for development aid in rich countries.

Our analysis leads us to the following conclusions:

Policy coherence key to the achievement of MDGs

The MDGs as agreed in 2000 remain a valuable framework for development action to 2015. At the same time, there remain serious problems with practical aspects of the MDG related data gaps, lack of timely information, inconsistent indicators, and frequent revisions. Thus, they should be seen as a broad initiative to reduce poverty in its many dimensions, rather than a detailed blueprint for separate interventions on each target or indicator. There is therefore no need to complement them with additional goals or targets, as sometimes suggested. However, they do need to be part of a more

coherent policy that integrates these goals within a framework that supports growth with equity and well-designed sectoral policies.

This has implications for all actors in the international development community.

The donor community must deliver on the promise of aid volumes and improved delivery

As far as developed countries are concerned, both the volume of aid and greater effectiveness must be top priorities. The Gleneagles commitments have been re-affirmed at successive summits, most recently at the G8 in Hokkaido. Despite this, aid volumes have recently declined. The current shortfall on commitments, to be met by 2010, amounts to US\$ 35 bn. a year, or approximately 35 per cent of present volumes of aid. The delivery of aid also leaves much to be desired as far as predictability, rapidity of disbursement, selectivity, coordination, harmonization, and bureaucratic demands on recipients are concerned. In particular, in countries with reasonably functioning institutions and a transparent and sound policy-making process, scaled up aid should mostly be delivered as predictable budget support, based on a clear compact with a few results-based targets (instead of ex ante conditionality). The Accra Agenda for Action, approved in September 2008, provides a framework and action plan for recipient country leadership, the use of country procurement systems, harmonization of procedures, building of effective partnerships among donors, mutual accountability, and other aspects of aid effectiveness. Donors need rapidly to deliver on all these pledges.

The crucial role of policies in developing countries

Concerning developing countries, both the historical record of development and the current weakness of the global economy lead us to say that it is essential to link the MDGs to the pursuit of shared economic growth. This requires in particular strengthening economic and political institutions, good governance, rigorous macro-economic management of resource flows (particularly foreign flows, possibly with the help of foreign aid to reduce vulnerability to sudden negative shocks), and creating a business-friendly investment climate. One message and one set of policies will not fit all countries in this respect, and the specificity of countries in terms of opportunities and constraints should be recognized and carefully analyzed. However, crucial dimensions in many countries include investments in infrastructure (roads, ports, power stations ...), and management capacity both in the public and private sectors. In the long-run, such investments are complementary with the MDGs. In the short-run, they should not be at the expense of basic needs and rights, if additional foreign resources are available, for instance under the form of 'aid for trade'. In many instances, considerable economies of scale could also be obtained from regional integration.

Policy coherence at the global level more important than ever

MDG policy coherence must drastically be improved at the level of the international community itself. This again covers various important dimensions. Progress on trade agreements that further open markets in rich countries to products from poor countries is a necessary condition for inclusive global growth. Better regulation of the financial system is a priority. Barriers to unskilled labour migration must be reduced in rich countries. Finally, action must be undertaken now on the mitigation of the risk of global warming, and on preparing adaptation in developing countries likely to be the most severely hurt by it. Greater financial, logistical, and military support must be made available to the international community to conduct peace-keeping and conflict-preventing action when and wherever necessary. Global economic governance is no less important to the MDGs than the creation of new funds for health or education. Indeed, it is arguably more so.

Social protection and insurance to mitigate uncertainty

When the global economy is hit by major shocks, the poorest need to be protected from the consequences, whether these are fluctuations in income, high food and oil prices or the emerging effects of climate change. Social protection, and more generally, protection of progress achieved in the MDGs in the face of risk and uncertainty should be on every country's agenda. In this respect, the diffusion of innovations in developing countries in the fields of cash transfers – so-called conditional cash transfers-, guaranteed employment schemes, or new insurance products is to be encouraged.

A special agenda for fragile states

There are particular problems in countries with weak institutions, often embroiled in or emerging from conflict – countries sometimes called 'fragile states'. If progress is being made in the way aid is delivered to non-fragile states, helping fragile states raises major difficulties. Fragile states lag behind most on the MDGs. It is thus essential that 'fragility' be tackled if progress on the MDGs is to be achieved. This will require sustained engagement and new, imaginative use of combined political, technical, financial and sometimes military resources, engaging with governments but also civil society and non-state actors. Multilateral approaches are necessary, with further strengthening of the UN Peacebuilding Commission. Exploratory work should be carried out on whether more flexible definitions are required of official development assistance in these cases.

Sustainable development and sustainable MDGs beyond 2015

Finally, it is important to begin now thinking about the MDGs beyond 2015. Global poverty will have been reduced by half but will not have been completely eradicated by then. The location and geographical distribution of the poor is changing, with China, India and other countries moving to middle income status, and with rapid urbanisation changing the economic prospects of the poor. Tackling chronic poverty will remain a priority for international partnerships after 2015. It is also not unlikely that the definition of income poverty thresholds will have evolved and will be higher than they are today. Another concern will also be that MDG achievements be sustainable beyond the present horizon. All this justifies considering the MDGs as part of an overall sustainable development strategy rather than a possibly increasing set of independent targets.

The special role of the EU

The European Union brings particular strengths to this new and enlarged 'project' to deliver the MDGs, as reflected in the European Consensus on development. Its own history shows the advantages of regional cooperation, support to weaker members and joint action to secure public goods of value to all. Its development policy and implementation capacity provides a unique marriage of political, economic and aid instruments, underpinned by a structure of mutual accountability through treaties and joint political bodies. The EU as a whole is the world's largest aid donor and a major trading partner. The EU's Member States have taken a leadership role in peace-keeping and peace-building. The EU is committed to improved practice in complementarity in aid delivery, through its Code of Conduct on Complementarity and Division of Labour. Based on its experience of economic integration, the EU can play a specific role in helping poor countries, especially in Sub-Saharan Africa, to reduce internal barriers to trade, correct market failures and increase regional ownership of reforms through peer-review. All this provides a platform for further engagement on the agenda we have outlined.

At the same time, much needs to be done at the level of the EU and its Member States to push this agenda forward. Policy coherence, particularly of trade, migration, and development policies, remains a challenge; and much remains to be done in scaling up aid and delivering it more effectively.

1. Introduction

The Millennium Development Goals (MDGs) are the expression of the strong commitment to universal development and poverty eradication made in September 2000 by the International Community in the UN Millennium Declaration. They include halving world poverty and hunger by 2015, as well as reaching universal primary education, reducing under-5 and maternal mortality by two thirds, and halving the number of people without access to safe drinking water (see Box 1). At the same time, the Declaration called for a new partnership between the developed and the developing countries, determined “to create an environment, at the national and global levels alike, which is conducive to development and the elimination of poverty.” Developed countries had to ease market access, lessen the debt burden, channel financial resources and provide development assistance to the developing world, which, for its part, had to improve governance and conduct effective development policies.

A year and a half later, the International conference on ‘Financing for Development’, held in Monterrey (Mexico) in March 2002, reiterated the need for such a partnership. With respect to Official Development Assistance (ODA) in particular, it established a compact between developed and developing countries by which the former would increase the volume of aid and its quality, through better co-ordination, whilst the latter would strive to make aid more effective through improved governance and development management. At the same time, the arrangement insisted on the need for development strategies to be fully owned by developing countries. In both the Millennium and the Monterrey Declarations, the focus was on low-income countries, with particular emphasis on those in Sub-Saharan Africa.

These commitments have since been reiterated on many occasions including by the European Council in June 2008. Since the Gleneagles summit, the G8 has also repeatedly pledged ambitious levels of aid to help achieve the MDGs and it reinforced its commitment again in Hokkaido in July 2008. In addition, the UN Secretary General has convened a High Level Event which took place in New York in September 2008.

This paper is a contribution by European researchers to the current debate on the MDGs’ programme of action. There has been much debate about the conceptual and methodological underpinnings of the MDGs and their predecessors, the International Development Targets. We are fully aware of these issues, have endeavoured to address them in this paper and they should be kept in mind when considering how to accelerate development and poverty reduction in the world. At the same time, the political impetus for development provided by the MDGs has been, and remains, strong. It is therefore crucial to make MDG action and policy as effective as possible, so as to maintain that political impetus. The challenge we have set ourselves is not to write an academic piece, but to ask more practical questions about the implementation of the MDG ‘project’, and to do so from a European perspective. How much has been achieved? What should be done to accelerate progress and make sure that no country is left behind? What should Europe do?

To answer these questions, it is crucial to have a good understanding of the nature of the obstacles and constraints faced by different countries in designing and implementing MDG strategies, and to explore possible ways of overcoming them. Our analysis and review of evidence point to the following key analytical messages:

- i) MDGs have been very useful in galvanising international efforts on development and in mobilising more resources, particularly after the dramatic decline of aid and poor average development performances in many countries during the 1990s.
- ii) When viewed globally, progress towards the MDGs has been surprisingly good on income poverty. However, this global progress hides an exceptional heterogeneity across countries. Many countries, particularly in Sub-Saharan Africa, have an especially large deficit to make

up and have made slow progress so far. Progress on other MDGs is both much less impressive in general, and also very varied.

- iii) The last few years have been good for development, as GDP per capita growth accelerated in the poorest countries. It is unlikely to last however, as the global economy is slowing down, and food and energy prices are likely to remain high. This makes effective development-oriented policies all the more necessary in developed and emerging countries.
- iv) Whether the acceleration of economic growth has been instrumental in instigating progress towards the MDGs is not always clear. In several countries, the correlation between growth and poverty reduction has been affected by substantial increases in income inequality. Moreover, the correlation between economic growth or poverty reduction and the other MDGs is relatively weak.
- v) Donors have committed to increasing the volume of aid towards the poorest countries, and, as most recently reaffirmed in Accra, progress has been made in identifying obstacles to aid effectiveness. However, the pace of delivery is slow in all these areas, including aid volumes, moves towards budget support, better co-ordination and selectivity, the rapidity of disbursement and the predictability of resource flows in general. More action on the aid front is needed for a permanent acceleration of MDG progress. In countries with satisfactory institutions more room should also be given to budget support and results-based aid delivery, as illustrated for instance by innovations such as the EU MDG Contract.
- vi) Much remains to be done on global development policy coherence, especially in the area of trade, but also in other dimensions of international policy such as peace-building and conflict prevention and resolution.
- vii) Domestic policies in developing countries are improving by moving away from general approaches and towards development strategies based on country specificity. However, this requires the existence of adequate institutions. Developmental states are essential for the MDGs to be delivered. Our biggest concern, however, is with the inadequate engagement in states that do not meet this criterion. The continued existence of large numbers of fragile states, and the fact that the issue of aid effectiveness in those countries has not been resolved, provides the biggest risk to the successful achievement of the MDGs.
- viii) An important condition for the successful achievement of the MDGs, and their sustainability, is their full integration within a proper development strategy. This requires ensuring that other dimensions of development and MDGs are consistent with each other.
- ix) Beyond 2015, we see significant issues on the horizon. Climate change is the greatest of these. Making sure it will not make MDGs unsustainable in the long term requires action now.

Based on this analysis, we derive a range of policy recommendations that are summarised in the executive summary above and will be detailed in the last section of this report.

The paper is structured as follows: The next section (2) is devoted to a quick review of the evidence available on progress towards the MDGs at global, regional and national levels. Section 3 introduces our conceptual framework, a three-pronged approach which focuses on the international economy, on domestic policy and on aid. Section 4 focuses on the international environment, as well as on policies in developed countries that may affect developing countries through international markets. Section 5 deals with the financing of development and the MDGs through ODA. Section 6 considers the role of domestic policies. Section 7 examines the road ahead, drawing the lessons learned so far on MDGs, as an instrument to promote, plan and implement development. The last section sets out our recommendations in more detail.

The list of MDGs is given below. Note that it refers to the goals and targets as developed in 2002, which were used until 2007 to measure progress towards the MDGs.

Box 1: List of MDGs³

Goal 1: Eradicate extreme poverty and hunger
Target 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
Target 1.B: Achieve full and productive employment and decent work for all, including women and young people*
Target 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Goal 2: Achieve universal primary education
Target 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
Goal 3: Promote gender equality and empower women
Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
Goal 4: Reduce child mortality
Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
Goal 5: Improve maternal health
Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
Target 5.B: Achieve, by 2015, universal access to reproductive health*
Goal 6: Combat HIV/AIDS, malaria and other diseases
Target 6.A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS
Target 6.B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need
Target 6.C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
Goal 7: Ensure environmental sustainability
Target 7.A: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
Target 7.B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss*
Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

³ The Millennium Development Goals and targets come from the Millennium Declaration, signed by 189 countries, including 147 heads of State and Government, in September 2000 (<http://www.un.org/millennium/declaration/ares552e.htm>) and from further agreement by member states at the 2005 World Summit (Resolution adopted by the General Assembly - A/RES/60/1, <http://www.un.org/Docs/journal/asp/ws.asp?m=A/RES/60/1>).

Goal 8: Develop a global partnership for development
Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Includes a commitment to good governance, development and poverty reduction – both nationally and internationally
Target 8.B: Address the special needs of the least developed countries. Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction
Target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly)
Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term

** Targets added at the 2005 UN World Summit*

2. Where do we stand on the MDGs?

Before reviewing the stylized facts on MDG achievements so far, a word has to be said about data. Getting a clear picture on progress towards meeting the MDGs is not an easy task. The vast majority of developing countries do not produce reliable regular figures on, for example, life expectancy, infant and child mortality, water access or poverty. Many, among the poorest and most vulnerable countries, do not report any data on most MDGs. When available, data is often plagued with comparability problems, and MDG indicators often come with considerable time lags.

Most of the information from low-income countries is generated in donor-funded data gathering exercises, such as the LSMS (World Bank), DHS (US Aid), MICS (UNICEF). Only a limited number of countries in Latin America together with India, China, Indonesia, Thailand and South Africa, are equipped with national statistical agencies that produce high quality national survey programmes, and provide the information necessary for the rigorous monitoring of MDGs. Extending such high quality national data gathering to more countries should be a central focus of the second half of the MDG timeframe and beyond. Reliable data and indicators are essential, not only to enable the international development community to follow progress on MDGs, but for individual countries to effectively manage their development strategies.

In addition to the problem of data availability, there are more technical issues with the definition of several indicators currently used in monitoring the MDGs. For instance, international poverty data has recently been revised, based on the results of the International Comparison of Prices project. This has led to drastic changes in the level of poverty for several countries (see Box 2), some of which are difficult to interpret. Moreover, hunger indicators are severely deficient (see Box 3), whilst maternal mortality indicators are most often model-generated and thus lack a measured baseline as well as a reliable measures of progress.

2.1 Stylized facts on overall MDG progress

The 2008 Global Monitoring Report (World Bank, 2008) and the Millennium Development Goals Report 2007 (UN, 2007), provide the following stylized facts on MDG Progress.

- i) *Global progress is surprisingly good*, especially for the poverty and the gender parity goals; less so for the child mortality and maternal mortality goal. As is widely acknowledged, however, the progress on global poverty is very much driven by overachievers in East and South Asia, including China, India, Indonesia, Vietnam, and Bangladesh.
- ii) There are *clear regional patterns* in MDG progress which depend on initial conditions and recent growth performances. If Asian countries are over-achievers in the income poverty goal, they perform relatively worse in health and, in the case of India, in education and gender equity. Conversely, Latin America and the Middle East are relative underachievers in the poverty goal, but relative overachievers in health, education and gender equity. Finally, Sub-Saharan African countries lag much behind other regions.
- iii) *Most countries in all regions are off-track on most MDGs* (or data is missing to assess progress), including even some of those countries which have experienced very good growth performance.
- iv) *MDG achievements are much lower in 'fragile' states*. One of the reasons why Sub-Saharan Africa lags behind on the MDGs is the relatively large proportion of so-called 'fragile states' in that region. The definition of fragile countries used here is that established by the World Bank. The countries referred to as 'fragile' are low-income countries that score below a certain cut-off in the World Bank Country Policy and Institutional Assessment rating (CPIA). These ratings reflect assessments made by Bank staff members in a range of policy and institutional areas, but, in practice, fragility is most often linked to present or past conflicts in the national territory or in neighbouring states. Fragile states lag behind other developing countries on all MDG indicators.⁴ Unsurprisingly, progress is also often slower although, as shown below, heterogeneity among this group of fragile states is significant. (Note that grouping countries using alternative 'fragile states' classifications reveals very similar conclusions.⁵)
- v) In most regions, including those successful on the poverty goal, *progress on reducing childhood undernutrition is extremely slow*.
- vi) The *poorest regions*, South Asia and Sub-Saharan Africa, are the two regions still seriously *off-track for primary completion rates and for child mortality*.
- vii) Progress has been *good on gender equity in primary and secondary enrolments in all regions*. Yet Sub-Saharan Africa and other fragile states still lag seriously behind. Most countries in Sub-Saharan Africa are unlikely to meet this goal.

Overall, the picture is that of a half full and half empty glass. Global progress has been outstanding on income poverty thanks to the high performance of mostly Asian countries. The global income poverty target should, thus, be reached. Other regions in the world performed poorly, especially in the case of Sub-Saharan Africa. However, the picture would probably be brighter in that region because of rather better growth performances if indicators for the most recent years had been available. On the other MDGs, gender parity in primary and secondary school is the only goal developing countries seem to be on-track for overall. The world is off-track on the others, the gap being the largest in the poorest regions in South Asia and Sub-Saharan Africa.

⁴ For instance, they account for about 9% of the total population of developing countries, but for 16% of underweight children and 30% of children who did not complete primary school or are not expected to survive to age 5. (See GMR 2007)

⁵ See Box 4.

Box 2: The new poverty numbers and what to make of them

The goal to halve absolute poverty occupies a central place among the MDGs and is probably the most closely watched goal. The central indicator to monitor this goal is to halve the proportion of people who live on less than the PPP-equivalent of \$1 a day.⁶ The procedure to establish the rate of progress is comprised of three steps. Firstly, the international poverty line is turned into a poverty line in national currencies at a benchmark year. Secondly, this poverty line is adjusted using national inflation rates to generate poverty lines in national currencies for all years since 1990. Poverty is then determined using this poverty line in national household surveys. Up until 2007, the benchmark year used was 1993.

In late 2007, the World Bank made available the new PPP exchange rates obtained from the international 2005 ICP survey of prices. Not only do they represent a more up-to-date set of price comparisons, but this round of the ICP was more comprehensive than all previous rounds and, significantly, included China for the first time.

The approach taken by the World Bank to incorporate this new ICP round in the absolute poverty numbers involves three steps. Firstly, the World Bank has devised, from scratch, a new absolute poverty line based on the same methods that generated the \$1 a day line. This involves studying a sample of national poverty lines, turning them into \$ using PPPs and then basically taking the average of these poverty lines for a large sample of low income countries. The new poverty line stands at \$1.25 at 2005 PPP (Ravallion, Chen, and Sangraula, 2008). There is really no obvious way to compare this 1.25 at 2005 PPP with 1.08 at 1993 PPP, as these PPPs are really only providing multilateral rather than intertemporal comparisons of prices.

The second and third steps repeat the processes already undertaken with 1993 as the benchmark year (i.e. turn the \$1.25 into national currencies and then use household surveys to study poverty trends). This analysis has only been made public for China at national level (Chen and Ravallion, 2008a) but was recently also published for all developing regions (Chen and Ravallion, 2008b). This approach has a sizable impact on poverty measurement in many countries for all years that are included in the analysis (i.e. from 1990 to the latest year available). China is an extreme case, where poverty is now being revised sharply upwards, as the prices determined in the 2005 ICP for China were much higher than previously estimated. In the figure below, the share of the population below “\$1 a day” is about 15-20 percentage points higher throughout the period 1980-2005. Similarly dramatic upward revisions in poverty levels occur in India, Bangladesh, and selected African and Latin American countries where the ICP has also yielded higher than comparative values. As shown below, poverty rates were estimated to be nearly twice as high in China in 1990 and also significantly higher in South Asia and Sub Saharan Africa. Moreover, the baseline headcount ratio that was to be reduced by half according to the first MDG has shifted from 28% to nearly 42%.

At the same time, updating to the 2005PPP has, as shown below, only a relatively minor impact on *trends* in poverty, and thus on meeting MDG1 in any country or in the world as a whole. This is due to the fact that trends in poverty are largely driven by changes in incomes and the income distribution in national currencies (rather than the location of the poverty line), and in this respect nothing has changed.⁷

⁶ In fact, since the mid-1990s, the poverty line has been \$1.08 PPP.

⁷ They will have a modest impact, however, as now these trends are evaluated at a different national poverty line, and we know from the work of Bourguignon (2003) and Klasen and Misselhorn (2007), amongst others, that the location of the poverty line will affect the pace of poverty reduction.

When evaluating this approach of updating to the new PPPs, four issues are worth discussing:

- 1) There are some doubts as to whether the new ICP figures for China (and some other developing countries) are indeed a good reflection of 'comparable' prices in China when compared to the rest of the world. For example, the 2005 ICP in China included only 11 cities in order to ensure that the goods for which prices were to be compared internationally were actually widely available. Also, there was a strong focus on ensuring that goods compared were as internationally comparable as possible. As a consequence, these goods might not be very representative of the goods actually consumed by the population who may often prefer cheaper substitutes. Therefore, the prices being compared might overstate the price of the goods actually being consumed. It also appears that a backtracking of growth rates in the case of China and India, using these new PPPs, implies that per capita income levels in the 1970s seemed below what is needed for human survival.
- 2) The approach of just using one multilateral PPP comparison to generate a national poverty line, and then going backwards and forwards in time using that poverty line, has the advantage that poverty *trends* are, as pointed out above, relatively insensitive to changes in the particular ICP round. On the other hand, it is not clear that the 2005 PPPs are a good reflection of relative purchasing power for earlier years, as the structure of global demand and availability of goods has changed over time. Instead, it might be useful to also consider the information from earlier ICP rounds (which, however, creates other consistency problems).
- 3) The creation of a new absolute international poverty line, each time that a new ICP round is undertaken, leads to problems of communication and interpretation. Each ICP round will basically take all poverty monitoring back to square one, as it will generate a new poverty line, new poverty levels for all past years and also (slightly) different trends.
- 4) Due to these non-negligible shifts in PPP comparisons, and thus absolute poverty levels, the current approach to absolute poverty measurement leads to many difficult questions of interpretation. Instead of basing the monitoring of MDG1 on this approach, and its strong dependence on each ICP round, an alternative would be to monitor MDG1 using national poverty lines defined through a consistent methodology (such as the cost of basic needs that is now most popular in developing countries). Monitoring poverty trends based on such an approach might more accurately reflect meaningful changes in poverty in each country. Nonetheless, it would, of course, create difficulties at the global level.

Poverty headcount by region using the new and old PPP defined poverty line: 1990-2005*

Region	1990		1996		2002		2005	
	1.25 (2005)	1.08 (1993)	1.25 (2005)	1.08 (1993)	1.25 (2005)	1.08 (1993)	1.25 (2005)	1.08 (1993)
Poverty line	1.25 (2005)	1.08 (1993)	1.25 (2005)	1.08 (1993)	1.25 (2005)	1.08 (1993)	1.25 (2005)	1.08 (1993)
East Asia and Pacific	56.0	(29.8)	37.1	(16.1)	29.6	(12.3)	17.9	(9.1)
Of which China	60.2	(33.0)	36.4	(17.4)	28.4	(13.8)	15.9	(9.9)
Eastern Europe and Central Asia	1.5	(0.5)	4.5	(4.4)	5.6	(1.3)	5.0	(0.9)
Latin America and Caribbean	10.7	(10.2)	11.5	(8.9)	10.1	(9.1)	8.2	(8.6)
Middle East and North Africa	5.4	(2.3)	5.3	(1.7)	4.7	(1.7)	4.6	(1.5)
South Asia	51.1	(43.0)	46.9	(36.1)	43.8	(33.6)	40.3	(30.8)
Of which India	51.3	(44.3)	46.6	(39.9)	43.9	(36.0)	41.6	(34.3)
Sub-Saharan Africa	54.9	(46.7)	57.5	(47.7)	52.7	(42.6)	50.4	(41.1)
Total	41.6	(28.7)	34.8	(22.7)	31.0	(20.1)	25.7	(18.1)
Total excluding China		(27.1)		(24.5)		(22.2)		(20.7)

* For each year, the first column refers to the share of the population below the new (2005-based) poverty line of \$1.25 a day, the second one to the old (1993-based) poverty line. Differences are, to a lesser degree, also due to changes in survey data. Also note that \$1.08 figures in the 2005 column refer to 2004. Sources: Chen and Ravallion 2008b, Chen and Ravallion 2007.

2.2 Country heterogeneity in MDG performance

The issue of heterogeneity in MDG performances has already been discussed, mostly between regions, and fragile versus non-fragile states. Within these various groups, however, country heterogeneity remains considerable. For instance, poverty over the 2000s in Sub-Saharan Africa ranges from a drop at the annual rate of 4.6% in Ghana between 1999 and 2006, to an increase at the annual rate of 3.8% in Uganda between 2000 and 2003, despite the two countries having comparable rates of growth in GDP per capita of around 2.5% a year. Similarly, in the 10 countries where it declined most, mortality declined at an annual rate greater or equal to 2% but increased at a rate above 1% per year in the six worst performing countries.⁸

It may be the case that measurement problems add to the variance of these results, but there is little doubt that there is a great deal of specificity in the patterns of progress, or lack thereof, towards the MDGs. In primary education, the nine best Sub-Saharan African performers increased their enrolment rates at an annual rate above 5%, whereas the five worst performers saw a decline in primary school enrolment.

Box 3: Monitoring the hunger MDGs: Problems with consistency and comparisons across space and time

The MDGs include goals, targets and indicators. One would presume that these indicators all complement each other and tell a consistent story. Using the two hunger indicators for the hunger target ('reduce, by half, between 1990 and 2015, the proportion of the population suffering from hunger'), many inconsistencies, both in levels and trends appear, which make it very hard to monitor this target. First of all, there is an immediate problem related to the target itself, as different indicators imply very different regional prevalence of hunger. Whilst the share of the population who are 'undernourished' appears to be highest in the Caribbean, followed by Sub-Saharan Africa and South Asia, when it comes to 'childhood undernutrition', South Asia has far higher rates, followed by Sub-Saharan Africa and the Caribbean (see table 1 below).⁹ While in principle such anomalies could be explained by the differences in the nature of the indicators and in the relevant population (all versus children), careful empirical assessments have been unable to explain these differences. It thus appears that there are intrinsic problems with the indicators

The undernourishment indicator monitored by FAO attempts to assess the share of the population that is suffering from insufficient availability of calories. The most recent estimate was 923 million hungry people in 2007. To generate this indicator, FAO derives average calories per capita in a country from a three year moving average of production and trade statistics and assumptions about waste. It then uses a distribution assumption to account for inequality in caloric access within a country and then compares it to a population-group adjusted caloric need. As pointed out in several works (see Klasen 2008), all three steps are deeply problematic. By focusing on moving averages of production, one cannot capture short-term food crises (such as the one which the world is currently experiencing) or seasonal variability. The focus on calories also ignores the role of other nutrients, which might be more important, and the assumption about waste is entirely arbitrary and hard to verify. The distribution assumption is based on two past surveys and assumes the same coefficient of variation everywhere. This cannot be correct. In countries with low average availability, only a rather equal distribution of calories is consistent with bare survival of the poorest groups. Moreover, the caloric requirements are sure to vary, not only by population group, but also according to many other factors that are hard to assess. Lastly, the database on production statistics is so poor that the results from these analyses seem rather surprising. For these reasons, this indicator is clearly unable to correctly

⁸ These terrible performances are mostly explained by HIV Aids. However, the worst performing countries among countries less affected by this pandemic still do rather badly.

⁹ Childhood mortality rates again point to different levels of prevalence, now that Sub-Saharan Africa has much higher rates.

capture the share of hungry people in the world. It is a purely input-oriented indicator, which cannot deal with short-term changes in entitlements to food, and is, in every step of its calculation, conceptually flawed. To measure hunger trends in the world, one would probably do better by following Sen (1984) and simply concentrate on monitoring the entitlements to food by tracking the incomes of poor people in relation to food prices.

In contrast with the FAO undernourishment indicator, the underweight goal is based on anthropometric assessments of children aged 0-6, an age group where undernutrition can have particularly devastating consequences for morbidity, mortality and future development. A child is reported underweight if its weight for age is below two standard deviations of a (sex-specific) international reference standard (i.e. its 'Z-score' is smaller than -2). Such underweight can occur for several reasons:

- 1) It can be the result of acute undernutrition, which could also be captured by the indicator of low weight for height, or of chronic undernutrition, which is best captured by low height for age.
- 2) It can be the result of low nutritional intake (quantity or quality), or the presence of disease that either increases nutritional requirements or disables the body from processing nutrients.
- 3) The statistical indicator is based on a rather arbitrary cut-off of two Standard Deviations below the reference standard; it could well be that many children that are only one standard deviation below the reference standard also suffer from the consequences of undernutrition.
- 4) Levels and trends of undernutrition depend critically, of course, on the international reference standard (both the mean and standard deviation of that standard).

Until 2006 and since the early 1980s, the reference standard used had been recommended by the WHO. It was a single reference standard for all populations in the world, and was based on the experience of two populations of children in the US. Due to some technical and data problems with that particular standard, its inconsistency with the WHO recommendation of exclusive breast-feeding, and its basis on a single country, the WHO devised and published a new reference standard in 2006. This is based on six populations of well-to-do and healthy children following healthy feeding and health behaviour practices in India, Norway, Oman, Ghana, Guatemala and the Philippines. When devising the new reference standard, two important decisions were taken once the data had been collected:

- 1) After determining that the differences in levels and trends of height and weight between these well-to-do populations were 'small' (less than 3%), they were averaged using statistical procedures to create one international reference standard for use in all countries.
- 2) Since overweight is an increasing problem in many countries, and was also a problem in the populations studied, overweight children were dropped from the data drawn to generate the reference standard. As a result, the cut-offs for underweight are considerably lower than before, and the application of the new standard leads to considerably lower underweight rates in all developing countries.¹⁰

As pointed out in Klasen (2008b) and Misselhorn (2008), these two choices have far-reaching and quite problematic consequences. With regards to the issue of using just one global reference standard, it is important to consider that genetic differences between populations in the indicators of potential height and weight gain (i.e. in nutritionally unconstrained environments) are small, particularly when compared to the very large differentials related to intra-country inequality in access to nutrition and healthcare. At the same time, the genetic differences also appear to exist in the samples used for the new reference standard, namely differences in height and weight of children across the world. In particular, in the Indian sample (all drawn from children of healthy, non-smoking mothers with an average of 17 years of education, living in a suburb of New Delhi), children were some 2% shorter than in Ghana at age five, and about 3.5% lighter than the average of children from the other samples (Klasen, 2008b). These tiny differences have massive effects on the prevalence of undernutrition

¹⁰ At the same time, stunting (low height for age) and wasting (low weight for height) both now appear higher than before, itself a rather puzzling finding (as underweight is, in principle, a linear combination of the two).

across the world. As the mode of the distribution of Z-scores in South Asia is around the cut-off of -2 (and about 50% of children are reported as suffering from undernutrition), shifting the cut-off by 2 % would reduce the share of children that are underweight by fully 14 percentage points. With such a shift, the entire difference in childhood undernutrition between South Asia and Sub-Saharan Africa would disappear. As shown by Klasen (2008b), and many other studies before, it is empirically impossible to explain the high prevalence rates of childhood undernutrition in South Asia using standard econometric techniques (and using micro or aggregate data), further suggesting that measurement issues appear to play a role.

Turning to the second issue, the problem with the new underweight reference standard is not only that it will lead to a reduction in underweight rates, but as shown in Misselhorn (2008)¹¹ it will lead to the false impression of continuous improvements in childhood undernutrition. This is related to the fact that children in developing countries are also changing their dietary habits towards a diet that is higher in carbohydrates and fats. Indeed, even poor children (and sometimes the poor in particular) now consume too many calories, but not enough other nutrients. They will therefore gain weight, but not be well-nourished. This can be seen by comparing stunting (low height for age, an indicator of chronic undernutrition), wasting (low weight for height) and underweight rates over time, as shown in the table below. While underweight (and wasting) rates fall as a result of heavier but still poorly nourished children, the stunting indicator shows a worsening nutritional situation. It therefore appears that both the choice to take out overweight children from the standard, and to focus on underweight as the central MDG indicator, is leading to biased levels and trends in undernutrition, thus overstating actual improvements in the nutritional situation of children.

Box Table 1: Poverty, hunger and mortality by region in 2000

	Sub-Saharan Africa	South Asia	East Asia and Pacific	Middle East & North Africa	Latin America	Caribbean
2000						
Per capita GDP (PPP)	977	2089	3444	4397	6353	3882
1\$ a day headcount	49.7	31.9	14.4	2.1	10.8	0.3
2\$ a day headcount	80.0	77.8	46.6	21.3	26.8	4.1
Undernourishment (FAO)	27.9	21.7	16.2	6.0	10.4	30.1
Stunting	40.5	43.7	16.6	19.1	15.3	12.1
Wasting	7.8	14.8	3.0	4.3	1.9	3.4
Underweight	29.0	45.4	13.8	10.2	7.1	9.7
Under-five mortality	178	93	41	50	35	73

Note: For details on the sources and composition of regional averages, see Klasen (2008b).

Box Table 2: Trends in stunting, wasting, and underweight using the new WHO undernutrition standard (in %)

Survey (Year)	Stunting	Underweight	Wasting
Bolivia (1993/94)	33.2	12.2	5.9
Bolivia (2003)	33.5	5.6	1.9
Cameroon (1998)	33.5	16.0	7.8
Cameroon (2003)	36.6	13.4	5.2
Ghana (1993)	31.9	23.8	13.9
Ghana (2003)	36.6	19.4	8.8
Uganda (1995)	41.2	19.5	6.8
Uganda (2000/01)	43.7	17.4	4.7

Source: Klasen (2008b), Misselhorn (2007).

It is unlikely that such a variable MDG performance in Sub-Saharan Africa could be entirely due to the measurement problems mentioned above. Besides, MDG performances in other regions also show substantial variability. The issue then arises of whether these disparities may be explained by some specific factor within the region.

The distinction between fragile and non-fragile states comes to mind. However, if there is a clear difference between the two groups of countries in terms of the *levels* of the various indicators, the distinction between them explains very little of the variability in terms of the *rates of change* of MDG indicators. This is true whether one uses either the World Bank's definition of fragile states or that of other agencies. In other words, the variability of performances remains extremely high within both fragile and non-fragile state groups.

This can be seen from the figures presented in Figure 1, which show changes in poverty headcount between 1990 and the latest available year after 2000 for fragile states (according to the World Bank definition, see Box 4). Countries like Ethiopia or Cambodia witnessed very rapid poverty reduction, while in Niger, Nigeria and Zimbabwe poverty increased dramatically over the period. Figure 2 shows the same information for non-fragile states. There are more states with high levels of poverty reduction and fewer with large increases in poverty, indicating that at a global level, on average, poverty reduction is more rapid for non-fragile than fragile states. Nonetheless, disparities across countries are comparable and sizable. The same is true for primary completion rates. Both fragile and non-fragile countries were able to make progress, but progress differs greatly across countries. The same would apply to the under-5 mortality MDG.

Box 4: Alternative definitions of 'fragile states'

There are many different approaches to defining and responding to the complex development situation affecting countries referred to under such diverse names as 'weak and failing states', 'poor performers', 'low-income countries under stress', 'countries at risk of instability', or 'fragile states'. Difficult environment countries matter, for different reasons, to a wide range of development actors, including NGOs, bilateral donors and international organisations, as well as government agencies such as foreign and defence ministries. It is important to state at the outset that existing terminology, be it in English or in other languages, does not necessarily merely refer to states that are unresponsive to the poor. Some may be simply poor performers, some may be autocratic, and some may be conflict-ridden. For clarity and brevity, the following approaches and definitions are organised around three broad categories, based on their central themes or assumptions:

- 1) *Fragile, failed, or crisis states*: These approaches are based on the assessment of a state's strength around issues of capability, sovereignty and conflict. The USAID's Fragile States Strategy is an example of this approach.
- 2) *Poor performing countries*: By taking into account the quality of governance and policy choices, most of the international financial institutions (IFIs) focus their approach to difficult environments around how well a country performs in terms of developmental outcomes. The World Bank's Low-Income Countries Under Stress is the best-known of these initiatives.
- 3) *Difficult aid partners*: In this approach the emphasis is placed on the poor aid relationships between donors and recipient states, due to a combination of:
 - a) lack of political interest in poverty reduction and
 - b) weak state and non-state institutional capacity to implement policy.

The OECD's Development Assistance Committee (DAC) and DFID have been pioneers of this approach.

It is important to note that definitions and approaches inevitably depend on a variety of endogenous factors originating from the organisations who are trying to come up with them. These range from national interests, views on sovereignty and international jurisdiction and stances on impartiality through to effectiveness, institutional mandates and incentives, tools and practices and regional scope. Yet the fact that the list of fragile states differs substantially at any one time from one agency to another (see following paragraphs) suggests that subjectivity features significantly in appraising whether or not a state is 'fragile'.

Some formal definitions of fragile states

OECD-DAC

The Organisation for Economic Co-operation and Development's Development Assistance Committee refers to a continuum of countries considered 'difficult partnerships' due to a combination of:

- 1) lack of political interest in poverty reduction and
- 2) weak state and non-state institutional capacity to implement policy.

DFID

Fragile states are those countries where the government cannot or will not deliver core functions to the majority of its people, including the poor. The most important state functions for poverty reduction are territorial control, safety and security, capacity to manage public resources, delivery of basic services and the ability to protect and support the ways in which the poorest sustain themselves. DFID does not limit its definition of fragile states to those affected by conflict.

USAID

The US Aid Agency has recently come up with a 'Fragile States Strategy' that offers three operationally relevant definitions for failing, failed and recovering states. This approach to assessing state fragility focuses on a state's effectiveness (the degree of administrative capacity and resources) and legitimacy (the degree of perceived justice or fairness in the exercise of power), and relies on measuring four key dimensions: political; economic; social; and security.

This approach provides a dynamic explanation for state crisis, and points to the need for linkages between integrated sector analyses (in a so-called 'Fragility Framework') and decision-making. However, the emphasis seems to be focused on security, conflict management and state capacity building. Additionally, integrating legitimacy into the assessment model, allows for inclusion and equity to be brought to the forefront of attempts to try and address causes and incentives. Nonetheless, a disadvantage of this approach lies with the fact that effectiveness does not seem to be sufficiently disaggregated to understand the difference between ability and willingness.

The World Bank

The World Bank's LICUS initiative (Low-Income Countries Under Stress) defines fragile states as characterised by very weak policies, institutions and governance. Aid does not work well in these environments because governments lack the capacity or inclination to use finance effectively for poverty reduction. There are distinct degrees of severity within the LICUS initiative. The classification is based on the Bank's own Country Policy and Institutional Assessment (CPIA) scores.

CPIA scores divide low-income countries into five performance-based categories, the lowest two of which are useful proxies for state fragility. They rate countries against a set of 16 criteria grouped in four clusters:

- 1) Economic management
- 2) Structural policies
- 3) Policies for social inclusion and equity
- 4) Public sector management and institutions

These indicators are reported on by local World Bank staff, based on their own knowledge and understanding of the economic functioning of the country. There is a separate group of unranked countries, also deemed fragile. This provides a list totalling 46 fragile states, containing some 870 million people or 14% of the world's population.

Fragile states according to World Bank Definitions (CPIA 2007)

Afghanistan, Angola, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Cote d'Ivoire, Eritrea, Guinea, Guinea-Bissau, Haiti, Lao PDR, Liberia, Mauritania, Myanmar, Nigeria, Papua New Guinea, Sierra Leone, Somalia, Sudan, Togo, Uzbekistan, Zimbabwe, Territory of Kosovo

Small states (less than 2 million population): Comoros, the Gambia, Sao Tome and Principe, Solomon Islands, Timor Leste, Tonga, Vanuatu.

**Figure 1 : Change in poverty (MDG1) between 1990 and 2006: fragile states (CPIA definition)
Poverty headcount ratio at US \$1 a day (PPP) (% of population)**

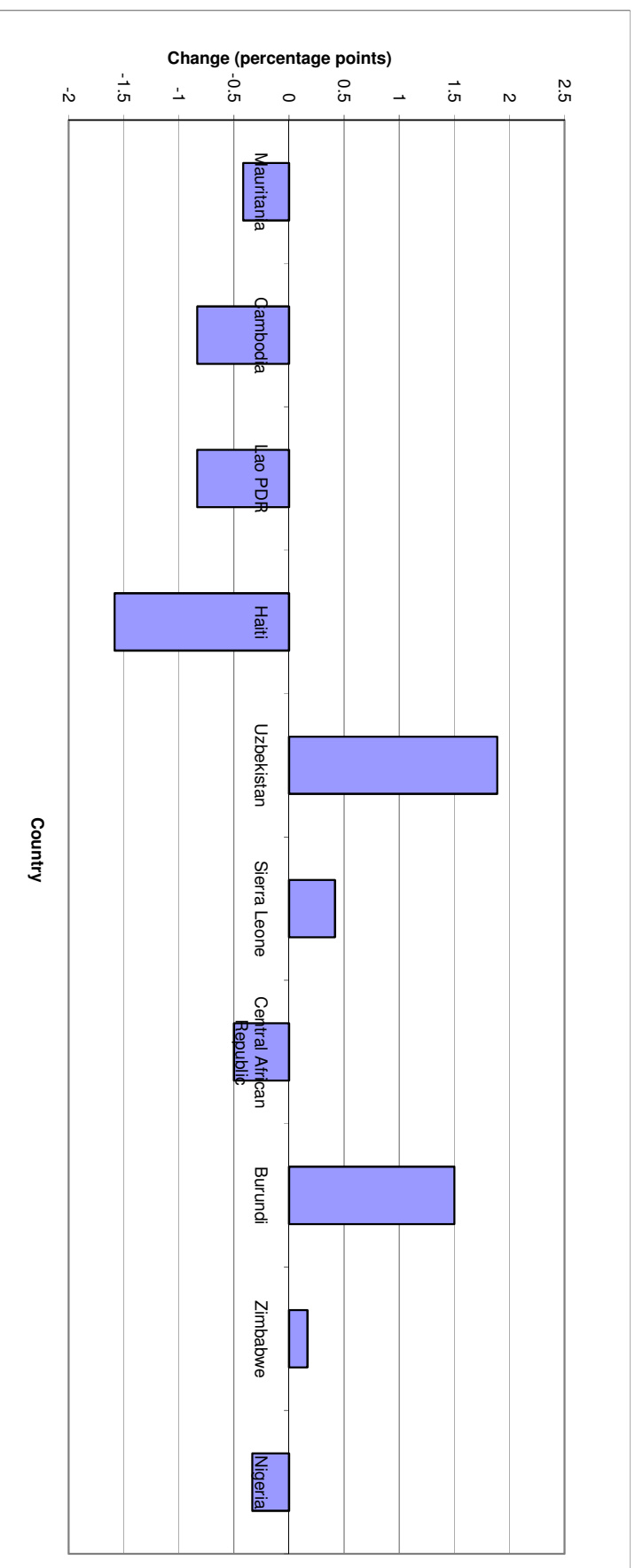
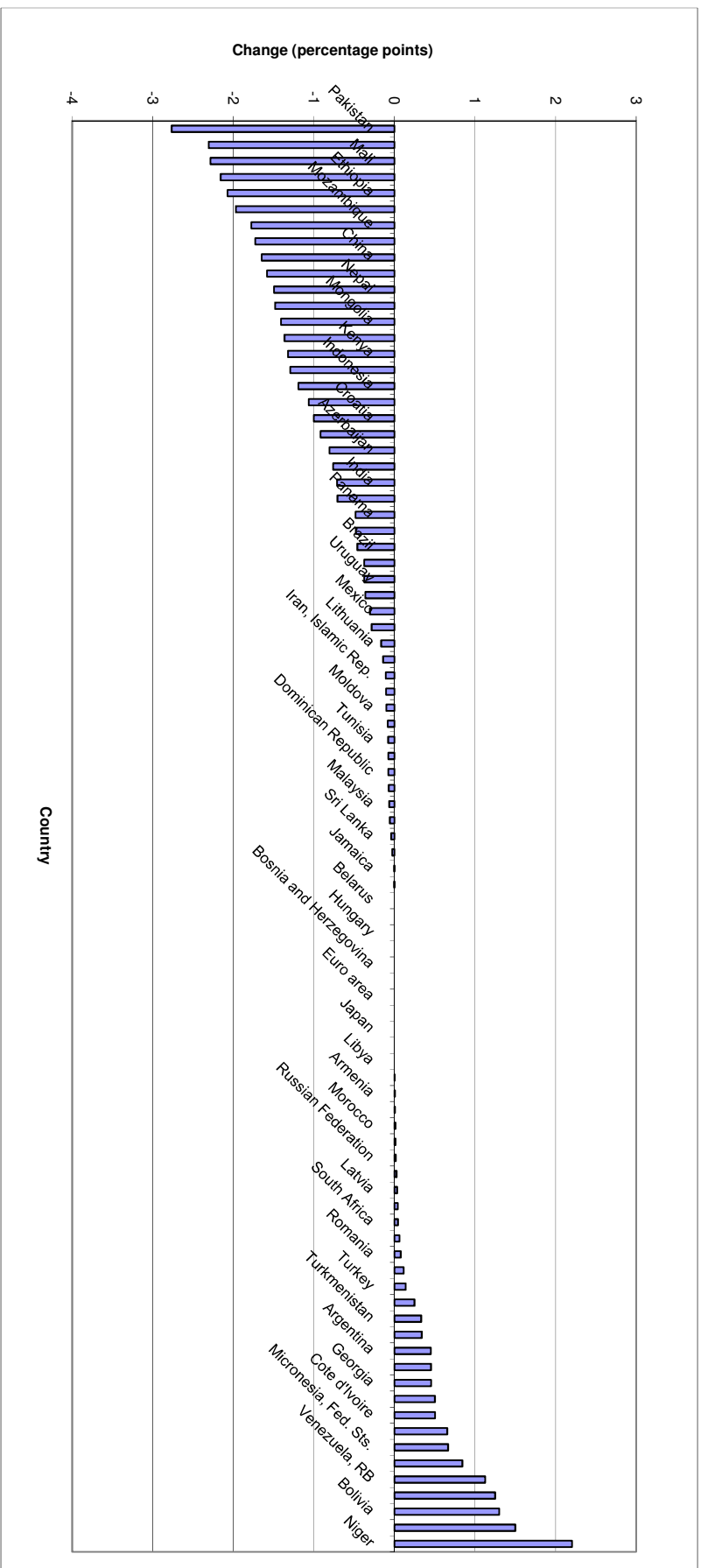


Figure 2: Improvements in MDGs between 1990 and 2006 (Non-Fragile States - CPIA). Poverty headcount ratio at \$1 a day (PPP) (% of population)



Intra-regional country heterogeneity might be explained by other country-specific characteristics. In its recent analysis of growth, the African Economic Research Consortium (AERC) found it convenient to distinguish between landlocked, coastal and resource-rich states in sub-Saharan Africa, a classification that would presumably also apply to other regions¹² in its recent analysis of growth, a classification that presumably would also apply to other regions. As with the fragile/non-fragile distinction, however, if there are noticeable patterns across those three groups in terms of the *levels* of the MDG indicators, no clear patterns emerge in terms of MDG *progress*.¹³ It appears that the resource-rich countries have (to date) not benefited from poverty reduction taking place elsewhere in Africa. However, since 1995, the trend in poverty reduction for the minority of countries where data is available is similar across the three groups. The same is true for the under-5 mortality rate.

It follows that country heterogeneity with respect to MDG performance must be explained by a complex combination of specific country characteristics and initial conditions, rather than a few geographic and institutional features. This is particularly the case for Sub-Saharan Africa, but, to a lesser extent, also applies to other regions.

2.3 Heterogeneity across MDGs

With respect to progress in any given MDG, there is heterogeneity across countries in the same region or within a given category. Moreover, progress can also be heterogeneous across MDGs in a given country. This is shown in Figure 3 in simple scatter graphs that plot progress for pairs of MDGs. The results demonstrate that, as if they were influenced by wholly independent factors and policies, there is often little correlation between the MDGs.

Figure 3 shows correlations between poverty reduction and other MDGs, as well as between the different non-poverty MDGs. There is hardly any correlation between poverty reduction and changes in under-5 mortality. The same applies to poverty reduction and changes in primary school completion rates. Somewhat surprisingly, however, there is a strong correlation between poverty reduction and changes in underweight¹⁴, although there is virtually no correlation between poverty reduction and undernourishment. The correlation is close to zero between different non-income MDGs, as illustrated in Figure 3 for primary education and under-5 mortality. Of course, these low correlations, as well as the puzzling difference between the correlation of underweight and undernourishment indicators with poverty reduction, could be partly driven by measurement errors and comparability issues. Nonetheless, it is hard to believe that the available data only reflects pure noise.

If the MDGs are weakly correlated amongst themselves, could they be more strongly correlated to some general economic indicator? In particular, it is to be expected that poverty reduction, and possibly progress on other MDGs, are positively tied to economic growth, since growth should progressively weaken the budget constraint of public and private economic agents and ease the pursuit of various MDGs. As shown in Figure 4, poverty reduction is closely correlated to growth in household per capita income.¹⁵ On average a 1% growth in mean income generates a 1% drop in the

¹² The “Explaining African Economic Growth Performance Project”, as it is known, was conceived in 1997 as a collaborative effort between Harvard University, Oxford University, and African Economic Research Consortium (AERC). The project is designed to produce the first major, comprehensive assessment by African research economists of the continent’s growth experience in the post-independence period. See http://www.aercafrica.org/programmes/research_collab_growth.asp. See also Ndulu et al. (2007).

¹³ The distinction between levels of indicators and progress is important. Interestingly enough a cluster analysis of a large number of developing country characteristics carried out for the Chronic Poverty Research Centre Report (2008) leads to a classification of developing countries based on those two variables.

¹⁴ See also Klasen, 2008.

¹⁵ In this relative assessment, we excluded all observations where the initial poverty headcount was below 5% as percent changes in such small figures can be very large and rather erratic. See Klasen and Misselhorn (2007) for a discussion.

poverty headcount. However, this effect appears lower in quite a few countries, including China, Honduras, Ghana, Uganda and Cambodia. The relatively low effect of growth on poverty reduction in the mean income of the population is related to rising income inequality since the 1990s. As Jäntti and Sandström (2005) show using the WIDER World Inequality Database, in a majority of developing countries inequality started rising significantly in the mid-1980s (after a previous period of decline). As shown by Bourguignon (2003), such an increase in inequality will both slow the pace, and reduce the impact, of future growth on poverty reduction. Conversely, the recent decline in inequality in some highly unequal Latin American countries (including Brazil and Chile) was related to a more stable macroeconomic environment coupled with sizable pro-poor social protection programmes that have accelerated poverty reduction there.

In Figure 4, growth is defined by the rate of annual increase in the mean household per capita income as observed in surveys used for the calculation of poverty indices. The correlation between growth and poverty reduction would still be visible and statistically significant, although less severe, had GDP per capita growth been used. This is because of differences between the definition of household income in National Accounts and in household surveys, and because the distribution of National Income across various uses changes over time. For instance, a higher share may be devoted to investment or to public spending, in which case household income will grow more slowly than National Income.

The correlation between GDP per capita growth and non-income MDGs is practically zero, as illustrated in Figure 5 for Sub-Saharan countries. This serves to confirm the lack of a relationship between those indicators and poverty reduction. As it would be hard to believe that information on non-income MDGs is so badly affected by measurement error that it is pure noise, this lack of a relationship reflects some relative independence among policy instruments governing progress in the various MDGs. Furthermore, it highlights substantive differences in country policies and circumstances that may affect the relationship between these policies. This is an interesting finding which suggests that economic growth is not sufficient *per se* to generate progress in non-income MDGs. Sectoral policies and other factors or circumstances presumably matter as much as growth. It should be noted, however, that most preceding scatter plots refer to a 15-year period during which MDGs have been explicitly relevant for only a few years.

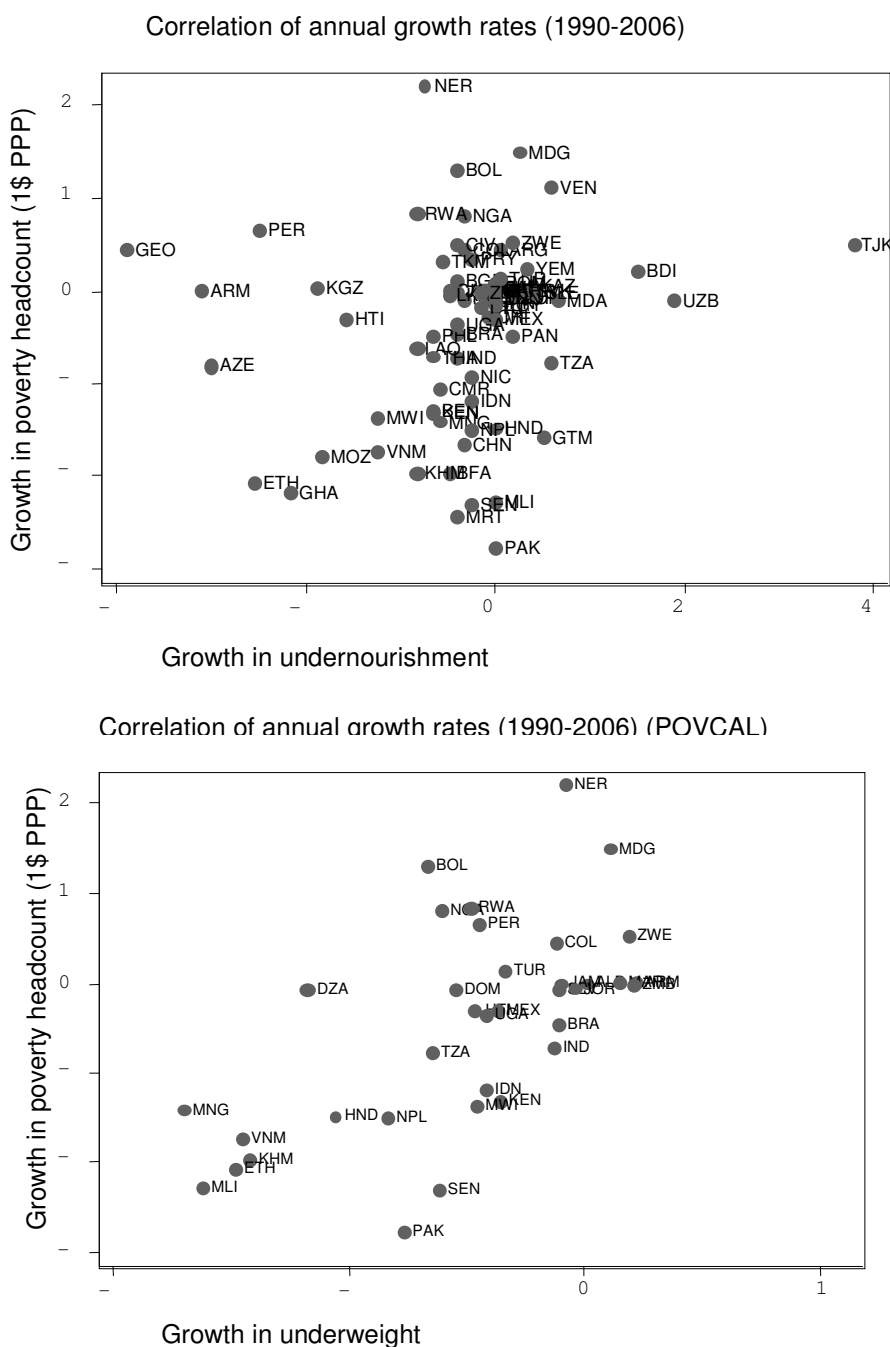
A point seldom emphasised when analysing non-income MDG performance is the distribution of progress within the population. Because MDGs are presented as independent goals they tend to be evaluated independently from each other. It presumably makes a difference whether progress on access to water (MDG7) or healthcare (MDG3 and 4) takes place exclusively in urban areas, and therefore in the top half of the distribution of income, rather than in rural areas (presumably the poorest segment of the population). Unfortunately, data to look at this distribution of progress is all too rarely presented. In principle, however, collecting it should not be an insurmountable hurdle. Indeed, one can use the same household surveys that are used to study changes in the distribution of income to examine changes in the distribution of progress in non-income MDGs. For example, as shown in Klasen (2008a) and Grosse et al. (2008a, b), one can draw non-income MDG progress incidence curves that plot the distribution of progress in enrolment rates, vaccination rates, access to water, under five mortality, etc. against the relative level of income. Work of this type could inform on possible biases in progress in non-income MDGs and help monitor the MDGs more closely. .

In summary, this short review of evidence on MDGs at midpoint of the 2015 horizon showed that most developing countries were lagging behind (with a few exceptions) on the income poverty front. In middle-income countries, and in those countries with fast growth, filling these gaps may be essentially a question of implementing adequate MDG-oriented policies, since growth should provide the budgetary resources necessary to implement such policies. In other countries, accelerating broad-based growth and generating budget resources may be as important as policies targeted directly at MDGs. From that point of view, the focus of the international development community on Sub-Saharan

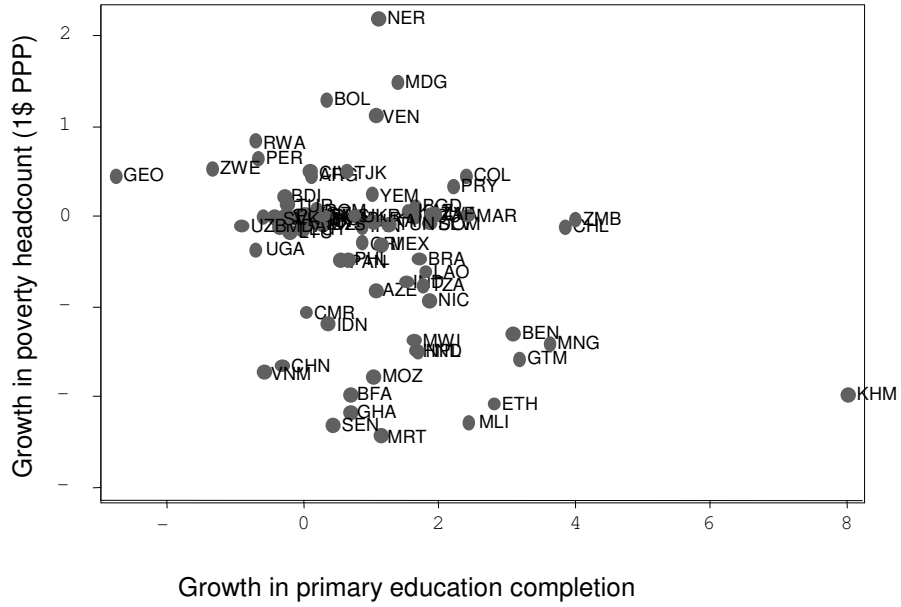
Africa and the problems arising from its low growth performance, as stated for instance in the Millennium declaration, is fully justified.

However, heterogeneity in MDG achievements extends well beyond regions. Differences between fragile and non-fragile states are important, even though they are less important in MDG progress than in MDG levels. Nonetheless, for MDG progress, there is a need to prioritise them in. In any case, it turns out that a considerable part of the observed gaps in MDG achievements cannot be explained by any simple categorisation of countries. This suggests that particular country circumstances and initial conditions must play a big role in explaining MDG achievements so far. Any programme aimed at accelerating progress towards the MDGs must take this country specificity into account.

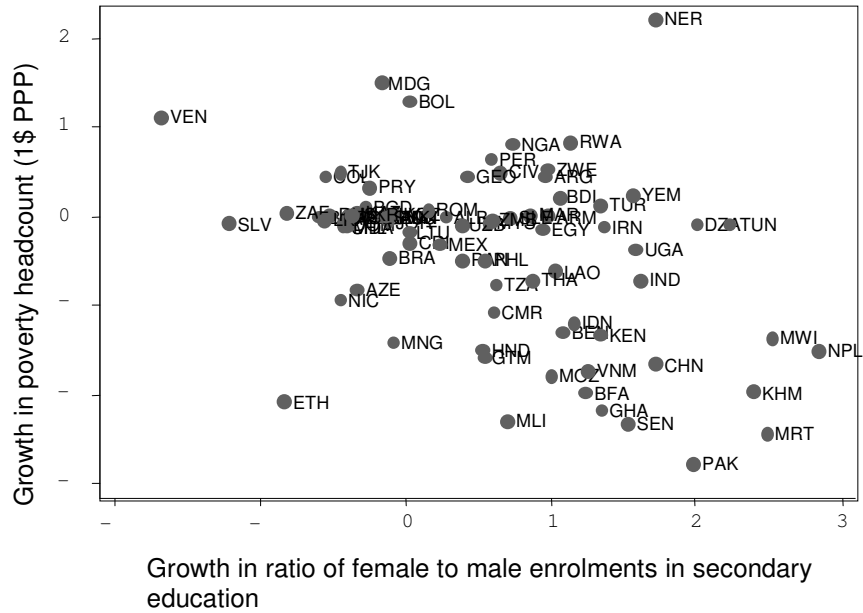
Figure 3: Heterogeneity across MDGs



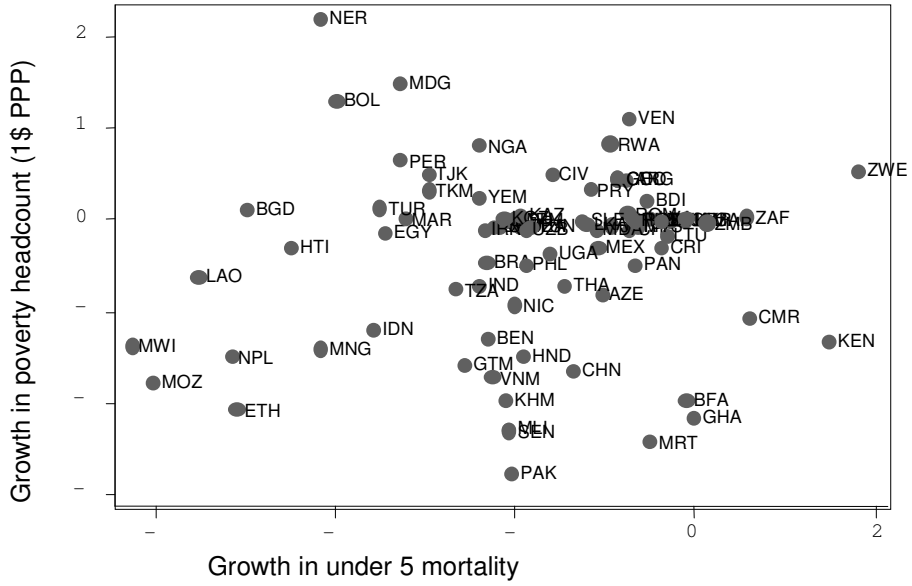
Correlation of annual growth rates (1990-2006)



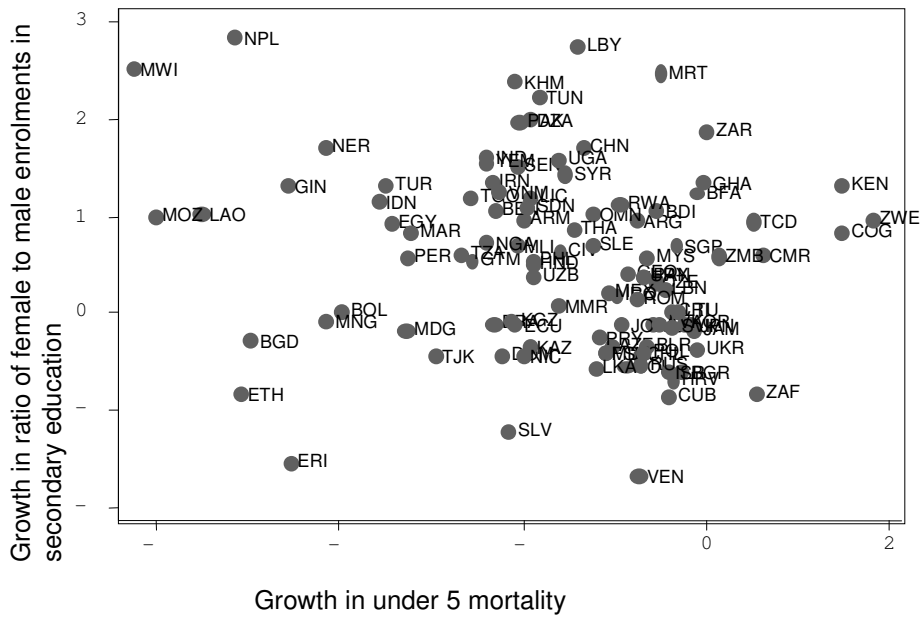
Correlation of annual growth rates (1990-2006)



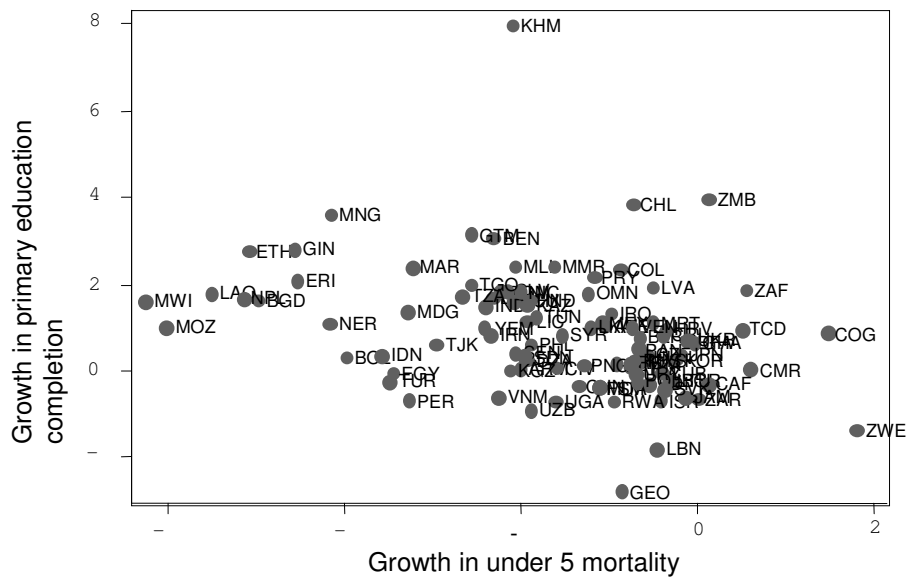
Correlation of annual growth rates (1990-2006)



Correlation of annual growth rates (1990-2006)



Correlation of annual growth rates (1990-2006)



Correlation of annual growth rates (1990-2006)

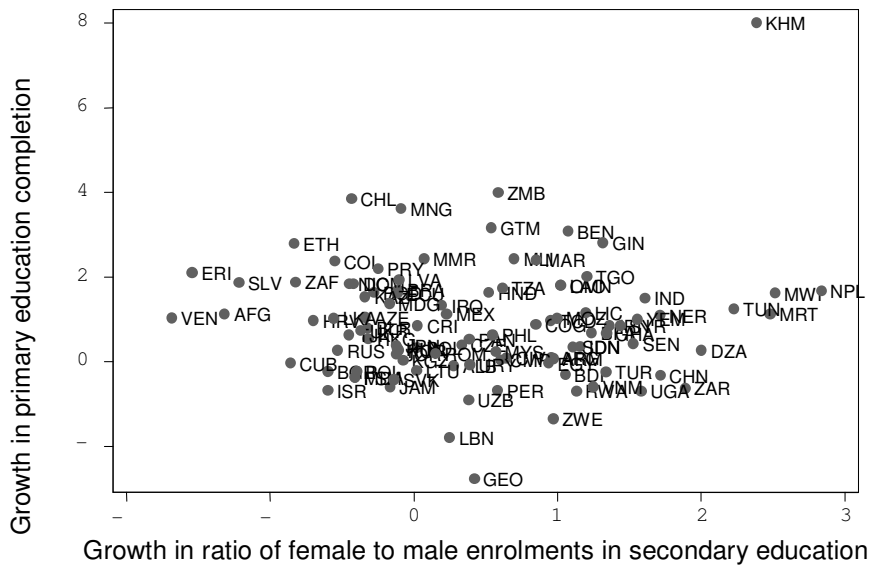


Figure 4: Correlation of annual growth rates (1990-2006)

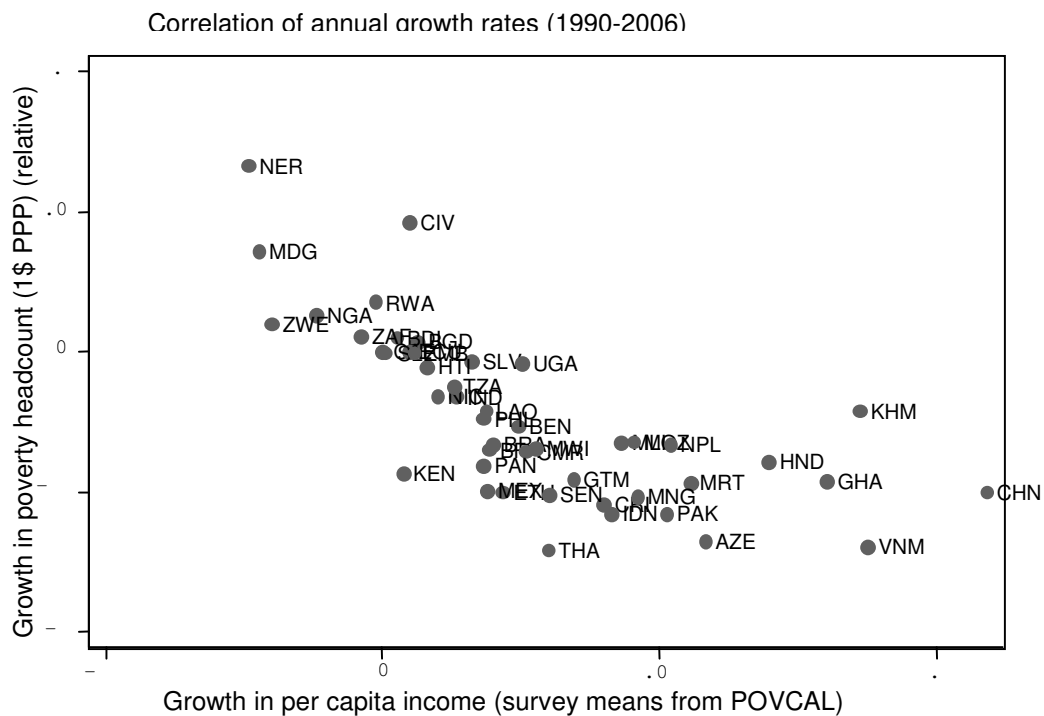
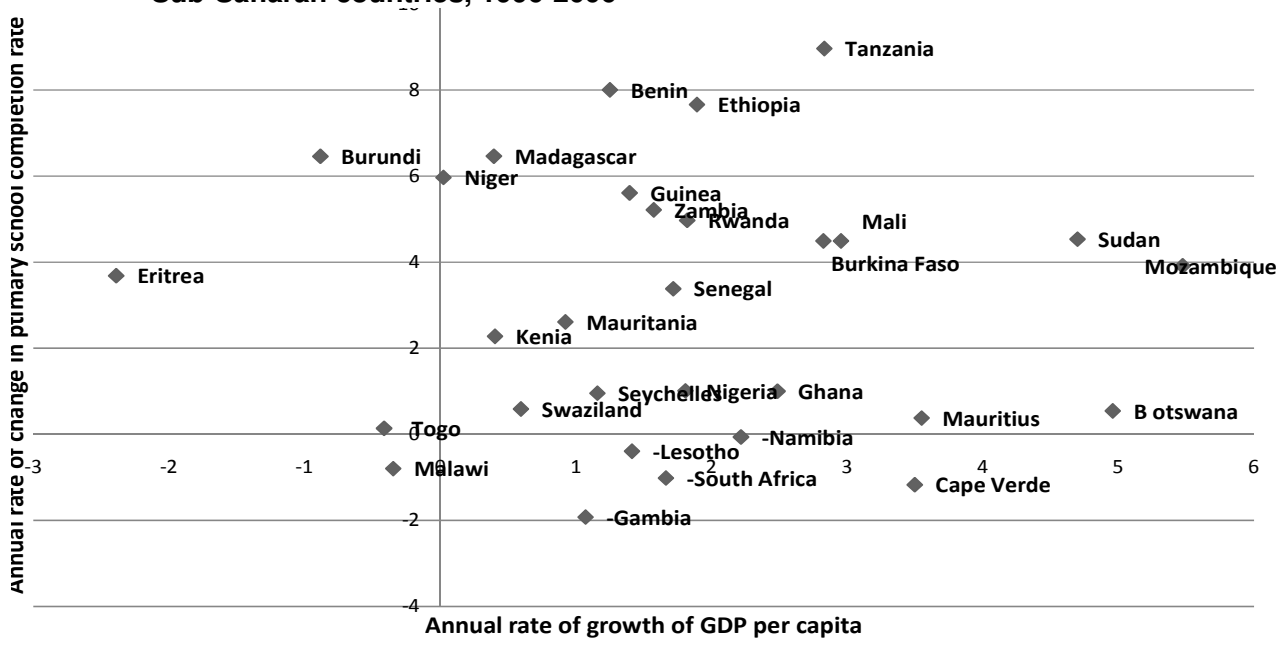


Figure 5: Correlation between growth and change in primary school completion rate – Sub-Saharan countries, 1996-2006



3. A framework for assessing MDG achievements

In designing future strategies to accelerate progress towards the MDGs, it is important to look at recent history and explore what it may imply for the future. We need to assess the reasons why particular countries are far from, or close to, the achievement of MDGs. It is this diagnosis that can provide lessons on what the international community and developing countries themselves can do to accelerate progress.

We use a simple analytical framework across all MDGs and across all countries to identify some key factors that can help to understand success and failure. Three core factors are highlighted: first, the global economic context in which developing countries have to operate; second, the volume, nature and effectiveness of the aid they receive from developed countries; third, the general and MDG-specific domestic policies pursued by developing countries.

Of key importance is the global economic context. Since the MDGs became shared objectives, growth opportunities and the global economic architecture have changed at a fast pace, and they are likely to continue doing so in the immediate future. The continuing rise of China and other parts of Asia, including India, have created 'organic' conditions for hope and for the delivery of some achievement in terms of the MDGs, at least in that part of the world. At the same time, however, worldwide agglomeration effects may make the emergence of Africa even more difficult. Furthermore, developed countries' economic policies, including their engagement with the developing world, retain crucial features that imply that whatever they give with one hand, such as the commitment for increased aid flows, they may continue to take back with the other via policies such as those relating to trade.

Two examples illustrate this. Firstly, despite the rhetoric from policy makers, trade policies continue to make the emergence of Africa difficult, limiting market access in both developed and developing countries and stifling growth opportunities that could facilitate improvements in MDG performance. Secondly, the current US policies on bio-fuels and, more generally, agricultural policies in the OECD (including market protection in the EU) have distorted global agricultural prices in a way that penalises many developing countries, either through export prices that are too low or through import prices that are too high. In some developing countries these distortions may offer opportunities to poor farmers. However, in many other countries this risks causing the derailment not only of progress on crucial MDGs, but of the overall growth and domestic policy context in which progress needs to be fostered.

Given its importance, it is worth considering the development assistance policy of developed countries separately from other policies that affect developing countries. Aid remains a powerful instrument by which the international community can deliver progress in the MDGs, both through easing the budget constraint faced by governments and through its role in fostering domestic policy environments that can offer sustainable change and progress.

Finally, domestic policies are of crucial importance, both to accelerate progress towards the MDGs and to take advantage of opportunities offered by the global economy, as well as to use aid as effectively as possible. Without the right domestic policies and effective focus on MDGs, even the most encouraging global environment and the most favourable attitude of donors would achieve little MDG progress.

It would be wrong, however, to think that only MDG-focused policies matter. Due to the diversity of MDGs, and their apparent sector-specificity, there is a serious risk that the domestic policy environment and its specific features are not given sufficient consideration at the point of delivery. In general, a much broader *policy coherent* framework is needed for the effective pursuit of MDGs. At least two issues cannot be ignored. First, heterogeneity in the process of achieving particular MDGs, which is related to the specificity of each MDG. Second, heterogeneity across countries, which makes

it necessary to identify the conditions required for progress and, possibly, to define priorities among MDGs.

With regards to the first point, even though this may be an adequate framework for *some* MDGs or some 'targets', achieving individual MDGs is not just a simple process of creating growth opportunities, securing policy commitment and sufficient aid. For example, the experience of a number of countries has shown that boosting primary school enrolments ('bums on seats') can be achieved relatively easily through, for example, a simple expansion of basic schooling infrastructure in combination with short-term parental incentives. Similarly, immunisation can be achieved by brief but large-scale supply side campaigns and, as it is irreversible, success is relatively easily obtained. Boosting learning outcomes (including advanced literacy) is however harder to achieve. Firstly, they are dependent on the quality of education, which, as widely recognised, is notoriously lagging in much of the effort related to the MDGs. It involves complicated issues of design and, if left unaddressed, is in fact negatively correlated with progress on enrolment itself. Furthermore, learning outcomes are also related to broader learning environments (including at home) where progress is bound to be more difficult, as these might be affected by processes such as the intergenerational transmission of poverty. Child health outcomes, such as malnutrition, are possibly even harder to address, as the general supply measures related to healthcare are often very limited. Mothers' overall health and educational levels (achieved a relatively long time ago) remain strong determinants of children's health outcomes. With all these processes, it cannot simply be assumed that 'aid' and the increased flows of sector-specific spending can really promote rapid progress.

A further issue is that there is considerable heterogeneity across countries with regards to the fundamental constraints to delivering the MDGs. In particular, complementarity across and between MDGs and other policy goals may be stronger in some countries and weaker in others. The implications for MDG strategies are considerable. For instance, growth in low-income countries tends to be broadly correlated with income poverty gains (mediated by initial inequality). Therefore, any sustainable progress in most of the other MDGs is bound to require considerable progress in income poverty reduction. In such countries, an MDG strategy may have to rely on overall economic growth in the first place. The MAMS model, built by a World Bank team, adopts a heterogeneous country approach that considers externalities and complementarities amongst and between MDGs as well as other economic performance indicators pertinent to MDG planning (Bourguignon, Diaz-Bonilla and Löfgren, 2008). This 'policy coherent approach' to the MDGs goes beyond both simple fixed coefficient models of the type initially used by the Millennium Project, as well as those still used today to measure MDG financing needs (Millennium Project, 2004).

It is striking in this respect that if any of the MDGs are to be achieved worldwide, it is likely to be the income poverty objective. For many of the countries making substantial progress in this goal, conditions arise that, as part of achieving shared growth, galvanise further support for a broad attack on the remaining targets. A focus on the multiple dimensions of poverty is then appropriate. At this juncture in the global economy, resource-rich developing countries may find themselves able to direct sizable amounts of resource towards the various dimensions of poverty that lie behind the MDGs. However, it is equally important to consider the conditions under which progress towards the MDGs can be sustainable, particularly if there is a reversal of the terms of trade and/or institutions are deemed unstable.

Nonetheless, the preceding argument should not be interpreted as downplaying sectoral policies in the pursuit of MDGs. The low correlation between growth and MDG achievements shows that growth is a necessary, but not sufficient, condition for a sustainable MDG strategy. It has to be complemented with the appropriate sectoral policies.

4. MDGs and the global economy

The global economy can influence the achievement of MDGs by facilitating economic growth in particular countries. The extent to which domestic growth will, in turn, promote poverty reduction depends both on its features and on the effects of the global economy. As discussed, domestic growth provides private incentives and public resources for sustainable progress in non-income MDGs. In addition, the global economy can also affect MDG progress in particular, by using differing financial flows to ease its budget constraint.

In keeping with this view, this section will first turn its attention to the recent global economic environment and explore whether it has been conducive to growth and to the achievement of MDGs, and whether it will continue to be so after the 2015 deadline. We thus examine the main features of global economic growth over the recent past with a special emphasis on the relative performance of developing countries. Amongst them, we make a distinction between the so-called 'emerging' countries and their neighbours and those countries that find it more difficult to take advantage of the changing structure of international economic flows, in particular Sub-Saharan Africa. We shall then consider the evolution of specific global flows of capital, labour and, of course, trade, by examining whether they have contributed and will contribute to the achievement of the MDGs in the worst performing developing countries. To a large extent, these flows are a reflection of policies that developed countries adopt with respect to developing countries.

4.1 Recent relative growth performances of developing countries

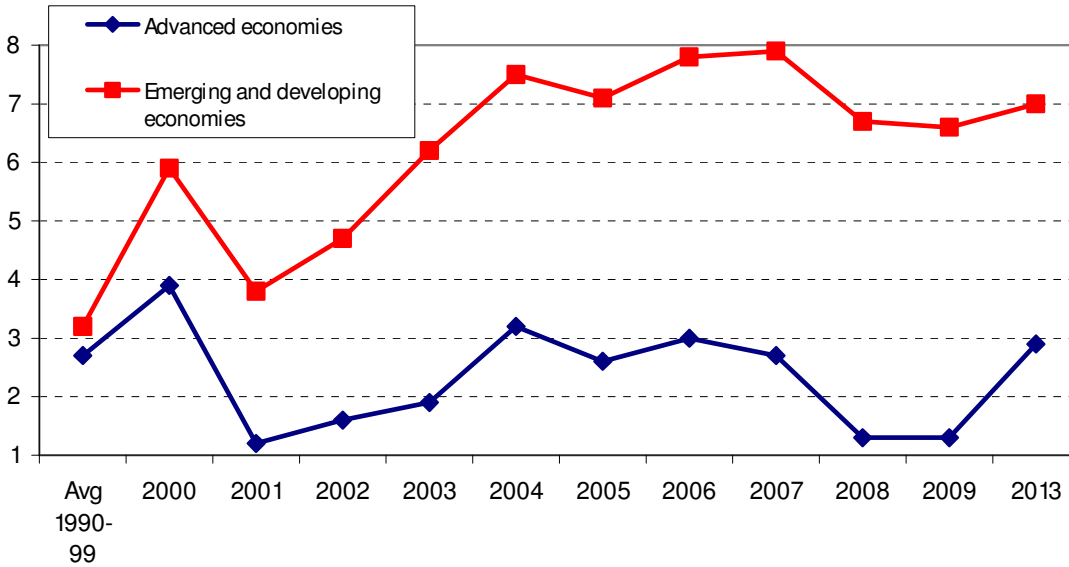
From 2000 to 2007, developing countries benefited from a buoyant world economy, with real global GDP growing at an annual rate in excess of 4% on average. The main drivers of such dynamic global growth were emerging countries whose growth rates exceeded those of developed countries by 3 to 5 per cent on average. Indeed, this period saw an impressive divergence between the growth rates of advanced and of emerging/developing economies (Figure 6). Note, however, that this does not necessarily mean a 'decoupling' of developing and developed economies, as has sometimes been suggested. Overall, developing countries are affected by global cyclical movements as much as developed countries, but are characterised by a much higher long-run growth path.

A striking pattern of the recent period is that almost all developing countries experienced positive growth of GDP per capita. As illustrated in Figure 7, low-income and lower-middle-income countries enjoyed higher GDP per capita growth than other countries from 2000 to 2006. For low income countries, this is a major change when compared to the previous decade.

The most dramatic change occurred in the Sub-Saharan African region. Growth of GDP per capita for the whole region has not only now been positive for 7 years in a row and in line with world growth, but is higher than growth rates in advanced economies. This is the first time this has occurred since the 1970s, thus ending a long period of divergence in the income of the richest and poorest countries. Of course, there are exceptions at the country level. Some countries (for example Benin, Comoros, Gabon, Madagascar, Togo) still suffered from a stagnation of real GDP per capita, and some others even saw a drop, often due to military conflicts (in the cases of Burundi, Côte d'Ivoire, Eritrea, Guinea Bissau, Liberia, Zimbabwe). Unfortunately, MDG data availability does not yet allow a systematic comparison between the recent period and the 1990s. However, when comparing a small group of African countries that, in the 1990s, experienced a return to a growth rate of GDP per capita above

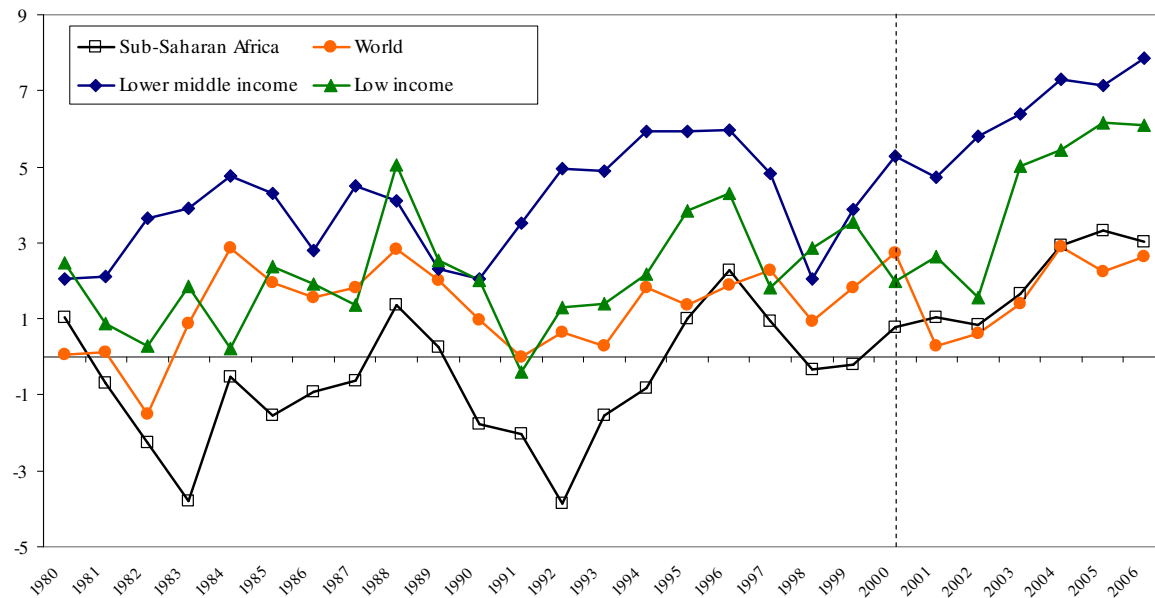
2%, with a controlled group of countries of similar size and location within the continent, it is possible to observe faster progress in the education and health MDGs in the former group.¹⁶

Figure 6: Real GDP growth rates (% per year)



Source: IMF, World Economic Outlook, April 2008.

Figure 7: GDP per capita growth rate (% per year)



Source: World Bank, WDI.

¹⁶ See Bourguignon, Gelb and Versailles (2005).

A related feature of the recent period, with strong implications for many developing countries, has been the surge in commodity prices which started a little after the turn of the millennium. Indeed, almost all commodity prices increased from 2001 to 2007 even though at different rates (see Figure 8). In Sub-Saharan Africa, this hike translated into positive terms-of-trade shocks in a majority of countries, with the most significant beneficiaries being countries exporting oil or minerals like copper or uranium. Some countries did not fare as well, however. Some commodity prices increased much less than others and some of them actually stagnated. This is true especially for countries exporting agricultural products, which tend to be heavily protected by developed countries. Exporters of these commodities saw their terms of trade grow only marginally or even worsen. For example, stagnating prices of cotton due to US subsidies led to a worsening of the terms of trade in countries like Benin or Burkina Faso. Likewise, net exporters of manufacturing products and services saw their terms of trade worsen. Countries such as Bangladesh, China or India may have lost 20% or more in their terms of trade between 2000 and 2006.¹⁷ Among net importers of food, the recent surge in food prices, again partly due to the production of bio-fuels in the US and in the EU, is undoubtedly slowing down, and possibly even reversing poverty reduction. It is unclear as to whether small food producers in those countries will be able to seize the opportunity to increase their real income because of the rising price of key inputs such as fertilizers.

Looking forward, available medium term forecasts for the global economy lead us to expect a substantial drop in global growth rates under the effect of the financial crisis and the recent increase in oil prices, followed by a stabilisation at a level slightly below the rates observed in recent years. A key feature of the global economy today is the increasingly autonomous growth in big emerging countries, although the slow-down in developed countries will affect this group too. However, several factors that explain why they were able to grow faster than their developed counterparts in the past two decades or so, in particular the size of their domestic markets and increased opportunities for South-South trade, will persist for a long time. This should also have a favourable effect on those developing countries that have not been as dynamic in the past, unless they are unable to seize the opportunities created by the vigorous development of emerging economies, or are unfavourably affected by international price distortions that are not corrected.

It is also important to consider the effect that the durability of high commodity prices may have. In particular, it would be necessary to assess whether there would be both the potential of harnessing high commodity prices to stimulate growth in those countries that benefit from them, as well as somehow compensating those countries that suffered due to them. According to AfDB/OECD (2008), agricultural prices are likely to fall when 2007-08 transitory factors, such as negative yield shocks and speculation, are overcome. They are likely to remain higher than in the early 2000s, however, because of higher input costs, due to higher oil prices, and because of the demand arising from the adoption of bio-fuels in developed countries. However, there is still a great deal of uncertainty surrounding this evolution due to the uncertainty of oil prices, weather patterns, and, marginally, WTO negotiations, since world prices of some agricultural products are expected to rise when tariffs and subsidies are reduced around the world.

There may also be some uncertainty about the consequences of persistently high commodity prices for developing countries. It is already the case that, despite a rather prudent and rigorous macro-economic policy, a number of developing countries have seen a worsening of their trade balance and current account because of the surge in oil and food prices. For those countries where the terms of trade are expected to remain favourable, there is a risk that governments will change their macro-economic policy and drastically reduce their savings. This may not be a problem *per se* except that , if

¹⁷ Overall, UNCTAD data on terms of trade indicate that around 40% of developing countries have seen their terms of trade worsen over that period.

there is a reversal in terms of trade, it might result in a strong Dutch disease effect that will impact negatively on growth.¹⁸

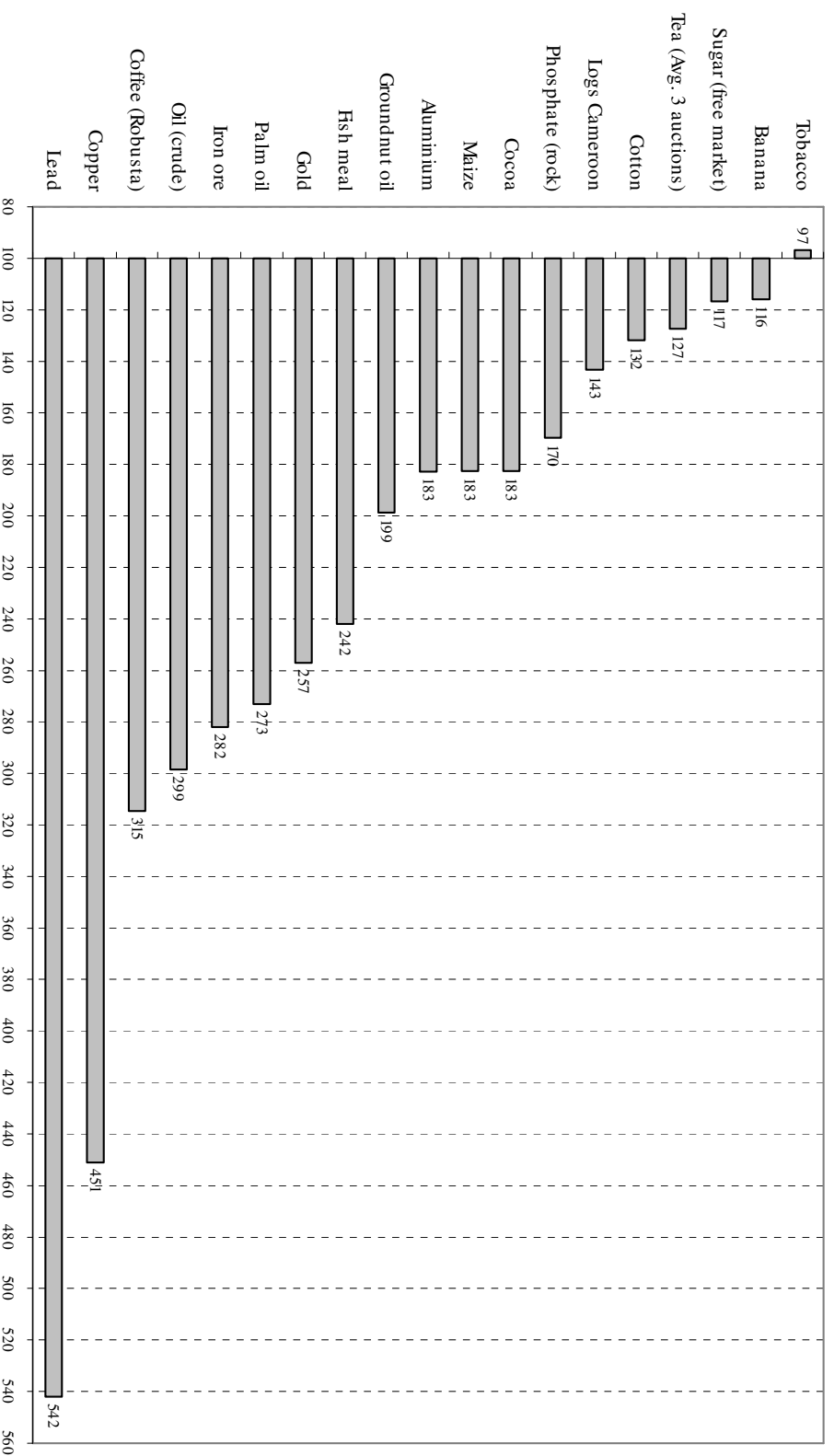
A consensus is now building that the price of oil will remain high for some time, although in the long run it will probably not remain as high as its recent record level. However, once it stabilises, it is likely to do so at a much higher level than the one recorded in the period preceding the hike. The same conclusion holds for other non-oil, non-agricultural commodities. With big emerging countries playing catch-up, it is anticipated that a long-run global rate of growth higher than before the turn of the millennium will be maintained, meaning it is also to be expected that commodity markets will remain tight and therefore volatile. This uncertainty surrounding commodity prices has to be taken into account in designing development strategies.

There is even more uncertainty when assessing the situation over a longer timeframe. Of special concern is the uncertainty about climate change and the consequences of global warming for developing countries. Indeed, existing models that link climate forecasts and the global economy suggest that the agricultural sector of developing countries will be the hardest hit by climate change and that, within individual countries, the poorest regions will suffer most.¹⁹ This could make the progress achieved so far on the MDGs unsustainable in the long run, unless an adequate adaptation policy can be launched.

¹⁸ Dutch disease, named after booming gas exports in Holland in the 1970s, refers to the appreciation of a country's exchange rate as a result of a resource export boom in that country. The currency appreciation undermines international competitiveness and generally leads to a decline in the non-resource tradable sectors, thereby damaging long-term development prospects.

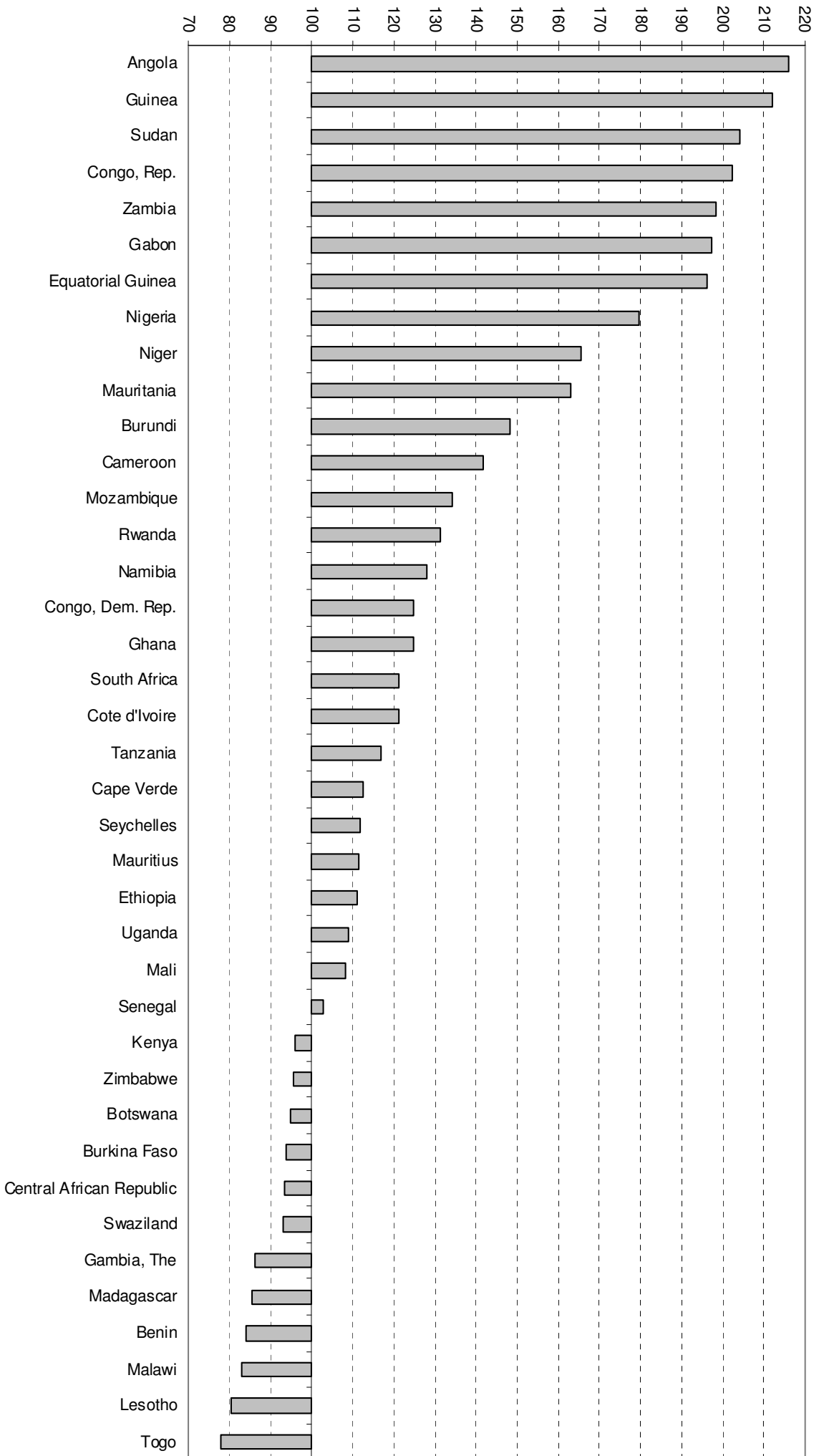
¹⁹ See W. Cline (2007).

Figure 8: The surge in commodity prices: 2001-2007 (100 in 2001)



Source: AfDB/OECD (2008).

Figure 9: Sub-Saharan Africa – Improvement in terms of trade: 2000- 2006 (100 in 2000)



Source: World Bank/WDI.

4.2 North-South financial flows and migration

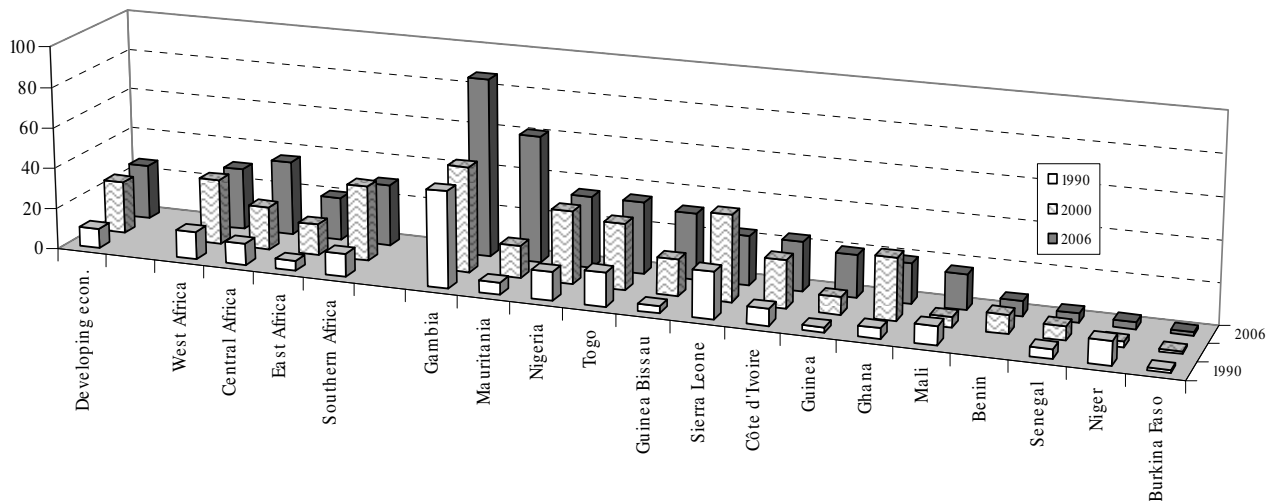
Beyond the perspectives on global growth and on commodity prices, the issue also arises of whether the evolution of the global economy will allow a better integration of low-income countries, in particular the slow growers, into the global economic flows of capital, labour and, most importantly, trade. Again, this matters for many countries, but is of particular importance for a majority of Sub-Saharan African countries.

Foreign direct investment (FDI) by Northern companies has increased in more or less all developing regions. Indeed, in all regions, except for the Middle East, inward FDI now amounts to between 2.5 and 3.5% of the GDP of host countries, having risen from an average of 0.8% in the early 1990s. Most importantly, progress has been faster in the poorest regions. FDI increased from 0.1% of GDP in South Asia in 1990 to 1% in 2005 and from 0.4 to 2.7% in Sub-Saharan Africa. As a stock, inward FDI now corresponds to 25% of GDP for all developing countries, and around 30% in Africa. As can be seen in Figure 10, however, FDI is very unequal across African countries. For instance, FDI represented 86% of GDP in the Gambia in 2006, but less than 5 per cent in Senegal, Niger or Burkina Faso. In most African countries, however, FDI is mostly directed to the primary sector. High commodity prices should maintain this trend in the future. Moreover, the tendency observed in recent years for big emerging economies to invest in resource-rich poor countries should strengthen.

As far as portfolio capital and debt are concerned, recent evidence points to a slowdown in flows towards developing countries and to an increase in interest-rate spreads (see World Bank, *Global Development Finance*, 2008). The former is linked to the increasing saving capacity within developing countries (partly due to demographic factors), to the restructuring of domestic financial markets in emerging economies and to the limited development of domestic welfare systems. More recently, the drop in portfolio capital flows and bank lending has been caused by the financial crisis itself. The increase in sovereign spreads is the result of flight-to-quality, whereby capital moves away from risky investments and foregoes higher returns for safer returns. Note, however, that in comparison with previous global financial turbulences, the impact of the recent financial crisis on sovereign spreads in developing countries has been, until now, extremely limited. It is also to be expected that the role of China and other emerging economies, as well as that of oil producers, in international capital markets will continue to grow. As such, they will most likely begin to compete with developed countries as global financial investors. Partly because of this, global saving rates are likely to remain high over the next decades, whereas investment opportunities in advanced economies might not grow as fast as in the rest of the world. The effect that this will have on low-income countries with presently little access to international financial markets remains to be seen.

Portfolio capital and debt flows are more relevant to emerging economies and middle-income countries than to low-income countries, whose access to the international capital market is likely to remain limited. Nonetheless, their situation has certainly improved due to the Heavily Indebted Poor Country initiative and the more recent write-off of multilateral debt. As a consequence, creditworthiness improved in several countries. A country like Ghana was even able to issue sovereign bonds on international markets at a reasonable spread in 2006 and has been imitated by a couple of countries since then. However, even with emerging economies acting as new major international investors, this source of financing is likely to remain marginal for years to come.

Figure 10: FDI inward stocks as a percentage of GDP in developing countries and in selected Sub-Saharan African countries



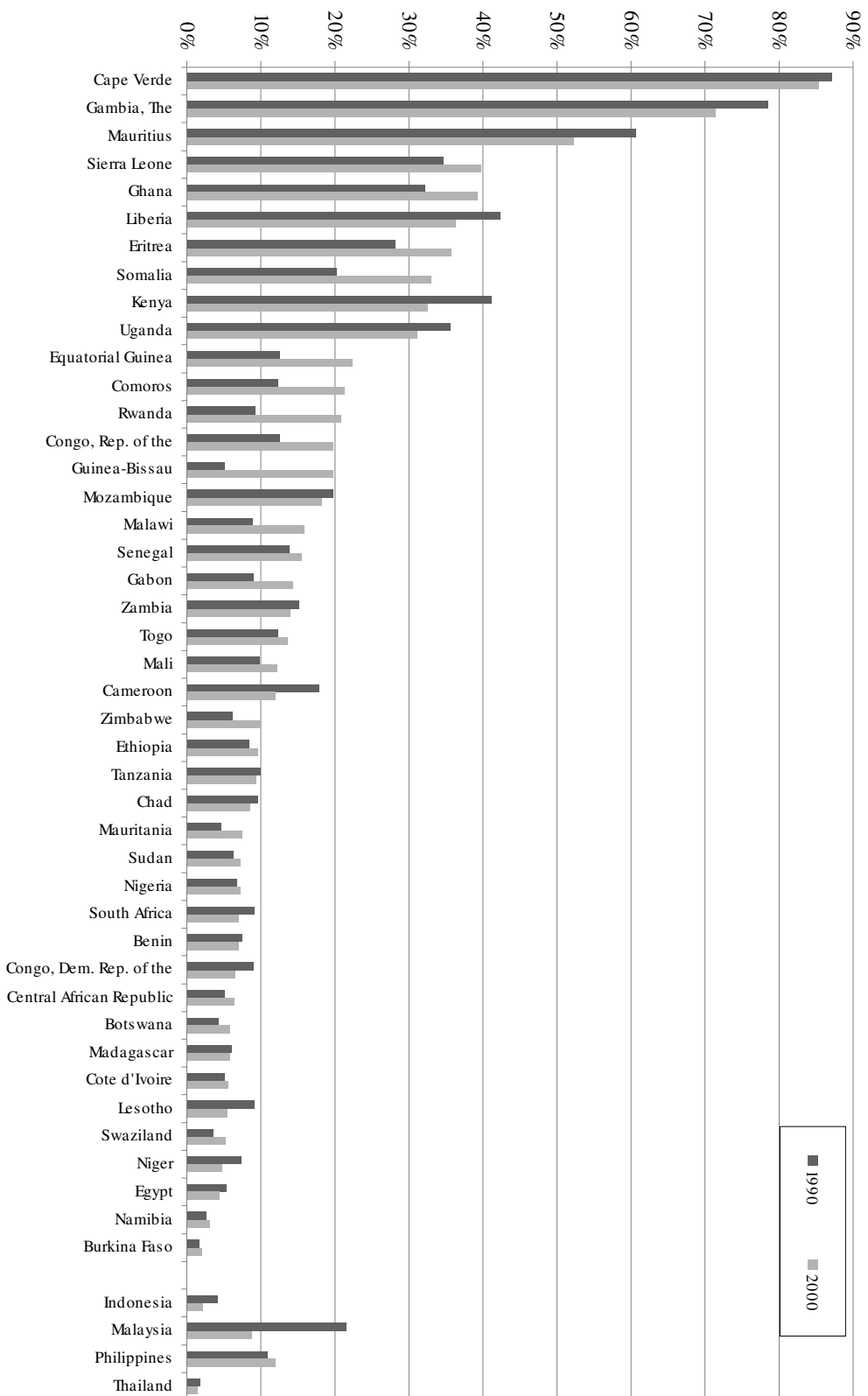
International migration from poor to rich countries may also help development in various ways, but it may also have a cost. On the negative side, migration may deplete the country of origin of valuable skills and slow down development. On the positive side, remittances by migrants provide foreign exchange receipts, very much like exports and, in some instances, may directly contribute to the income poverty MDG.²⁰ Indeed, remittance flows have considerably increased over the recent years, although part of that increase may be due to an improvement in statistical coverage. For low-income countries, their share of GDP has practically doubled since 1990, and has fluctuated between 3 and 4% in recent years. Remittance rates are lower in Sub-Saharan Africa where they represent on average only 1.5% of GDP. In view of the aging of the population in developed countries, it is to be expected that migration flows will become more important in the future, although the present economic slowdown will, in all likelihood, temporarily reduce both migration and remittance flows.

Migrants tend to be disproportionately more skilled than the population that remains in the country of origin and, as mentioned above, this may have a negative impact on development in countries where migration rates are high and rising. As shown in Figure 11, this is the case in Sub-Saharan African countries like Ghana, Malawi, Rwanda or Uganda. Note that skilled migration may not only affect the short-run growth rate of the economy²¹, but also the pursuit of some MDGs. In particular, the migration of doctors and nurses can only have a negative impact on the health care sector and health MDGs. Without some kind of regulation by host countries, the globalisation of the skilled labour market may, in several circumstances, prove to be detrimental to the MDGs. In contrast, semi-skilled or unskilled labour migration is highly restricted in many rich countries, with barriers being particularly formidable in Europe. Easing the restrictions on such migration could positively affect poor countries through remittances without leading to the 'brain drain' problems just described.

²⁰ See for instance Lucas (2005), and Ozden and Schiff (2007).

²¹ There are conflicting views on this in the literature. Besides remittances, the positive effect of skilled migration includes phenomena like higher incentives to acquire a skill, technological transfer, increased productivity and entrepreneurship with return migration. Negative factors include the loss of human capital, the increase in the price and fall in the provision of skill-intensive (non-tradable) goods and services. See Ozden and Schiff (2007) as well as World Bank (2007b).

Figure 11 : Sub-Saharan Africa – Migration rates of highly skilled males to OECD countries (%)



Source: Docquier et al (2007).

4.3 Trade

The trade environment is probably the most important international factor for development in a globalising world. However, many countries find it difficult to integrate within the global economy (other than by exporting agricultural or mineral commodities) and to generate real spillovers in domestic development. Without specific preferential policies in developed countries, the highly successful East Asian model of development, based on manufacturing exports, would be simply impossible in many countries, particularly in Sub-Saharan Africa. Furthermore, even better integrated countries can still be harmed by the high protection that remains in specific sectors within developed countries, most noticeably in agriculture.

Developing countries currently benefit from preferential agreements with the European Union (the trade scheme within the Cotonou agreement, to be replaced by Economic Partnership Agreements, and 'Everything but arms' (EBA) introduced in 2001 for the least developed countries), with the United States (African Growth and Opportunity Act, AGOA, introduced in 2000), and from all OECD countries (Generalized System of Preferences).

Although limited in terms of preference margins²², AGOA agreements seem to have been successful in boosting African exports to the United States, notably thanks to the relaxation of the rules of origin in the apparel sector. Exports from the least developed African countries to the United States in this sector doubled from 2000 to 2006, while those to the European Union stagnated. However, as shown in Figure 13, the baseline was so low that this only had a marginal impact on the structure of exports to the United States and on domestic production.

The experiences of the Cotonou agreement, the preferential regime 'Everything but arms' and the results of AGOA, suggest that the slow development of African manufacturing exports relates more to the difficulty in meeting standards in advanced economies and to domestic problems of logistics, rather than to the mere level of tariffs (although restrictive rules of origin requirements also play a role). It should also be kept in mind that these preferences were granted to the least developed countries, with less capacity to take advantage of them than less poor countries. Finally, it can be argued that selective tariff cuts on imports by countries themselves (or similar duty-drawback schemes) may be necessary to enhance export capacity when imports are used as inputs in the exporting sectors.²³

Looking forward, two major changes may happen in the international trade environment: the conclusion of the Doha round and/or the extension of bilateral preferential agreements. Concerning the Doha round, a recent simulation of the Falconer and Stephenson compromise proposal, tabled in mid 2007, performed with the MIRAGE model²⁴, shows that it would produce a strong erosion of preferences in the manufacturing sector of Sub-Saharan African and other poor countries. However, its effect would be less strongly felt in agriculture, except for very specific products (such as bananas). The net detrimental impact that the proposal has on the textile industry raises the case for introducing accompanying measures, such as reinforced aid for trade. As for agriculture, price increases would be limited, especially in a context of already high prices (tariff cuts are calculated on consolidated duties, which are not binding when prices are high). As far as preferential agreements are concerned, on the other hand, they will have to be consistent with WTO rules, especially with regards to reciprocity and non-discrimination requirements. The European Union has started to sign Economic Partnership Agreements (EPAs) with ACP countries, thus replacing the Cotonou scheme. A quantitative, partial-equilibrium assessment of EPA agreements²⁵ suggests that EPAs would have a very significant

²² Generally less than 5% compared to the most favoured nation tariff, see Laborde, Mitaritonna and Pupperto (2008).

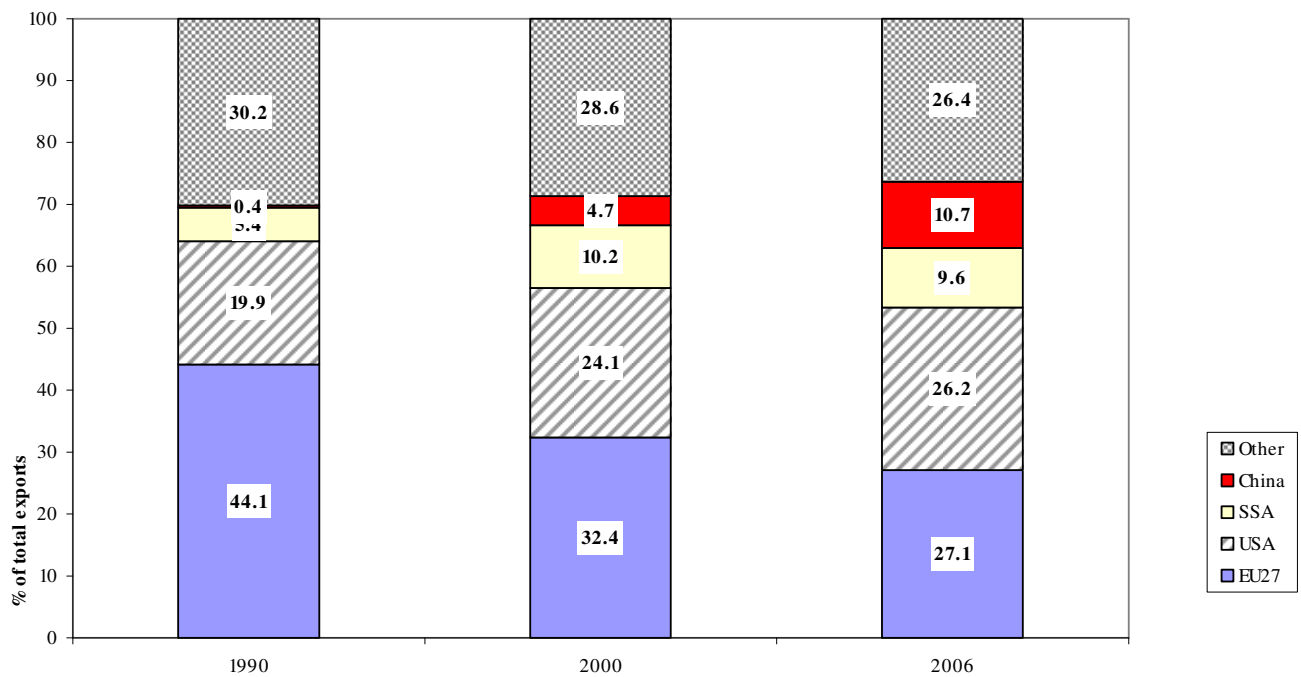
²³ See Collier and Venables, 2008

²⁴ See Decreux and Fontagné (2008).

impact on those countries' exports when compared to the WTO-compatible GSP/EBA alternative²⁶. However, the reciprocal cuts in import tariffs from the EU would have a very large negative impact on tax receipts for some countries such as Ghana, Congo, Togo, or Mauritius. This serves to highlight the importance of the "development" section of EPAs and of the need for an optimisation of the list of "sensitive" products that are to be excluded from tariff cuts.

A final word must be said on the rising share of China and other emerging countries in the geographical trade structure of Sub-Sahara African and other poor countries (Figure 12). The increase, to over 20 per cent, of the share of those countries in Sub-Saharan African exports can be viewed as very positive if world growth is to depend more heavily on these countries in the future, even though exports to China mostly consist of raw commodities (see Figure 13).

Figure 12: Geographic distribution of sub-Saharan African exports



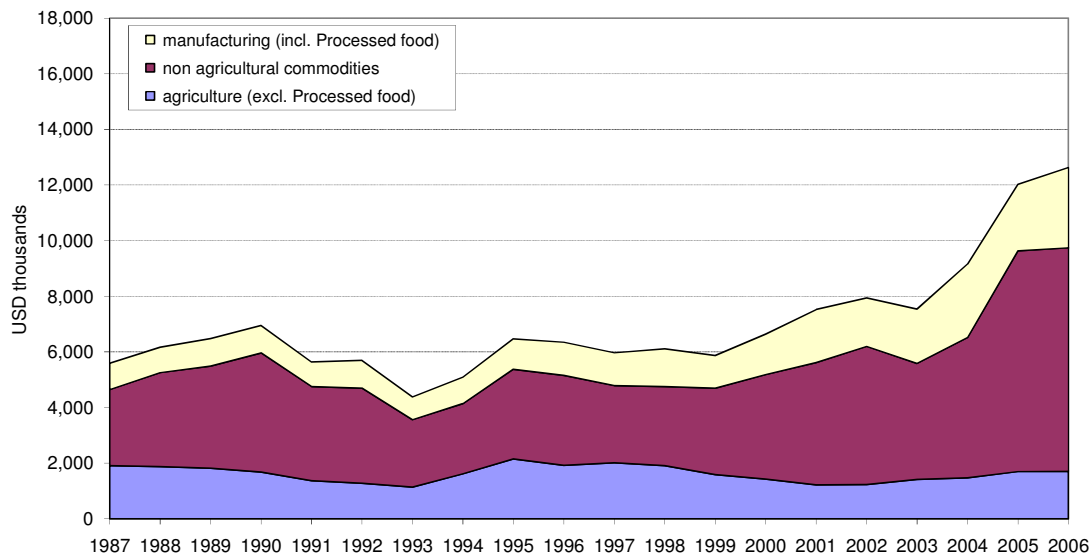
Source: CEPII-CHELEM.

²⁶ See Fontagné, Laborde and Mitaritonna (2008).

Figure 13: Breakdown of least developed countries'²⁷ exports to the European Union, the United States and China

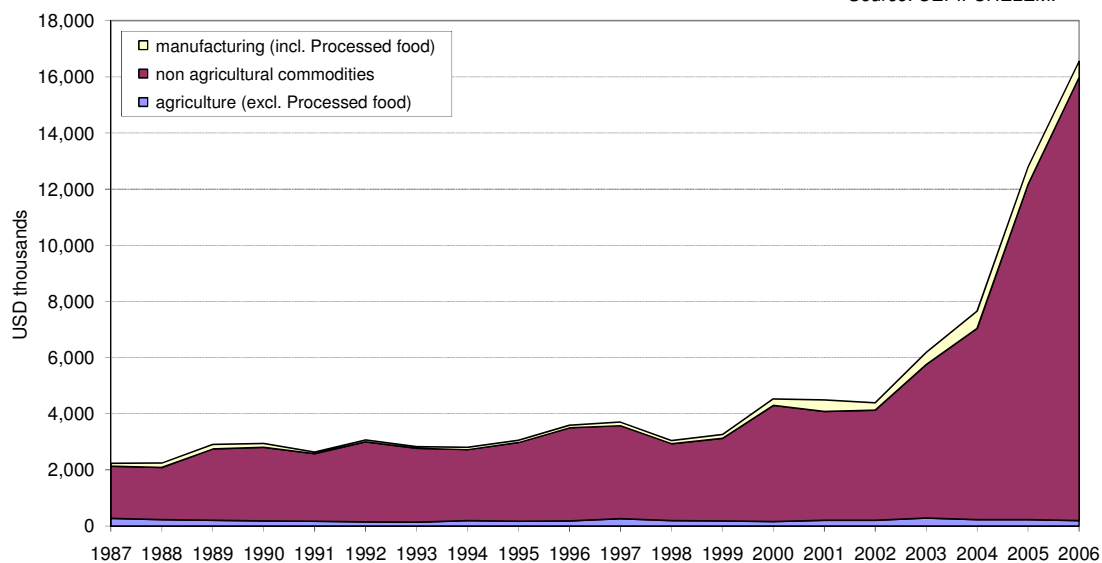
Least developed African countries: exports to the European Union

Source: CEPII-CHELEM.



Least developed African countries: exports to the United States

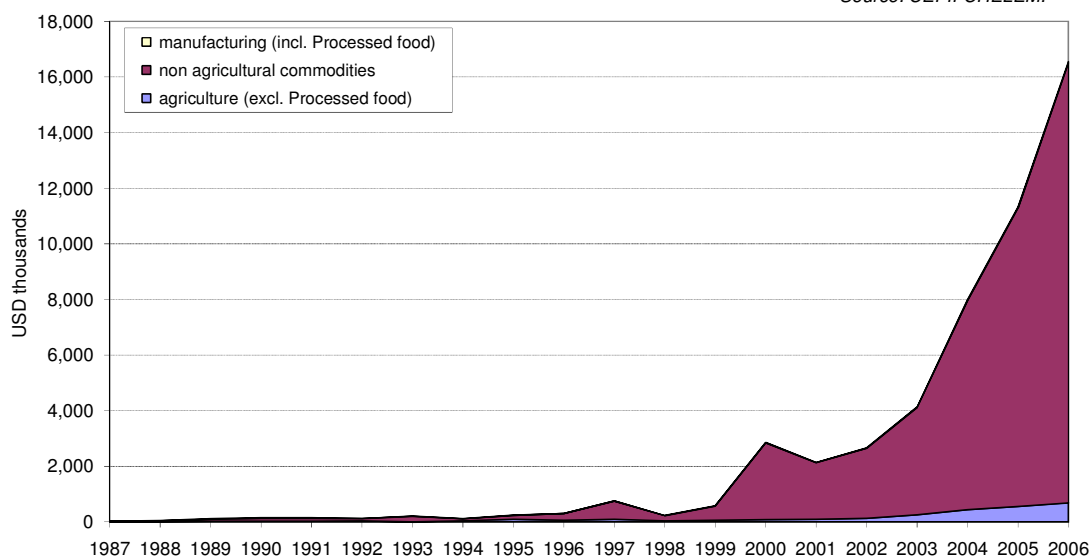
Source: CEPII-CHELEM.



²⁷ Angola, Benin, Burkina Faso, Burundi, Cape Verde, Comoros, Congo (Dem. Rep.), Djibouti, Eritrea, the Gambia, Guinea, Guinea Bissau, Equatorial Guinea, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Uganda, Central African Rep., Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, Tanzania, Chad, Togo, Zambia.

Least developed African countries: exports to China

Source: CEPII-CHELEM.



In summary, the global environment has been buoyant over recent years, with very positive effects on economic growth in a large number of developing countries, thus reversing the trend in divergence between high-income and low-income countries for the first time since the 1970s. It remains to be seen whether this acceleration in economic growth has generated faster progress towards the MDGs. This requires assessing MDG indicators over recent years but such data are not yet available.

Will that favourable trend continue? In the short-term, there can be little doubt that the slow-down in developed economies will spill over into developing countries. However, the question is whether this will derail them from a fast growth, long-term trend, or whether this will be the downward part of a cycle within that favourable trend. There seems to be a consensus that emerging countries will continue to grow quickly, though not as quickly as before, and that this will have a positive effect on the world economy and in other developing countries. In particular, it is likely that commodity prices will remain higher than they were before the recent boom, with positive consequences for some countries and negative consequences for others. The same varied effects may also develop within some countries, with high food prices impacting net consumers negatively and net producers positively. Therefore, now more than ever, the pursuit of the MDGs requires rigorous macro-economic management and adequate re-distribution policies, so as to reduce the risk of an increase in poverty as a consequence of international food prices.

Because a number of developing countries may face growth difficulties and, consequently, severe budget constraints in the years to come, development-oriented policies in both developed and emerging countries will be extremely important for the pursuit of MDGs in poorer countries affected by the global slow-down. There is still some potential for development-oriented improvement in trade policies, in financial flows (which could provide some kind of insurance for countries hit by adverse shocks in the global economy) or by accepting more unskilled workers through the relaxation of immigration laws.

5. MDGs and official development assistance

In theory, Official Development Assistance (ODA) or aid might seem the most important lever by which developed countries may directly accelerate progress towards the MDGs. ODA can alleviate the budget constraint faced by governments in developing countries and can also be targeted towards programmes explicitly aimed at the MDGs. In practice, however, things are not that simple. In some cases, the budget constraint may indeed require foreign resources, and progress towards the MDGs may require the direct intervention of donors in specific programmes. However, experience shows that foreign resources and involvement in development programmes are not always efficiently managed and are far from sufficient to trigger sustainable progress towards the MDGs.

This section first reviews some basic facts about aid and its potential impact on development and the MDGs. It then focuses on the crucial issue of aid effectiveness in promoting development and MDG progress and, more importantly, on ways to enhance it.

5.1 Volume, structure and impact of aid: A brief factual review

Official development assistance by the countries which are part of the Development Aid Committee of the OECD (DAC-countries) amounted to \$104.4 billion in 2006 or 0.31% of their Gross National Income. This figure was lower than in 2005 when it reached \$109.5 billion (at 2006 prices) and available evidence to date suggests that it continued to fall in 2007.

These figures lead to several conclusions. The first one regards the insufficient volume of aid. Clearly, the 0.31% of GNI is much below the objective of 0.7% that was set during the development decade in the 1960s (but never attained), and repeatedly put forward in the international dialogue on development. Only a handful of North-European countries consistently achieve this objective – and in some cases go beyond it. More importantly, the 2006 figure is below the level observed at the end of the 1980s, in the last years of the Cold War when aid was partly serving geo-political purposes (see Figure 14).

Even though it represents a huge progress relative to the 0.22% observed in the late 1990s, just before the Millennium declaration, today's volume of aid is quite far from what was committed by the G8 countries in recent summits in Gleneagles, Heiligendam and Hokkaido on the basis of a rough estimate of the amount needed to finance the MDGs in low-income countries, and in particular, in Sub-Saharan Africa. If commitments are to be fulfilled, the annual flow of DAC-aid would have to increase by between \$35 and \$40 billion by 2010 (in real terms), substantially more than the progress actually recorded since 2000.

The EU is committed to play a major role in this acceleration. The ODA/GNI ratio is currently estimated at 0.4%, slightly less than in the early 1990s. The goal set in 2005 was to raise that ratio to 0.56% by 2010 and 0.7% by 2015. If successful, the EU would thus provide roughly two thirds of what has been pledged at the world level. However, this would, of course, mean a huge effort for a number of countries. For instance, using 2006 as a reference, Italy will have to increase aid by 179% by 2010, Spain by 108%, Germany by 57%. At the same time, the slowdown in economic activity may make this goal even more difficult to reach by tightening further the budget constraint in those countries.

The second consideration regards the composition of aid and, in particular, the role of debt relief in the recent development of total aid by DAC countries. Figure 14 shows that the peak of ODA in 2005-06 was essentially due to exceptional amounts of debt relief in those two years, most particularly in Iraq and Nigeria. While both operations are important and justified, they remain exceptional, and mask a trend in 'normal' ODA that is considerably slower than the 2005-06 performances might suggest. The

estimates for 2007 are more in line with the 2001-03 trend, whereas ODA without debt relief shows a clear slow down in 2006-07. As opportunities for debt relief operations are becoming scarce, this makes the effort needed to reach the 2010 ODA goal even more painful. This is not to deny the substantial and positive impact debt relief has had on economic performance and poverty reduction in developing countries. By removing the debt overhang, many HIPC countries, aided by the PRSP process, have for the first time in a long while been in a position to devise and implement policies to promote growth and poverty reduction.

By removing the debt overhang and aided by the PRSP process, many HIPC countries have, for the first time in for a long while, been in a position to devise and implement policies to promote growth and poverty reduction.. However, the point is that the debt relief process is largely completed and the promised scaled up of aid has to come from higher budgetary allocations or from other new financing mechanisms, such as the International Financial Facility for Immunisation (IFFIm) or the special tax on airline tickets adopted by a small group of countries.

Figure 14: DAC countries – ODA flows 1990-2010 and EU ODA flows 2002-2010

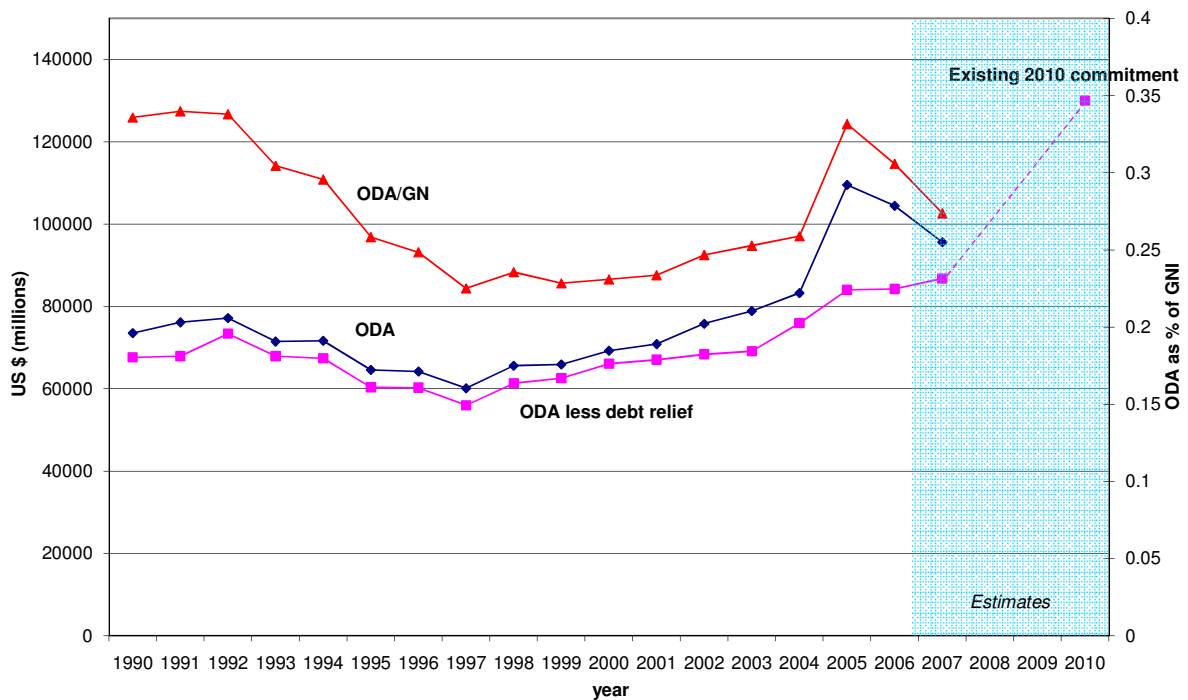
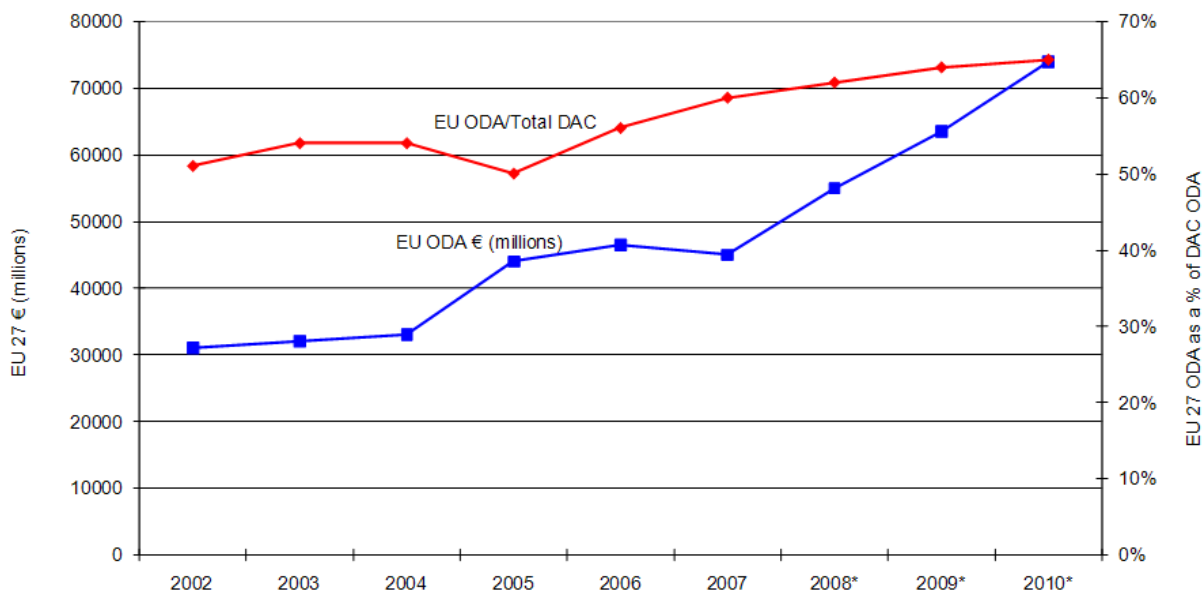


Figure 15: EU Member States – ODA flows 2002-2007 (in € millions current prices and as per cent of DAC ODA)



*European Commission simulation on OECD/ DAC data and on EU Member States' information provided in the context of the Monterrey questionnaire 2008 (*percentages based on linear assumption of global scaling up as simulated by OECD)*

As shown in Figure 15, in 2008 EU contributes already almost 60% of total ODA. European aid is expected to increase by 43% in the next 3 years, in contrast with US aid, which is expected to grow by only 5%, Canadian aid, which will increase by 14%, and Japanese aid, which is forecast to drop by 10%.

If effective disbursements confirm the latest projections and all Member States deliver on agreed ODA targets the EU share in global ODA will grow to represent two thirds of global ODA by 2010. As the Commission Staff Working Paper SEC(2008) 432 states: "This will require the demonstration of significant political will, underpinned by corresponding national policy decisions in aid budgeting in 2008 and beyond. Only then will Europe remain credible and be able to keep up its reputation for being the world's most generous and progressive donor."²⁸

Indeed, the increases required in the next few years to meet existing commitments are so large in many EU countries that it seems rather unlikely that they will be achieved, despite some notable efforts. Given this situation, EU countries should seriously consider other dedicated sources of financing to meet their commitments. Amongst others are proposals for extending airline ticket taxes, kerosene taxation and to use revenues from auctioning of CO2 emission permits. While such dedicated funding sources are second-best from a public finance point of view, they might be politically easier to implement, especially considering that sharp increases in aid budgets (particularly in stagnant or even shrinking economies) seems quite unrealistic.

²⁸ COMMISSION STAFF WORKING PAPER SEC(2008) 432 accompanying the COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. The EU – a global partner for development Speeding up progress towards the Millennium Development Goals. The Monterrey process on Financing for Development - the European Union's contribution to Doha and beyond. Annual progress report 2008

The final comment on the evolution of the volume of aid concerns the increasing role of non-DAC countries and private (NGO) donors. Although the statistical information is less reliable than for DAC countries' official development assistance, available evidence suggests that these non-traditional sources have contributed a rapidly increasing amount to development assistance. Non-DAC flows, as recorded by DAC, may have increased by a little more than \$5 billion between 2000 and 2006, whereas NGOs based in DAC countries are said to have increased their own contribution by another \$6 billion (see World Bank, 2008). Altogether, non-DAC countries and NGOs, which represented a little more than 10% of total official DAC aid in 2000, may have increased total aid flows to developing countries by another \$10 billion by 2006. The picture would thus look a little more favourable than when considering exclusively DAC countries' aid. Yet the effort needed to reach the goals set by the international community some years ago remains daunting.

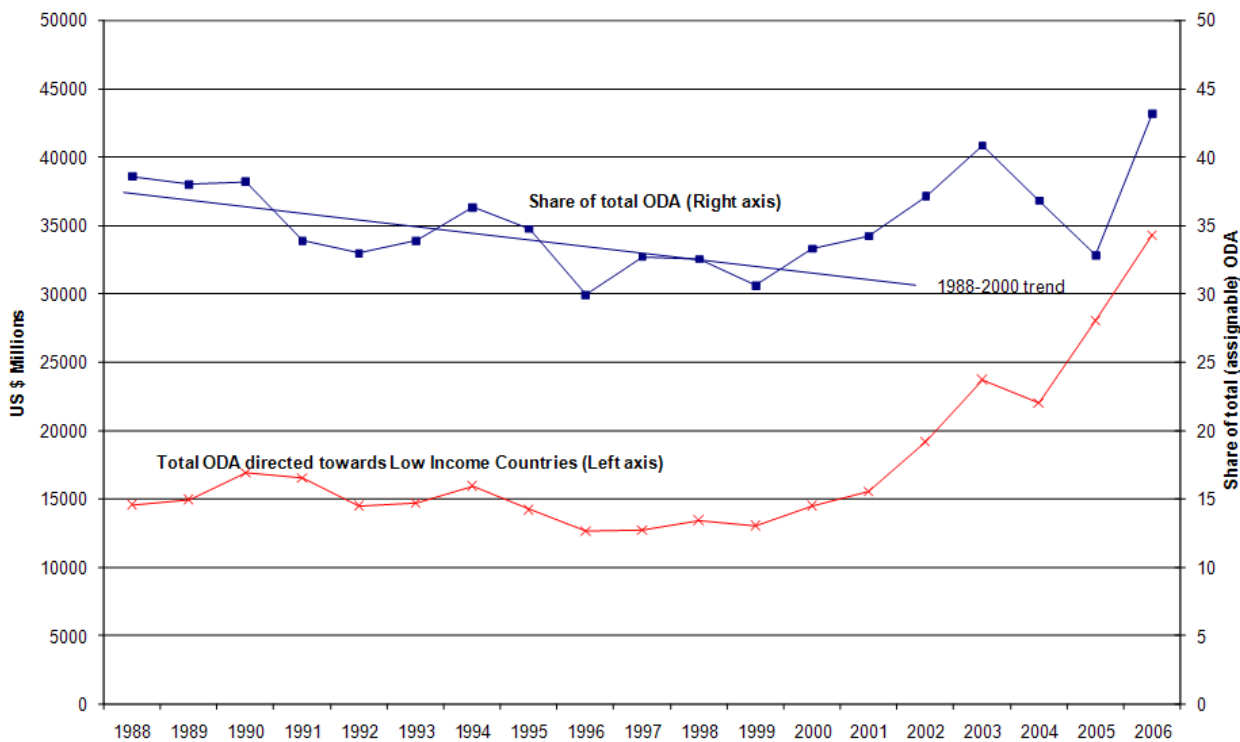
With regards to recipient countries, ODA represents, on average, an income flow roughly equal to \$17 per capita, a figure obtained by dividing total ODA by the total population of developing countries. Given the negative growth of ODA during the 1990s, and the relatively slow rise since 2000, it is striking that, at constant prices, the average intensity of aid in developing countries has in fact remained practically constant since 1990. Over the last 20 years, at constant prices, total ODA has increased at an annual rate comparable to the rate of population growth in developing countries. The average ratio of aid to GNI in recipient countries has thus severely declined on average. Today, it is less than 0.5% of GNI when all developing countries are taken together. This means that in, most middle-income countries, ODA is now entirely negligible, but it still represents an important, and in some cases a major, source of funds in very poor and/or fragile countries.

Such an evolution of steadily eroding aid as a share of GNI might not seem problematic if aid were allocated essentially according to need. Given the growth performances of some developing countries, their 'need' for official development assistance should diminish. Aid per capita should then fall in richer populations, thus allowing the concentration of development assistance in slow-growing and poorer countries. Actually, Figure 16 shows that, until recently, there was very little of such restructuring. The share of the total aid provided by DAC countries, or at least that part of aid going to low-income countries, has been declining sharply from the late 1980s until the early 2000s. In effect, if one ignores 2003 and the exceptional efforts made by the international community for the Democratic Republic of Congo, which was then coming out of a long war, it is only in 2006 that the share of aid going to the poorest countries rose above the level observed in the late 1980s. This reversal in the allocation of total aid reflects the recent commitment of developed countries to devote relatively more resources to Sub-Saharan Africa.

The preceding argument assumes that all aid is used effectively, so that only 'needs' matter in deciding the volume and the allocation of aid. However, this is precisely the main issue. Anecdotal evidence abounds on aid being essentially wasted, either through inefficient management of the projects it is supposed to fund, or by ending up in the private hands of local or national political leaders. Statistical analysis across countries yields very weak results on the relationship between aid and growth or aid and MDG-type development indicators.²⁹ There are good reasons to believe that this kind of simplified analysis is bound to yield statistically insignificant results, particularly as aid is only one of the many factors (several of them unobservable) that contribute to development. This does not mean that aid is systematically ineffective, but that its effectiveness is hard to assess.

²⁹ See for instance the excellent review in Clemens, Radelet and Bhavnani (2004).

Figure 16: Allocation of aid: DAC countries' ODA to low-income countries



The allocation of aid also reflects more selectivity by donors with respect to the quality of institutions and the needs, as measured by GDP per capita, in recipient countries. This increase in selectivity is relatively recent and appears to correspond to the change in attitude towards ODA in general following the Millennium Declaration.³⁰

The second part of this section deals extensively with the issue of aid effectiveness, as it represents one of the main obstacles to the development of a deeper partnership between donors and recipient countries in the pursuit of the MDGs. Because of the ambiguity surrounding the effective use that can be made of aid, the international community may find itself in some kind of perverse 'low-level' equilibrium. In donor countries the symptoms of 'aid fatigue' have developed, because development progress appeared too slow in relation to the aid given in the past, and because of evidence available on the misuse of aid in some particular instances. As a result, aid volumes decreased, but at the same time effectiveness also declined – a point that will be tackled in more detail below – very much as donors sought to exert more control on the aid being given. Uncertainty about the future volumes of aid has developed in recipient countries and the strict earmarking of new flows has also become an issue. This decline in the effectiveness of aid acts as a deterrent to prospective increases in the volume of aid and feeds the vicious circle of aid fatigue.

There is clear evidence that the way in which donor countries manage aid, usually with the laudable objective of providing transparency to their constituencies on how public money is being used, may, paradoxically, actually reduce the effectiveness of the aid regardless of the way in which recipient countries manage the money they receive. Here are a few examples.

³⁰ See Dollar and Levin (2004).

- The presence of several donors in the same developing country raises the issue of co-ordination and harmonisation. It is not uncommon to see as many as 20 to 25 donors active in a single recipient country, whilst the government of that country has to deal with all of them in a bilateral way, to allow donors to show their constituencies results supposedly attributable to their activities. This might not be a problem, were all donors apply the same disbursement and monitoring procedures and use the same evaluation criteria to evaluate the effectiveness of particular programmes. However, this is far from being the norm and such a dispersion of aid increases the management cost for both the recipient and the donors. Moreover, given the fungibility of aid, dispersion and fragmentation make it more difficult to evaluate the results of a specific programme or to attribute specific performances, for example from the MDGs point of view, to a specific donor, thus frustrating the desire for transparency. Indeed, the very same desire to show actual achievements often prevents co-ordinating activities through some kind of collective entity – or multilateral organisations. The Paris conference in 2005 was aimed at making progress on this front, but results are so far limited.³¹ The September 2008 conference in Accra reiterated and strengthened these commitments.
- The lack of predictability of aid is another source of ineffectiveness. Recipient countries' uncertainty about future aid flows, despite present commitments, leads governments to systematic revisions of their development and MDG strategy. If there is uncertainty about whether it will be possible to pay for the salary of newly recruited teachers in 2 or 3 years time, it is better not to invest too heavily in their training today. In Tanzania, for example, the average forecast error of project support was estimated to be 36% two years ahead and 61% (or 2% of GDP) three years ahead. Whereas it could be assumed that the lack of predictability applies more to programme support than to general budget support, in the case of Tanzania, however, the difference between these two types of aid flows in terms of predictability was negligible.
- There is increased earmarking of aid through specialised Global Funds. For instance, pledges received last September for the replenishment of the Global Fund to fight Aids, Malaria and Tuberculosis amounted to almost \$10 billion for the period 2008-10, or roughly 3% of total aid flows. Whilst there is nothing wrong with this process, especially if it facilitates raising the funds in donor countries, the problem is that it imposes constraints on recipient countries at a time when the aid contract between recipients and donors aims to become less directive.

The so-called Monterrey compact meant a rather radical change in the way in which aid was managed, as it gave recipient countries as much responsibility as possible in the use of aid funds, provided that they could exert their ownership in a reliable way through reasonably strong institutions and well articulated Poverty Reduction Strategies. This represented an important and most welcome break in comparison with the previous regime of heavy conditionality, characterised by donors trying to impose their own development strategy. Yet the current move towards more earmarking of aid through specialised global funds is, in some sense, a move away from this 'new model' of aid.

These sources of ineffectiveness may have reinforced the feeling in donors' constituencies that spending on aid was indeed ineffective for development, making them more hesitant in scaling up aid and in lifting controls on how it is used. Clearly, the way out of this 'low-level, low-effectiveness of aid' vicious circle is to increase the effectiveness of aid and ensure it is adequately evidenced.

This brief factual review of both the evolution of the volume and structure of foreign aid as well as its effectiveness, can be summarised as follows:

³¹ See World Bank, 2008. See also the interesting evaluation series that was initiated by the EU Heads of Evaluation for External Cooperation, and which looked at the EU's performance in the areas of improving coordination, complementarity and coherence of the Union's development cooperation. More information can be found at <http://www.three-cs.net>.

Recent efforts by donor countries still fall short of what is needed in terms of the aggregate volume of ODA, its allocation across countries and the effectiveness of its delivery. As a result, the international community is not yet out of the low-level equilibrium by which limited aid and poor effectiveness in its delivery feed ineffectiveness in the practical use of aid. This, paired with existing inefficiencies in the management of aid in recipient countries, leads to more difficulties in raising aid levels. In addition, the adoption of more restrictive delivery practices, which are erroneously thought to be a guarantee of effectiveness in achieving the MDGs, create an overall negative impact. The appearance of new donors may lessen the problem, but it may also contribute to worsening it, particularly if they actually generate more ineffectiveness in recipient countries.

The idea of a new 'aid contract', by which donors would make funds available, provided that they were efficiently used by recipients, was central to the Monterrey conference. It is worth briefly revisiting this issue, as aid effectiveness lies at the core of the debate on aid, as a necessary and powerful adjunct in the pursuit of the MDGs.

It must be stressed that developed countries can also contribute to development and MDG achievements in poor countries through *non-aid instruments*, even though these instruments sometimes come with aid itself, or as a condition for aid. The support for better governance is an example of one such non-aid instrument and, at the same time, a condition for more or better aid in the future. The vigorous campaigns by some donors for free presidential elections in Africa and elsewhere in the 1990s was based on the threat to reduce future aid. With hindsight, it has been rather effective even though, in several countries, it is unclear whether it contributed to either improving governance or to progress in economic development. The same is true of the accountability principles pushed forward by donors as part of the conditions to fully benefit from the HIPC initiative. It is also pertinent to mention diplomatic and military interventions aimed at keeping peace in particular countries or regions, as preventing conflicts, or helping their early resolution, may contribute more to development than huge aid flows³².

More fundamentally, it is inevitable that certain policies in developed countries that have international implications will impact significantly on developing countries. As seen above, this is true for trade, migration and financial flows but also holds true for domestic policies on greenhouse gas emissions, as seen with the impact of the production of bio-fuels on food prices. Beyond using specific instruments, particularly ODA, it is crucial that policy makers in developed countries follow the example of a number of European countries and systematically think in terms of 'development policy coherence' when either dealing directly with development-related matters or in policy areas that only have limited impact on developing countries.³³

5.2 Improving aid effectiveness to reach the MDGs

Aid effectiveness is now central to the more general discussion about aid. There is a school of thought that considers the way aid is delivered by donors to be potentially responsible for some of its ineffectiveness. The focus of this school now concentrates on particular circumstances within recipient countries. Part of the debate on the recipient's responsibility for the effectiveness of aid centred

³² See also the first EU-wide biennial report on Policy Coherence for Development (PCD) available in electronic form at the following address:

http://ec.europa.eu/commission_barroso/michel/Policy/key_documents/docs/COMM_PDF_COM_2007_0545_F_EN_ACTE.pdf. PCD is a fundamental principle of EU development policy, as stated in the European Consensus on Development adopted in 2005.

³³ See also the first EU-wide biennial report on Policy Coherence for Development (PCD) available in electronic form at the following address: http://ec.europa.eu/development/icenter/repository/Publications_Coherence_DEF_en.pdf and http://ec.europa.eu/commission_barroso/michel/Policy/key_documents/COMM_PDF_COM_2007_0545_F_EN_ACTE.pdf

around the (often confusing and conflicting) evidence from growth regressions, particularly with regards to the effect of aid on economic growth in recipient countries. A different discussion (and of more interest to policy makers) concerned the implications of different forms of aid and different types of conditionality. Indeed, of particular interest was the extent to which conditionality acted as an incentive for recipient governments to use the aid as intended by the donor. One of the most influential contributions to this discussion was the *Assessing Aid* report, published by the World Bank in 1998, and based on the hypothesis that aid is effective in countries with 'good policies'.³⁴ It is often taken for granted that the lessons from this debate have by now been largely implemented. This is not the case. As a result considerable scope remains for making 'traditional' aid more effective.

First, it is now understood, but not yet fully taken into account, that in many circumstances, channelling aid to poor countries in the form of project finance makes little sense. Indeed, as resources are *fungible*, the effect of aid may be to support a government activity (the "marginal project") that differs radically from the project appraised, approved and evaluated by the donor. While this critique is now widely accepted, and aid should therefore be channelled as budget support where it is both justified and feasible, much aid continues to be provided as project finance and, more especially, as MDG-project finance. It might therefore be useful for parts of the bilateral aid programmes, and much of the activities of the IFIs, to be reconsidered in this light. In its starkest form the policy question is: 'If we do not trust this government enough to give it budget support, why do we expect project finance to produce the intended results?'. The traditional answer is that project finance provides more scope for effective control. This is an unconvincing argument except in particular circumstances, where it can be established that aid-funded projects would not have been undertaken without donors' intervention. Otherwise, the critique of fungibility has made it clear that the donor's sense of control over a project is somewhat illusory. Nevertheless, the argument continues to be pertinent today.

Secondly, aid cannot be effective in all countries. For example, during Mobutu's regime in Zaire, aid to the government of Zaire would not have been considered effective. This is a situation that is still observed today in several countries. That aid can be effective only in a 'good policy environment' has become widely accepted (albeit often in a half-hearted manner), despite the econometric controversies that still surround the evidence for this position.³⁵ Acceptance is half-hearted in two ways. Although the allocation of aid depends more on the quality of institutions and policies than before, donors are still reluctant to withhold aid from countries with a poor policy environment, weak institutions, or that have strong incentives to use aid in ways which are unlikely to reduce poverty or to make progress towards the MDGs. This reluctance reflects the incentive structure in donor agencies (where careers are based on disbursing rather than withholding money), and is reinforced by policy makers' belief that strict selectivity would mean abandoning poor people who were unfortunate enough to live in countries with poorly functioning institutions. However, recent debates on donor policies for fragile states have made it clear that other options exist beyond simply giving aid in situations where it is unlikely to work. For example, there is evidence (Collier, 2007) that giving aid to countries which have just emerged from civil war is a waste of money as institutions responsible to ensure that aid can be spent effectively are often not established. However, in this post-war context, technical assistance (for example in the form of training a police force or setting up a legal system) can be remarkably effective. Similarly, donors could identify what changes would need to be implemented before aid was disbursed (such as, for example, freedom of the media and empowerment of parliament to scrutinise public expenditures). Such 'ex ante governance conditionality' (Collier) would help facilitate reconciliatory processes involving reforming factions.

³⁴ Evidence on this has been fiercely debated. See Clemens, Radelet and Bhavnani (2004), Rajan and Srinivasan (2005) or Tarp (2006).

³⁵ For an excellent review of this evidence see Tarp (2006).

There is another reason for donors' lack of enthusiasm in accepting that aid allocations need to be selective and favour well-functioning governments, because selectivity would seem to force donors to concentrate aid in those countries that need it least. Indeed, in countries where the policy environment is good enough to render aid effective, developmental prospects could potentially be improved through better access to international capital markets, thus making aid superfluous or less needed than in other countries.

Empirically, the argument against selectivity based on international capital market accessibility is incorrect. Improvements in the policy environment eventually do give a country access to commercial loans, but the process is very slow.³⁶ For example, in the 1990s Uganda was considered a 'donor darling' and had radically improved its policy environment, but registered only a very modest improvement in its credit rating, meaning that for a long time it remained far short of the rating needed to access the international capital market. These long lags still occur. Ghana only managed to float a substantial loan in 2006 after seeing much of its foreign debt written off. These experiences suggest that there may be an extended period in which aid can be highly effective. While providing bridging finance is not a role donors envisage for themselves, it is probably one of the most effective things they can do. It is rather ironic that while the aid sector developed because of the inability of developing countries to borrow commercially, donors are now wary of using aid to offset capital market imperfections. Concerns about cycles of excessive borrowing followed by donor-financed debt relief have led to a perverse reaction: the IFIs now encourage co-ordination amongst lenders so as to restrain developing countries' borrowing. In this context Ghana's borrowing was interpreted as a negative rather than a positive sign.³⁷

The lesson that traditional *ex ante* conditionality does not work properly has still not been fully absorbed. While donors do of course recognise the importance of 'ownership', as articulated in the Monterrey compact and through the practice of Poverty Reduction Strategy Papers, often this recognition does not extend beyond lip service commitment to the concept. This wariness is understandable. It is still insufficiently appreciated that aid aimed at long-term development (as opposed to, for example, humanitarian aid) is only an appropriate instrument for a particular subset of poor countries. As a result, donors continue to engage in aid relationships where they justifiably feel that full ownership may lead to undesirable outcomes. While it might be advisable to end such aid relationships, or to invent new relationships, the more common approach is to fall back on traditional mechanisms of donor control. In a way this is worse than the now discredited old fashioned forms of conditionality. Indeed, the combination of the rhetoric of ownership (sometimes practiced genuinely) and occasional heavy-handed paternalism gives conflicting signals to the recipient government. We would argue that donors need to be more selective in their aid allocations, only using aid (in the form of budget support) in countries where relying on ownership seems appropriate. This is not to say that in other types of countries aid has no role, but rather that in those countries budget support is not appropriate. For example, in some post-conflict fragile states there is no state apparatus able to deliver public services. In such circumstances it may well be effective for donors to provide those services directly or through contracts with reasonably reliable service delivery organisations. This could be complemented by initiatives that support peace-making and peace-building processes and a policy dialogue (stretching beyond the government to include civil society, parliaments, and the academic community) that is supported by technical assistance on economic policy issues.

Such principles are the logic behind the 'MDG contracts' allocated in the form of budget support by the EU Commission to well-performing countries. In less well-performing countries the decision to move to budget support depends on the level of confidence in the recovery process after a conflict (particularly the security and political aspects), on the confirmation of positive trends in economic stabilisation and management (accompanied by a resumption of relations with the IMF) and on the

³⁶ See e.g. Collier and Gunning (1999).

³⁷ Gunning and van Wijnbergen (2006).

willingness of the authorities to carry out reforms. Note, however, that in this kind of situation budget support is likely to be of a short-term nature.³⁸

The reluctance in accepting ownership is reflected in the continued practice of combining development finance and technical advice in a single package, in what is, in effect, a form of tied aid. It is highly desirable that the expertise and experience in the International Financial Institutions, regional development banks and bilateral donor agencies continue to be available to developing countries. However, a logical implication of ownership is that the finance-cum-advice package is 'unbundled' (i.e. that recipient governments are free to decide where to hire the technical expertise needed to design, execute and evaluate development interventions). In this case the government might still turn to, say, World Bank expertise, not because it might form part of a package, but rather because that source of advice had proved itself in competition with other agencies. Recent years have seen some development in this direction, partly as a result of the increased use of budget support.

A very encouraging recent development is that donors are beginning to collaborate intensively (both with each other and with governments) in the area of evaluations. Joint evaluations of sector programmes are rapidly becoming more common. The increasing use of natural and randomised experiments, first in academic circles and now within or in collaboration with development agencies is bringing new knowledge in development policy about what works and what does not work.³⁹ Although care should be taken when extrapolating the results of a single experiment to a different context or a potentially different policy design, these efforts should nonetheless contribute directly to more effective development or MDG-related policies in recipient countries and, indirectly, to the effectiveness of foreign aid.

Donors could also probably improve aid effectiveness by further extending 'unbundling'. This is because the separation between finance and expertise improves accountability as it provides a powerful signal that the government, rather than the donors, are responsible for development policy.

Finally, there has been little progress towards results-based aid. In the late 1990s the literature on the 'failure of conditionality' made it clear that tying aid to promises of policy changes could not work in theory (due to, for example, problems of time inconsistency) and certainly did not work in practice. A familiar example was that of agricultural marketing reform in Kenya. The Kenyan government 'sold' the World Bank promises of such reform three times in quick succession, but in each case reversed the policy. Results-based aid, or 'ex post conditionality' would link disbursements to the progress achieved towards targets agreed *ex ante*. Like piece wage labour contracts for workers, such a system clearly provides strong incentives for recipient governments to get as close as possible to the pre-set targets. However, several major issues arise in disbursing aid based on observed results. The first issue is that the results of a programme or a policy may take time to show up and in many cases recipient countries need aid up front in order to finance their programmes. In other words, what should be done with a government which has not yet had time to establish a track record? The second major issue is that results may be influenced by factors beyond the government's control, such as commodity price shocks or natural disasters. A third issue relates to governments that demonstrate goodwill, but that might be punished for inheriting bad results from their predecessors.

There are no easy answers to these issues. The results-based aid contract must necessarily be dynamic, with governments getting the benefit of the doubt initially, as suggested by Collier *et al.* (1997), followed by a subsequent phase during which aid becomes conditioned by a set of indicators. Those indicators may include actual 'outcomes' (say poverty), but also 'inputs' in policies and programmes which are most likely to lead to favourable outcomes (for instance, school enrolment rates which are likely to lead to better learning achievements, or immunisation rates leading to a drop

³⁸ See action principles in "Towards an EU response to situations of fragility", EU.

³⁹ See Banerjee (2005), Banerjee and Duflo (2007), Duflo and Kremer (2004).

in infant mortality). It is interesting that the process described above includes features of the MDGs which can be considered both intermediate goals within the development process and also a basis for measuring results in a given period. An indicator of approximate results could also include those institutional features within developing countries which are known to favour policy choices that are deemed to be the most adequate for reaching pre-determined goals like the MDGs.⁴⁰ In this instance the major difference with the old conditionality model is that those indicators should not include the policies themselves (as was implicitly the case with the so-called Washington consensus). Indeed, the key point is that the choice of policies should itself be left to recipient countries' governments.

If the composition of the CPIA indicator could fit the preceding description (which is very much open to debate due to several of the factors included therein), relying on this kind of indicator to allocate IDA funds as budget support might be a step in the direction of a result-based aid model. Much work remains to be done, however, to identify how the composition of this indicator can be optimised. The PRS process, which should generate a constant dialogue between a country and its donors based on results obtained in preceding years, obeys the same logic. Indeed, steps have been taken in this direction with, for example, the PRSP process used by several multilateral and bilateral donors and which displays some of these aid compact features. Likewise, the European Commission is financing aid programmes which include a fixed and variable component, the latter being linked to progress towards specific targets⁴¹.

Nonetheless, even when they intend to adopt results-based models, some donors are not always consistent in their behaviour, or the terms of the contract with the recipient country are not sufficiently explicit. It is now quite common that sector support is provided after particular targets have been agreed. However, when an ensuing sector review establishes that the targets have not been achieved, it is not clear what the implications are for subsequent donor funding of the programme. Recipient governments know that 'bad' performance may lead to aid reduction and, conversely, that success may lead to an increase in aid. However, they have no idea as to the magnitude of such adjustments. If the aid relationship is seen as a contract, the terms of the contract are therefore quite unclear. There is much anecdotal evidence that recipient governments certainly see current aid relationships in these terms. Consequently the implication is that quantitative targets provide little incentive to recipient governments.⁴²

Is progress in this area therefore possible? Donors are obviously reluctant to make open-ended long-term commitments with uncertain disbursements. However, the most important reason for their unwillingness to design clear results-based aid 'contracts' seems to be rather different. Important targets, such as the MDGs, typically take a very long time to achieve. Policy environments can change drastically and, as a result, donors are understandably hesitant to commit to providing aid for a long period. This reticence is well-founded. The key, however, is not to abandon results-based lending, but rather to distinguish between different measures of results (such as poverty or child mortality) and monitoring variables (such as measures of institutional quality). Aid contracts should be written in terms of the former, but it would be quite legitimate if donors used the latter so as to anticipate future results or possible 'show stoppers'. For example, the outbreak of a civil war or a significant worsening of some governance indicator could be legitimate 'show stoppers' and lead to cessation of the regular aid program. Barring such extremes however, the programme would continue and future aid levels would be tied to results at the end of an agreed period. The possibility of using monitoring variables as

⁴⁰ On this see the discussion in Bourguignon and Sundberg (2007).

⁴¹ See Adam and Gunning (2002).

⁴² See Adam and Gunning's (2002) study on the health and education sectors in Uganda. It should be noted that 'selectivity' in aid allocations has been advocated without a concomitant reliance on incentive effects. The argument was that aid should be allocated to countries (and only to those countries) where it was likely to be used effectively. Such an allocation would make aid more effective irrespective of whether the allocation had incentive effects. While incentive effects are in that sense not *necessary* they are surely *desirable*.

advanced result indicators or 'show stoppers' might well overcome the reluctance of donors to move further towards results-based aid.⁴³

Regular aid programmes built on the aforementioned principles and aimed at achieving long-term objectives, such as the MDGs, would be an appropriate form of assistance only in those developing countries that are relatively well governed. Of course, the problem is that those countries may not be the primary ones in terms of 'needs'. Donors are understandably more concerned about other developing countries, notably fragile states, where standard conditional and tightly monitored aid programmes are probably more appropriate. There is no reason, however, why this old model of aid should be more effective in fragile states today than it has been in non-fragile states in the past. Innovations are needed. Using technical assistance, for example, and policy dialogue with all stakeholders rather than making recourse to project financing in post-conflict situations or the 'ex-ante governance conditionality' mentioned previously. It may also be in those fragile states that the alignment and co-ordination of donors promoted by the 2005 Paris conference (and recently reaffirmed in Accra) is most needed. Moreover, in these fragile states policy coherence is similarly urgent as support for peace-keeping or even peace-making interventions can be much more productive than higher aid flows.

In non-fragile states, there is much less need for such co-ordination among donors particularly if more use is made of budget support and common criteria can be defined for result-based aid. This is where a new results-based contract would come into its own.

Even with this important reservation about fragile states, however, there appears to be considerable scope for improving the effectiveness of aid programmes in countries with functioning institutions. As discussed earlier, this improvement might be enough for the international development community to get out of the 'low-level low-effectiveness aid equilibrium' it finds itself stuck in today. The challenge is to effectively implement these reforms of aid (see Box 5).

Box 5: Moving towards a result-based aid model: Questions and answers

Today, the most rigorous aid allocation process across countries is probably the one used in IDA. It is based on a formula which combines need and performance and, with regards to the latter, that relies heavily on the World Bank's Country Policy and Institutional Assessment (CPIA). This is often referred to as a 'performance' indicator, although it does not refer explicitly to development or policy 'outcomes'. Yet, the key elements of the CPIA are more like intermediate variables than final development outcomes. As far as MDGs are concerned, when they represent an international consensus on desirable outcomes of the development process, they can be used to assess performance as well as need. For example, take MDG4 (reducing child mortality). While the *level* of child mortality, relative to the target, can be taken as an indicator of need, the *rate of improvement* of child mortality can be used to assess performance. As a result, is there a case to be made for moving the CPIA in the direction of an outcome-based performance indicator by introducing, in addition to the existing elements, a scoring component that evaluates development outcomes? The following questions and answers address some of the common concerns about such a shift.

Which outcome variables should be chosen?

This question should focus the donor's attention on the true underlying objectives. The MDG process has begun to forge an international consensus on these outcome variables. Note, however, that the lack of a complete consensus on outcome variables would seem an odd reason to defend a particular set of intermediate or policy variables as a possible indicator to use in aid allocation. If we do not know the outcomes we want, how can we know the intermediate variables that give rise to these outcomes?

⁴³ Anecdotal evidence suggests that recipient governments have a pretty clear idea of the circumstances which would induce donors to stop an aid programme. In that sense the aid contract *is* clear. However, it is not clear that those circumstances are in any sense optimal in the sense of maximising recipient countries' incentives.

How should the different outcome variables be combined together?

This is a hard question. It is important to note that the MDGs avoid it by being strictly complementary. How to go beyond this requires further discussion and consensus. However, it should be remembered that CPIA scores are also aggregated together to form one index, with little justification for the method of aggregation (a simple unweighted sum).

What about the ‘start up’ problem? A country coming out of conflict, for example, will be penalised because it cannot show a track record of performance on outcome variables

This is a generic issue no matter how we judge performance. The current IDA allocation process does indeed make special provisions for post-conflict countries. There is no reason why these principles cannot continue to be used in the outcome-based approach and other criteria could be used for a set period in these cases.

What about shocks and random events that can result in bad performances (or good performances), independent of the government’s actions?

In principle, such variations can be handled by taking temporal averages of the outcome variables and the averaging can be as statistically sophisticated as warranted. It should be noted that shocks are often factored into the subjective judgments that go into the assessments of the sub-categories of the CPIA (for example, if tariff reductions did not go as far as might have been hoped because of a revenue crisis stemming from a decline in commodity prices). Moreover, allowances are made for natural disasters and the like in the current CPIA meaning that similar procedures can surely be maintained.

With this ‘backward-looking’ assessment of performance, can an incoming government not ‘live off’ the achievements of its predecessor? Should we not be holding each government accountable for, and trying to influence, its actions?

These questions embody the twin concepts that are recognised externally as (i) assessing the specificities of what needs to be done (so that actions can be judged) and (ii) that of the ‘tail of outside development assistance can wag the dog of domestic political economy’. We have to be sceptical of both of these propositions.

What about the reverse problem, namely that of a government that comes in after years, not necessarily of conflict and collapse, but of simple policy neglect of the poorest, and that now wants to take this on as a serious issue? There is no track record of performance on outcomes, but the government wants to take action which it claims will lead to improved outcomes – is this not another ‘start up’ problem that deserves external support?

This argument has much validity. It holds up well when compared with the current CPIA methodology, but at the same time we should be wary of repeated ‘new dawn’ arguments. Surely, mechanisms can be devised that would handle these cases by ring-fencing limited funds for start up and then letting performance measurement on outcomes take over. It might be argued that this is consistent with current methodology vis-à-vis the ‘new dawn’ cases.

What about data quality and its availability for measuring outcome variables? Is this not notoriously bad? How can we possibly run an aid allocation system based on such incomplete data?

These are all valid points. In the first instance, data that are currently used for intermediate policy variables are not problem-free either (e.g. the assessment of property rights). Second, and most importantly, we should be investing in the monitoring of variables that facilitate the measuring of outcomes. It would be odd indeed to invest in collecting information in intermediate variables at the expense of outcome variables. However, one of the reasons we do so is because intermediate variables can be intrinsically linked to formulae used for aid allocation. This cycle has to be broken somewhere. Indeed, assistance for monitoring development outcomes for the poorest can be (almost) unconditional in any setting.

If we make aid allocation dependent on performance measured by outcome variables, will there not be an incentive for the government to manipulate this information?

This is true of any measure on which aid allocation are based. For example, Measures of Domestic Credit Creation (a classic intermediate variable) are not free of the possibility of manipulation. This merely strengthens the argument for strong, locally based monitoring and evaluation mechanisms.

Will focusing solely on the outcomes not detract from an understanding of the development process and do we not need the intermediate variables for that?

Nothing should stop us from analysing the development process, developing models and learning the lessons from country experience. Indeed, we can convey those lessons from one country to other countries. However, the advantage of the focus on outcomes is that it prevents succumbing to the temptation of saying that because X worked in country A, we will condition aid on X being done in country B. In fact, it may be that country B tries Y and gets the same or even a better result. If two countries are delivering the same improvement in outcomes using very different intermediate methods, that should be interesting to us as analysts, but as aid allocators there the pervading consensus is for treating the two countries the same.

Source: Based on Kanbur (2005).

One last aspect of aid which is seldom emphasised in either the academic or the more policy-oriented literature is worth highlighting, despite its obvious implications for effectiveness. It has to do with donor involvement in insurance mechanisms.

Donors have started to play an important role in assisting poor countries in risk coping, for example in commodity risk management (where farmers can now effectively buy crop price insurance), rainfall insurance and health insurance. These are areas where the role of the donor is not just to sign a check or to substitute recipient countries governments or firms. Using the example of rainfall insurance is useful. A drought often affects a large part of a country so that risk pooling at the national level is an inadequate response. Such risks require *reinsurance* so that risk can be pooled at a higher (all the way up to a global) level. Multinational insurance companies are well aware of this, but are poorly placed to offer insurance contracts to, say, peasants in an Indian or African village. Conversely, microfinance institutions are able to reach such target groups at low costs, but usually are unable to pool risk sufficiently. Linking the two, microfinance institutions and multinational insurance companies, is feasible, but may require complex institutional arrangements, probably involving both public and private partners. Until this is done and runs efficiently, donors can play an important role, providing reinsurance themselves or, possibly, acting as an intermediary between countries and multinational companies. Likewise, donors can contribute, not only to providing crop price insurance, but also to smooth the macro-economic effects of fluctuations in the price of commodities and the terms of trade.⁴⁴ Evidence is accumulating that the absence of insurance has a remarkably strong negative effect on investment and growth (see below). Hence the value (in terms of economic growth and ultimately poverty reduction) of interventions related to risk coping may well be underestimated.

⁴⁴ See for instance Guillaumont (2006).

6. MDGs and policies in developing countries

Besides the global economic environment and the volume and quality of aid, the factors that influence past and future progress towards the MDGs must be found in domestic policies. It might be the case that the global environment is favourable, and enough aid may be available to finance progress towards the MDG. Yet the country may lag behind because of bad domestic policy choices at the macro-economic or sectoral levels. For example, growth and poverty reduction may stagnate because of weak institutions or an adverse investment climate, no progress is made on the health front because of inefficient healthcare delivery, or the school system is plagued by absenteeism. This section focuses on some general principles about how policies may affect development and have a positive or negative effect on the pursuit of MDGs.

6.1 Cross-cutting national policy issues

Debates on development policy usually focus, often in very general terms, on what *should* be done. In a fundamental sense this is misplaced in two ways: Firstly, we now know much more on what *not* to do. In that sense the first rule is to avoid harmful policies. Secondly, contrary to what has often been suggested by, for example uncritical adherents (or indeed critics) of the 'Washington Consensus', few general rules hold true. There are, for instance, substantial differences (largely related to the accidents of geography and history) between developing countries, or groups of countries, about what constitutes an appropriate policy stance.

A recent study of African economic performance since 1960, conducted by the African Economic Research Consortium (AERC), identified four 'syndromes' that have frustrated economic growth since independence and that may also affect low-income countries in other regions.⁴⁵ *Regulatory syndromes* involve extensive state ownership, excessive regulation of the economy and, in the most extreme cases (for example Tanzania from 1973 to 1985 or in post-independence India), effectively enforce price controls and license all investment and trade. The *redistributive syndrome* is characterised by the state redistributing resources among social, ethnic, or regional groups. Of course, the actual redistribution does not necessarily favour the poorest as predatory policies by the state often redistribute resources in favour of the elite. The *inter-temporal syndrome* includes the mismanagement of commodity booms, with governments committing to unsustainable spending. Similarly, an elite group may engage in asset stripping and capital flight if it expects to lose power. The final syndrome is that of *state breakdown* when the state is unable to maintain security, as in the case of a civil war.

As highlighted by the AERC study, these syndromes were very common. In Africa, over the last 40 years, the probability that an individual had experienced at least one of these syndromes was 75%. Fortunately, there has been a dramatic improvement since the 1980s, although the incidence of syndromes was still remarkably high between 1990 and 2000.⁴⁶ The crucial message from the growth record of the past decades is therefore that the four syndromes must be avoided. As the AERC study concluded: '...avoiding policy mistakes continues to be the most important choice in the hands of African governments intent on closing the growth gap with fast-growing regions of the world. Remaining syndrome-free alone accounts for between a quarter and a half of the growth gap, and is virtually a necessary condition for surpassing global averages on a sustained basis.'⁴⁷

⁴⁵ Ndulu *et al.* (2007).

⁴⁶ Collier and O'Connell (2007), Table 2.10.

⁴⁷ Collier *et al.* (2007), p. 422.

Whilst partly a technical issue, avoiding the syndromes is largely down to governance. The regulatory syndrome and the damage it can do are now much better understood than during its heyday in the 1970s. The same is true for the inter-temporal policy issues facing countries rich in resources or agricultural exports. During the recent commodity boom, for example, many countries saved a large part of the windfall and held much of these savings in the form of foreign assets. This was one of the key lessons from the mismanagement of commodity booms in the 1970s and 1980s. In this sense the errors of the past are unlikely to be repeated, which is very good news.

If part of the syndromes can be attributed to incompetent or ill-informed policy decisions, however, a more important consideration when explaining low development performance may be whether (in aggregate or sectoral MDG terms), policy makers often had *incentives* to adopt damaging policies, or, conversely, lack incentives to make appropriate choices. For example, many (but not all) governments of oil-producing or commodity-exporting countries back in the 1970s and early 1980s recognised the temporary nature of the booms. As a result, and with limited transparency and accountability of both decisions and their consequences, they realised they had much more to gain from spending than saving the windfall. To the extent that these incentives have not changed, absorbing the lessons from the past growth record offers no guarantee against repetition. For instance, despite very rigorous management of the recent oil bonus in most oil exporting developing countries, at least two countries (Chad and Ecuador) recently decided to move away from saving (possibly in 'oil funds'), and decided to spend the current flow of oil revenues as well as part of the accumulated savings.

In addition the redistribution and state breakdown syndromes are by no means technical issues. Under narrowly based, autocratic regimes these syndromes may persist or reappear. In this context the evidence from the AERC study is quite worrying. Whilst for Sub-Saharan Africa it shows a very marked reduction in the probability of regulatory or inter-temporal syndromes since the 1980s, the incidence of the redistribution syndrome has declined to a much lesser extent, at least in landlocked and coastal countries. Moreover, in resource-rich countries this syndrome is as common now as it was in the 1960s, 1970s or 1980s. Most worryingly, state breakdown affected as many people in Africa in the 1990s as it did in those earlier decades.⁴⁸ This suggests that technical lessons may have been learned but that institutions and incentives for policies that are dysfunctional are still strong.

There is now a consensus, amongst both academics and donors, that weak institutions are ultimately the cause of slow development and poverty reduction through various channels. This also applies to the syndromes discussed here. However, it must be stressed that the influence of institutions on development may be context-specific. A weak institution that blocks development in some context may not be so much an obstacle in another. Recommending institutional changes must therefore be done with great care. For instance, it has only recently become clear that while autocratic regimes are, of course, not just an African phenomenon, they can do much more damage in situations of resource wealth or ethnic fractionalisation, both of which often occur in Africa. In that sense, whatever one's view on the intrinsic desirability of 'democracy', there is, in the African context, an instrumental case for it. More often than not, however, donors have narrowly interpreted democracy as free multi-party elections. Other characteristics of a democratic system have been relatively neglected: transparency, accountability in public spending and the protection of the groups (possibly ethnic groups) not in power. Safeguarding democracy in this wider sense is a necessary condition for becoming (or remaining) syndrome-free. It is not clear that the narrow concept of democracy long propagated by donors would lead to that result.⁴⁹

⁴⁸ Collier and O'Connell (2007), Table 2.10.

⁴⁹ In this context, it may be worth pointing out that the EU and the international community at large has been willing to invest a great deal in deepening democracy in the ways just mentioned in the Balkans, most notably in Bosnia and the Kosovo where the involvement went much beyond safeguarding multi-party elections to the creation of democratic institutions, minority protection, free movement and expression, and transparency and accountability. In contrast, the involvement in promoting democracy in Africa (including, for example, the overall successful EU military intervention to

Beyond avoiding the trap of the various syndromes and maintaining the adequate institutional framework, there are few general lessons that can be drawn from the recent experience in developing countries because of the over-riding importance of the context-specificity.

Using different categorisations, based on geography (landlocked or coastal) or natural resources, it emerges that sustained growth requires policies that differ depending on the group of countries under consideration. Landlocked (resource scarce) countries have an interest in *regional trade blocs with low external tariffs*. It is important to note that this is quite different from current practice. Indeed, there has been a proliferation of regional trade blocs, in Africa and other regions, which typically have quite high external tariffs. Most of these countries have little potential for manufacturing exports, but they might have a comparative advantage in agriculture. However, few of these countries actively pursue rural development or agricultural export promotion. In most of these countries improving transport is a top priority.

Resource-rich countries face both technical and governance challenges. The governance challenge is to ensure that resource rents are widely shared. Here the accountability aspect of democracy is essential, particularly in ethnically fractionalised countries where rents are relatively easy to capture and control (as is, for example, typically the case for diamonds). Technical challenges have to do with the inter-temporal management of the extraction of resources.

The model that most (resource scarce) coastal countries would like to follow is, of course, the Asian model of export-led industrialisation and development. However, it is necessary to find an appropriately specialised niche within the global economy, whilst all the while knowing that except for perhaps very specific industries, competing with Asian labour-intensive manufacturing exports may prove a significant challenge. In Africa and in Latin America, agriculture and agro-industrial products may provide attractive opportunities, as global markets are likely to expand in the future. The African case is different in that transaction costs are relatively high, reflecting low population density (compared to Asia), high transport cost (as a result of very poor infrastructure investment and maintenance) and poor business support services, notably contract enforcement, financial services and telecommunications.⁵⁰

Although the importance of context-specificity has already been highlighted, there are some rules that can be more generally applied. First, macro-economic policy must be as rigorous as possible in avoiding inflation on the one hand and sustaining economic activity on the other.

Second, in any country sustained growth requires a high level of private investment. There is indeed much to be said for using the rate of private investment as a key monitoring variable whereby policy improvements are reflected in higher investment. Conversely, stagnant investment would suggest that current policies are unable to generate an adequate investment climate. It is often assumed that low investment in low-income countries reflects low domestic savings. This is only part of the story. As a result of capital flight, a great deal of wealth in Africa or in Latin America is still held outside the region. Nonetheless, part of it would repatriate if presented with a buoyant investment climate and improving investment opportunities. Depending on the country, this may imply improving infrastructure, contract enforcement, the rigorous management of public spending, the availability of skilled workers or other context-specific factors. In many countries, the top priority is as much to improve incentives for investing in the domestic economy as it is to increase the amount of investment opportunities.

support the elections in the DRC in 2007) has been much weaker and has not extended much beyond safe-guarding multi-party elections.

⁵⁰ On the expansion of agricultural and agro-industrial exports from developing countries, see the 2008 World Development Report by the World Bank.

Third, in many low-income countries, especially in Africa, contract enforcement is still weak, costly and unreliable. This induces firms to trade in small networks and is an obvious impediment to the development of a market economy. It undermines competition, hampers the spread of business information and often diverts resources for investment into defensive strategies such as inventory building.⁵¹

6.2 MDG-specific national policies

All the preceding remarks refer to development in general rather than the MDGs *per se*. Of course, to the extent that development is strongly correlated with poverty reduction and progress on the health and education fronts, it could, of course, be said that the preceding analysis therefore implicitly refers to the MDGs. However, this is not completely the case. Indeed, as outlined in this paper, making sustainable progress towards the MDGs undoubtedly requires economic growth. However, economic growth alone is not sufficient. This is shown for instance by those countries that grow very quickly, but where the decline in poverty tends to slow down because of increasing inequality (as in the case of China) or which exhibit serious lags in some MDGs. Making progress towards the MDGs at the required pace thus requires not only policies and institutional reforms that will accelerate growth, but also specific policies. Some of them may be subsumed in the general principles already discussed, such as the need to improve governance (possibly at the sectoral and local level), to promote the investment climate in general, or to improve the efficiency in the delivery of social services, such as good quality education or health care.

The MDGs' general development strategy imposes an important requirement for consistency with regards to broader development policy-making. One way of dealing with this is to focus on cost. Assuming a set of fundamental tasks that must be implemented in order to achieve the MDGs, one can rely on estimated fixed coefficients for each task and compute arithmetically how much is needed to succeed. This was the method followed by the Millennium Project, headed by Jeffrey Sachs, which led to the 2004 MDG report to the UN. Such a fixed coefficient approach has some serious drawbacks. Any major change in the volume or composition of public spending in a developing country is bound to trigger a series of changes in the economy. For instance, training more teachers means less educated workers available for the other sectors of the economy, which results in an increase in their salaries and in the budget of the ministry of education. In turn, this salary increase may generate higher costs of public services in general, modifying, possibly drastically, the government's budget constraint. On the other hand, more skilled workers may accelerate growth in the medium- or long-term. Understanding this complex set of interactions is necessary to establish an MDG strategy that fully takes into account the specificity of a country.⁵²

Healthcare in African countries provides a good example of the need to tackle the issue at a rather high level in the decision tree, rather than at the local and sectoral levels. For example, while the cost of AIDS treatment has fallen so drastically in recent years that reaching all HIV-infected people is no longer unthinkable in financial terms, there is as yet, no institutional framework on the ground for practical delivery. It is clear that effective healthcare (including for HIV/AIDS) will not emerge spontaneously. Private health providers and insurers face poor incentives, since there is little willingness to pay for care. This not only reflects poverty, but also the common (and correct) perception that the current quality of healthcare is not worth paying for. Various attempts have been made to break this vicious circle. One approach is to make health care providers accountable to insurers and to provide public sector funding to private insurers for a limited period, during which they can establish their credibility by showing their ability to ensure higher quality care. Such initiatives (like

⁵¹ There is much evidence on this from the Regional programme on Enterprise Development (RPED) surveys of manufacturing firms in the 1990s, eg Bigsten *et al.* (2000), Fafchamps *et al.* (2000).

⁵² Such an MDG-oriented economy-wide dynamic model has been put together at the World Bank and is currently used as modelling support to PRSP exercises. The name of the model is MAMS. It is documented in Bourguignon *et al.* (2008).

the Health Insurance Fund experiments in Namibia, Nigeria and Tanzania) appear well designed. However, they currently reach tens of thousands rather than tens of millions. Up-scaling therefore appears a major challenge.

Over the last decade or so, there has been a tendency to emphasise decentralisation and local participatory governance as a means to improve the delivery of local public goods, both in terms of quality and quantity. This issue is particularly important for non-income MDGs, namely schooling, healthcare or access to water (MDG7), which are of more concern at the local level. The question is whether promoting local participatory governance and empowering poor or excluded people in local communities, as in the so-called Community Driven Development (CDD), could be a general policy principle, the implementation of which would uniformly accelerate progress towards the MDGs.

In theory, participatory governance is commendable and may indeed contribute to increasing both the allocative and technical efficiency of local economies. Allocative efficiency requires the allocation of resources in accordance with the preferences of the people. Whereas centralised bureaucratic decision-making may involve the distortion of relevant information regarding people's preferences, allowing stakeholders to exercise their voice in the conduct of public affairs is likely to facilitate the revealing of preferences, thereby promoting a more efficient allocation of resources. As for technical efficiency, it is expected to improve with increased participation on account of both information and accountability considerations. To begin with, community-level projects are typically better designed and implemented when the knowledge of the intended local beneficiaries is mobilised. Participation may also encourage greater equity and accelerate poverty reduction. Moreover, the pathways through which participation can lead to higher efficiency are sometimes identical to the ones that can produce more equitable outcomes. The idea here is that when people exercise their voice to reveal their preferences or communicate their knowledge of the local environment, it not only helps improve efficiency, but also provides an opportunity for the weaker sections of the population to defend their interests and prevent the implementation of unjust or unfair projects.

There are those who disagree with these arguments and argue that local governments or communities are too susceptible to elite capture, too lacking in technical, human and financial resources and too prone to play upon divisive proclivities to allow for a healthy interregional redistribution of resources. Moreover, it is alleged, profligacy is likely to undermine macroeconomic stability (see, for instance, Platteau, 2008; Mansuri and Rao, 2004).

Empirical evidence is hard to gather and interpret in this particular field as it resides at the border between economics and social sciences. The important point, however, is that it does not lead to any conclusion with general validity in favour of either side of the debate on the benefits of CDD. In effect, the measurement of the impact of participation on the outcomes of development projects is methodologically complex, and, at this stage, there are still few conclusive statements that can be made about either its importance or its *modus operandi*. Nevertheless, the thorough analysis of a broad range of experiences has brought to attention the critical role of heterogeneity and how it varies from place to place along several dimensions (social differentiation, political domination, ethnic fragmentation).

When heterogeneity reflects deeply entrenched power hierarchies, there is a considerable risk that the local elite will strategically distort information and opportunistically capture a substantial portion of the benefits of resource transfers from the central government or external aid agencies. The problem in many poor countries is that inequalities, particularly power asymmetries, are often embedded into strong local patriarchies that are not easily called into question. It is, therefore, not surprising that these countries can be considerably prone to elite capture, as well as experiencing a greater readiness on the part of the wider population to accept, and even legitimate, the unequal apportioning of externally provided resources. In contrast, participatory projects appear to be comparatively more effective in areas where economic development is more advanced and more widespread, and where

social movements aimed at countering inequalities and oppression have a greater historical grounding. This indicates that the characteristics of the institutional environment are of significant importance for decentralised development (Bardhan and Mookherjee 2006: Chap. 1). Because of the huge importance of the context, it is probably fair to say that in order to reap all the potential efficiency benefits that may come with it, decentralisation may often require adequate support from the central government.

Two other areas where general policy recommendations might apply to many developing countries, even though they are only indirectly related to the MDGs, are agricultural policies and the management of risk and vulnerability. The recent global increase in food prices raises the issue of whether poor countries should not devote more resources to agriculture so as to become more self-sufficient. Furthermore, the fact that in most developing countries poverty is concentrated in rural areas, may be yet another argument for governments putting more emphasis on agricultural policies than has been the case in the past. These issues are addressed in a recent World Development Report by the World Bank (2008). On the first point, the report suggests that even though it may incur costs in terms of self-sufficiency, it is important not to ignore countries' international comparative advantage or the new opportunities opening up in the global economy. On the second point, the report recognises that the poverty reduction objective, and in effect the MDGs, require more attention being given to rural populations that are more oriented toward the domestic market, even in areas where land is less productive. It insists, in particular, on the efficiency gains that can be obtained from allocating more resources and directing more services towards rural populations.

To be successful, such an agricultural policy in low-income countries requires adequate risk coverage. At the macro-economic level, an agricultural policy oriented towards global markets should yield larger than expected development benefits, but also more foreign-born risks such as those associated with food prices today. As discussed above, official development assistance by rich countries could permit 'smooth shocks' on international markets and would allow developing countries to reap all the benefits from international comparative advantage. For the same reason, insurance should be provided to small farmers and the rural economy. Improving productivity, and increasing income, through the adoption of new techniques of production and changing their crop mix is only possible for farmers with the adequate insurance to cover risks, whether they come from climatic factors or from the fluctuations of markets. This is especially important in Africa where risk is more pervasive than elsewhere (e.g. as a result of the greater reliance on rain-fed agriculture) and also more difficult to deal with (because of low population densities). Indeed, the absence of insurance mechanisms may well act as a tax on investment. Recent work on Zimbabwe and Ethiopia indicates that this effect can be very strong; rural households would grow much faster out of poverty if they had access to safe assets or to formal insurance.⁵³ This suggests that policies which help firms and farm households to cope with risks (e.g. by introducing formal insurance) may substantially increase growth and reduce poverty.⁵⁴

More generally, recent experiences with expanded social protection schemes have demonstrated the feasibility and affordability of expanding social protection in many middle-income countries but also, increasingly, in poor countries. Such social protection schemes, ranging from various forms of conditional cash transfer schemes in Latin America (such as cash transfers to poor households on the condition that children attend school or undergo regular medical tests), or the social pensions that are spreading in many developing countries through to public works and employment guarantee schemes in Africa and South Asia, can serve to reduce poverty and vulnerability and help promote and protect human capital accumulation. They can also help turn the tide of rising inequality as they appear to

⁵³ Informal insurance can deal with idiosyncratic risks, but not with risks which are covariant at the local level (as, for example, rainfall risk or market uncertainty). Formal risk can typically pool risks over a much larger area (through reinsurance) so that most risks become idiosyncratic.

⁵⁴ See Dercon (2005), Elbers *et al.* (2007), Gunning (2007). The evidence for rural Zimbabwe and Ethiopia is that the capital stock would, in the long run, be at least twice as high if actuarially fair insurance was available.

have contributed to falling inequality in some Latin American and African countries. The long-term effects of these programmes are still under investigation.

In concluding this review of the role of domestic policies in promoting, or preventing, progress towards the MDGs, one can only insist upon the fact that there is no single or straightforward solution. The most important general lessons from the few past decades of development are in fact negative. Several syndromes which frustrated economic growth in several countries, in particular in Sub-Saharan Africa, are to be avoided. This requires some technical knowledge and, more importantly, adequate institutions that give policy makers incentives to make the right policy choice. It must be stressed that this is in agreement with the views discussed earlier, on the way official development assistance is allocated by donors. Except for the need to create a favourable investment climate, that is a business environment that enhances entrepreneurial initiative and favours inclusive development, positive lessons are largely country- or location-specific. Yet even this requirement has implications which may differ from one country to another, depending on what seems to be the most binding constraint to private economic initiative. Other policy dimensions, which may be more directly linked to the non-income MDGs, are still more specific, whether they are concerned with the development of a healthcare system, improving on educational provision, participatory governance or agricultural policies.

All in all, this specificity of domestic policies is a strong argument in favour of both the country ownership principle discussed in the preceding section, as well as for the PRSP process (including the regular discussion between donors and recipient countries about their 'Poverty Reduction Strategy'). The various arguments made above suggest that this process should actually be reinforced. At the same time, it is important to also insist that the specificity of countries themselves be maintained. Many of the more detailed and sectoral policy recommendations above do not apply in the same way to fragile states or states demonstrating other characteristics. Fragile states, for example, may face constraints of various types that are not present in other countries. Therefore, without clear governance mechanisms, the concept of MDG-integrated policies may not make very much sense. In domestic policies, as much as in donors' attitude, the distinction between fragile and non-fragile states is thus important.

7. 'MDG plus': The road ahead

The difficulty with getting the MDGs on track, even in countries with excellent performances in terms of economic growth, raises the question of whether this set of goals can be considered an appropriate summary of the general objective of development. Two lines of thought seem to be developing on this issue. The first would tend to add monitoring indicators, thus allowing both domestic policy makers and donors to see more clearly why progress is slow or fast on particular goals. In some sense this reinforces the initial UN plan that combined the eight development goals with 18 'quantifiable targets' based on some 60 indicators (see Box 1). According to this view, those targets are useful, but miss some important aspects of the process to achieve the MDGs. The second school of thought would be in favour of simplifying the existing MDGs, possibly replacing some of them with other important dimensions of development, so as to satisfy the need for more coherent development strategies that fully take into account country specificity. Thus, there is a 'MDG plus' view, in favour of enlarging the scope and the number of the MDGs, and a more compact view, in favour of making the MDGs simpler and more consistent with fully articulated development strategies.

Midway to the 2015 deadline, this debate is still relevant and its answers may help increase efficiency in the pursuit of the MDGs. It seems useful to outline some of the lessons learned from the experience accumulated in recent years. This section reviews the main arguments on both sides of the debate, in the light of some general conceptual remarks on the foundations of the MDGs.

7.1 Conceptual foundations of the MDG process

When discussing the achievements and the future of the MDGs, two fundamental questions need to be addressed:

- i) In what precise sense are the MDGs the goals of the development process?
- ii) Of what use is goal setting as an aid to the development process?

Each of these questions leads, in turn, to some sub-questions that both unpack the possible rationale behind and highlight the strengths and weaknesses of the MDGs and their process.

7.1.1 MDGs as goals of development

If they are to have any impact, the MDGs must surely represent some sort of international consensus on the goals of the development process. They fare best when viewed as a minimal set of objectives to which all or most in the international community would subscribe. However, some of them, gender (MDG3), environment (MDG7) and international co-operation (MDG 8) raise questions that apply not only to the other MDGs, but to the MDG process as a whole:

- i) Do the MDGs command universal agreement and, if not, are there other excluded elements that might garner a comparable level of agreement as some of the MDGs?
- ii) If the MDGs are indeed the final goals of development, how do we weigh them in relation to each other?
- iii) Are the MDGs really the final 'goals' of development; are they outcomes, outputs or inputs?

Excluded elements of the MDGs

Each MDG is broad enough so as to allow many sub-goals, satisfying many constituencies, to be brought together. Nevertheless, there are some categories that are excluded, the most prominent of which are voice and accountability as independent goals of development. The issue of voice and accountability as an instrument to achieve other objectives, such as poverty reduction, has been discussed earlier and the evidence is decidedly mixed. However, from both a conceptual and normative point of view, the questions should be: What consensus would be commanded by these governance principles as an objective of development? How would we measure this consensus? Would this consensus be lesser or greater than, for example, the consensus on gender equality?

Trade-offs between the MDGs

In a world of limited resources, it is likely that there will often be situations where progress on one MDG will have to be at the expense or postponement of another. Suppose country A rushes ahead on MDG_x but falls behind on MDG_y, while for country B the situation is the reverse. How is the MDG performance of the two countries to be assessed? Whose trade-off weights are to be used – country A's, country B's, or a universal trade-off determined internationally? This question would be particularly relevant if aid allocation were tied to the MDGs, as would be the case if it were more result-based.

MDGs: Outcomes or inputs?

Spending on teachers is an input, the number of teachers hired is an output from that input, and the outcome (of this and other inputs) can be thought of as being the number of children taught in primary school. However, is this really the final outcome that we are concerned with? The quantitative measure of the number of children attending school ignores the quality of this education. A more satisfactory measure of outcome would be quality-adjusted years of schooling given to children, where quality is measured, for example, through test scores. With limited resources, there may be a trade-off between quantity and quality in education, especially as universal enrolment is approached. Scarce resources could be used to expand access at a given level of quality, or even at a lower level, or to improve quality for those who already have access to education. Again, this raises the question of

assessment. How are we to compare two countries, one of which emphasises quality, while the other emphasises quantity? Such trade-offs are present within each of the MDG categories, especially those dealing with education and health. Even within poverty and hunger, there can be a trade-off between alleviation for those close to the poverty or hunger threshold and those far below it. As currently specified, MDG1 tends to draw attention and resources towards those just below the poverty threshold, since the incidence of poverty can be most easily lowered by lifting these people out of poverty.

7.1.2 Goal setting as an aid to development

Lack of clarity on the MDGs as goals can hamper their use in the development process. However, suppose more and more clarity is achieved in the future. To what extent can goal-setting exercises of this type help development itself? There are a number of arguments that can be made in this regard:

- i) Goal setting at the national level focuses debate, decision and action.
- ii) Goal setting helps to quantify resources needed from the outside, and helps to mobilise world opinion for development assistance.
- iii) Goal setting and performance assessment helps to target aid resources to countries where they would be most effectively used.

National-level goal setting

All countries set themselves developmental goals, which can be broad or narrow, implicit or explicit. In countries where governments are elected, the goals are implicitly, sometimes explicitly, set in the election manifestos. Sometimes there is an explicit process, perhaps constitutionally mandated, through long- and short-term planning. The Indian Five Year Plans are an example of a mixing of shorter term political imperatives and longer term perspective planning exercises. In many African countries, the Poverty Reduction Strategy Paper (PRSP) process plays the role of goal setting, as well as strategy making.

Goal setting is thus very much part of national processes. Given this, what role can the MDGs play? One possibility is that they can act as *'international standards'*. If countries are generally adopting the goal of halving poverty by 2015, it is difficult to imagine domestic policy makers being any less ambitious. In this sense the MDGs may help in 'raising the sights' of policymakers and the population. Certainly, the rhetoric of domestic goal-setting has adopted some of the MDG language.

However, as repeatedly emphasised above, it must not be forgotten that it is the domestic debate and its outcomes that should be given priority. If the outcome of the domestic debate is to agree to be more ambitious on some goals, but less ambitious on others, it must be accepted. Some confusion may be caused by the outcomes/input distinction. For example, if the policy makers of a country feel that building roads is a key input to achieving many objectives, including education and health, they may spend more on infrastructure and less on education and health. Nonetheless, these input indicators should not necessarily be used as a gauge of their progress with respect to outcomes.

Goal setting and resource mobilisation at the national and international level

National level goal-setting on outcomes can be a useful first step in quantifying resource need. To do this, however, the crucial requirement is a credible model, both in terms of the economy and government intervention, through which resource need, especially aid, to achieve a particular outcome, can be established. Such exercises are now routine in finance ministries and ministries of planning in developing countries, and in aid agencies of donor countries. They can also be carried out for several of the MDGs. For example, the cost of achieving universal enrolment can be calculated, and has been calculated, country by country by the UN's MDG project. Nonetheless, these calculations are only as good as the assumptions and data on which they are based (teacher:pupil

ratios, teacher absentee rates, trajectory of teachers' salaries, cost of fees exemption, etc.)⁵⁵. Given these assumptions, for any particular goal, such as primary enrolment for example, the cost of achieving alternative targets can be simulated, and aid requirements estimated.

It is not necessary to rely on the MDG process to conduct the sort of analysis described above. Indeed, many countries were already doing this. However, the MDG process has undoubtedly not only made this type of calculations much more common, but discussions about them, at least among development professionals, have become more routine. Such analysis also have the potential, if all donors focus on the achievement of specified MDG targets, to put donor assessments of resource needs on a common footing. In addition, the MDGs can be used to estimate both resource needs and, more importantly, to assess performance and thus to inform aid allocation and reallocation.

Perhaps, more important than quantifying resource requirements, is the willingness of the international community to devote more resources and policy attention to development issues in general, and in particular to poverty reduction. As discussed above, the MDGs have been quite successful in this respect. However efforts to turn them into precise national targets or quantified resources have, for good reasons, not been as successful. In this sense, the over-arching goal of the future of the MDGs should be to keep development issues high on the international agenda and lobby for more policy coherence, higher aid flows and better delivery.

MDGs and performance assessment

If the MDGs capture, however imperfectly, an international consensus on the objectives of development, then they can be used to assess *performance* as well as need. The alternative performance assessment method would be to rely on the inputs employed to achieve a specific result on a particular MDG. However, the complexity and the context-specific nature of the process that transforms inputs into outcomes may be such that it is easier to assess development efforts and performances than to rely on the MDG itself.

Take MDG4, for example, the 'reduction of under five mortality by two thirds'. Very few would disagree with this as an objective of development. The question, however, is how to achieve it. Typically debates revolve around about direct and indirect routes. It is suggested that policies and interventions that maximise economic growth will achieve the objective and would also have a beneficial impact on MDG1. However, it is also argued that other indirect routes (for example improving women's education and their empowerment) impact significantly on child mortality. Finally, direct interventions (for example vaccinating against diseases that kill small children) are also suggested, and sometimes championed, as the principal intervention for achieving particular objectives. There is little consensus on how exactly to proceed and on the combination of approaches to use. Therefore, assessing performance through the input side, whether the policies and interventions are conducive to poverty reducing growth, whether they are good for women's empowerment and thus good for infant mortality, or whether the direct interventions on vaccinations and so on are effective for the task at hand, is bound to be a contentious issue. Suppose the local government heavily favours one of the three routes because it interprets the evidence differently from outsiders. Is it then to be marked down in the performance assessment by outsiders, and perhaps given less aid as a result?

MDGs may offer a way out of these dilemmas, although not without their own problems. Given the uncertainties in identifying specific channels of causation, and given the difficulties with disentangling lack of political will from lack of technical knowledge, one route to assessing performance is to give far greater weight to the actual evolutionary progress of what it is the MDGs are targeting (child mortality

⁵⁵ Note that things are much more complex when the interaction between the various MDGs is taken into account. Investing in education rather than in infrastructure, for instance, clearly has a cost in terms of foregone growth and poverty reduction. At the same time, faster human capital accumulation may accelerate growth at a later stage in the development process. These interactions are at the core of the MDG modelling tool MAMS (see Bourguignon et al., 2008).

in the specific case above). The MDGs, at least those which are clearly about outcomes, and around which outcomes there is international consensus, thus come into their own in performance assessment. The *level* of infant mortality can be used to measure need, but the *rate of improvement* in child mortality has some claim to be a measure of performance.

There are, however, still many issues for us to address. If improvement in child mortality is to be used as a performance indicator, how are we to benchmark it? Relative to a country's past performance? Relative to the performance of countries that have similar levels of child mortality? Or relative to an exogenously given target, such as reducing child mortality by two thirds? These are open questions that require further research, but which are important in considering the future of the MDGs. After all, the fact that some well performing countries (in terms of economic growth) do not perform well on goals like infant or maternal mortality may simply mean that these goals were not set in a realistic or developmentally consistent manner.⁵⁶

7.2 The case for broadening MDGs to obtain better development monitoring

Another possible way out of the preceding dilemma is to combine both inputs (MDGs) and outcomes (the means to reach the MDGs) in monitoring the pursuit of the goals. Practically, this implies upgrading the MDGs by adding a set of input-based monitoring indicators to the standard indicators usually considered in MDG assessments. Of course, this requires some consensual understanding of some of the minimum requirements necessary to reach a specific MDG, something that does not apply to the example of child mortality given above. But things may be simpler for other MDGs. For instance, Box 6 on the 'access to water MDG' provides a rather comprehensive list of indicators, based on direct programme experience, which seem necessary in order to effectively monitor the progress of both governments and outside players with regards to that particular MDG.

Box 6: Should and could the MDGs be upgraded? The case of access to water

For most African countries, the need to increase access to improved water sources continues to be a challenge. Most countries have managed to spell out a strategy to reach the related MDG. While these strategies have helped many countries to be on track to achieve the 'water related MDG' (75% coverage) the success is not reaching Sub-Saharan Africa. In fact, the number of people in Sub-Saharan Africa without access to improved water increased (by 23%) between 1990 and 2004 (JMP, 2006).

Why are the water MDGs not being met? First, hopes were perhaps too high. The ability of the populations to allocate large budget shares to the financing of water was initially overestimated. This also applies to other services covered by the MDGs as well. If people cannot afford the services, it is unlikely that private operators will contribute much to the expansion efforts without some explicit public sector commitment to finance their investments. Public subsidies are unavoidable to cover the expansion costs, but these were not initially factored in the water MDGs.

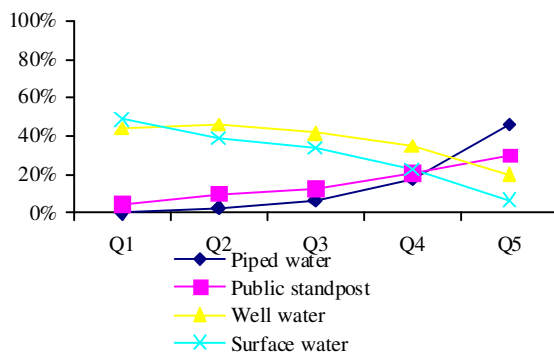
Second, the international community may have underestimated the importance of its own financing role. Since the tax base of most Sub-Saharan African countries is narrow, and the use of the revenue it generates is already overstretched, the demand for an explicit and sustained effort by the international community is obvious if the water MDG is to be reached. For now, the international community has failed in its commitments to Sub-Saharan Africa, possibly because it overestimated the financing role of the private sector. The challenge is now not to deliver on its earlier commitments, but to catch up with the accumulated lags and to improve targeting towards the countries that need it the most.

⁵⁶ On the implications of formulating MDG4 and MDG5 in proportional terms (2/3) see Easterly (2008).

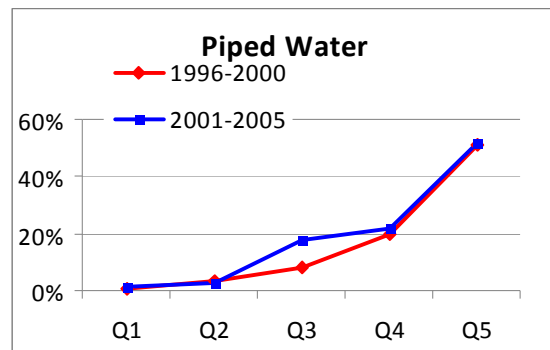
Third, the problem with the current management of the MDG agenda is not only one of financing coverage, volume and speed of disbursement, it is also a failure to hear the voices of the poorest. The poorest have been left out of the expansion in coverage in the past decade, and are the main victims of the failures to deliver on this MDG. The expansion has largely been concentrated in the top 40% of the population as seen in the figure below. The delays mostly hurt the poor, those whose voice is least heard. The poorest 40% of the population depends on surface water and wells/boreholes.

Coverage and expansion of water services

Coverage of water services



Expansion of piped water coverage



Source: Banerjee et al. (2008)

Fourth, the limited ability of the international community to monitor progress is also partly to blame. Although there is an institutional attempt by the WHO and UNICEF to sponsor a Joint Monitoring Program (JMP) on water supply and sanitation (WSS) which systematically tracks access to improved WSS, the data constraints are still huge and revisions of estimates are common practice. The incidence of failures is not actually monitored by the JMP despite its key role in achieving the MDG through its clear focus on the poorest sectors.

So, is more money delivered more quickly the only required upgrade? More money to pay for the much needed subsidies to protect the poorest is clearly part of the answer, but it is not the only one necessary to achieve the water MDG. The required financing has to get where it is needed rather than remain committed but undisbursed. However, the limited absorption capacity of the countries is also a key factor. Improving this capacity has some implications which may not require an upgrade in the definition of this MDG, but may require upgrades in the process followed to deliver on the MDGs.

First, there is a need for a stronger role for civil society and local stakeholders to make sure the voices that need to be heard are heard – what do they want, where do they want it and how do they want it? The engagement of civil society in the choice and the implementation of the collective preferences for the level, type, speed and quality of investments in improved water services assume that these collective preferences are easy to assess. Not all income groups or all regions within a country have the same ability to voice their needs. Processes that better reflect this heterogeneity are needed.

Second, the international community needs to come up with a way to ensure a better match of technological choice with not only the needs, the urgency and the ability to pay of the intended beneficiaries, but also with the government's ability to finance. In the short-term, a focus on network utilities is biased towards improvements in access that favour the upper income classes only, as, for instance, was the case in Mali during the short lived privatisation experience.

Third, the international community needs to improve the co-ordination of its strategies and the implementation on the ground. There are many ways of reaching the water MDG and it seems that each of these approaches have their champions among the various members of the international community. Should donors collectively support acceleration in the development of utilities which has the advantage of lowering unit costs in the long run, but that takes time to build and tends to initially favour urban areas over the rural ones? Or should they support an acceleration of the plans to develop lower cost solutions which are easier to implement in the long run, but which also suffer from faster depreciation and higher unit costs?

Getting the donor members of the international community to agree on the optimal support strategy for any given country is just as hard as getting governments to express their preferences. Consultative processes such as the PRSP have not done much to reduce the degree of difficulty on either front. This needs to be addressed much more pragmatically in the next round of efforts to co-ordinate the implementation of this MDG. The Limette and, more recently, Accra and Addis Ababa discussions on water have, for instance, had an impact in the right direction. However, the scope of the required discussions needs to be much wider so as to ensure that improved co-ordination in the sector ensure an effective impact.

In view of the various determinants of the progress towards an MDG like access to water, or possibly schooling, the monitoring gaps currently not covered by the MDGs seem to be as follows:

- Should the financial, human and institutional absorptive capacity be monitored just as systematically as the MDGs are?
- Should the interpersonal, inter-regional and intertemporal equity of the MDGs implementation strategies be monitored?
- Should the voice revelation mechanisms be monitored?
- Should outcomes or inputs be monitored?

The first question clearly is more general than any particular MDG (except probably MDG1) since it deals essentially with macro-economic circumstances surrounding the MDGs and macro-economic constraints in absorbing the aid that might be necessary to fund their achievement. Although macro-economic coherence is key to the success of any MDG strategy, it may seem too far removed from the MDGs themselves to be taken as part of MDG monitoring indicators. Moreover, there are simply too many degrees of freedom in the relationship between macro policy and MDGs for the former to be monitored in any sensible and simple way that is meaningfully comparable to the latter.

Equity has often been mentioned as one of the missing MDGs, in particular in view of countries where inequality has increased so much that it considerably weakened the poverty reduction impact of growth. The World Bank's 2006 World Development Report documented, in enormous detail, the need for equity to increase the efficiency of developing economies, in particular in some MDG-linked areas such as education and health care. This is an important point that both general development and MDG strategies should pay attention to, provided that equity is interpreted as equality of opportunities, rather than exclusively incomes. However, caution is required. It is possible that a progressive development path, and the efficient pursuit of the MDGs, may at an interim stage result in a worsening of the distribution of both income and perhaps opportunities. Nonetheless, as long as this remains a temporary phenomenon, without longer-term implications it may not pose a significant threat. Again, this is an issue that requires general monitoring by policy makers, but not necessarily in close relationship with the MDGs.

Voice is another area which has often been mentioned as a possible additional MDG. Our discussion of participatory governance has shown that this should be viewed with great care. More voice given to poor people at the local level may be counter-productive if it leads to capture by the elite. On the other hand, it may be beneficial to the welfare of the poor and the pursuit of the MDGs in different contexts.

Here too, defining indicators that have uniform validity across countries and contexts seems inappropriate at this stage.

Most of the MDGs have been defined as outcomes not inputs. Yet there is a sense that part of the difficulty in implementing them is that many countries have underestimated the importance of inputs. In cases where they can be identified without too much uncertainty, it should indeed be possible to introduce an indicator to allow the monitoring of progress in a specific MDG. In the water sector, for example, the initial focus had been on the increase in access rates to improved water sources. However, given the budget constraints and the urgency, the debate soon moved to the optimal form of delivering access. Should countries promote large scale utilities to deliver access, knowing that their investments might be slow to materialise, or should more resources be allocated to install water pumps which are cheaper and may require replacements more often, but which are easier and quicker to install? Given the nature of these questions, it is unclear as to whether we can ascertain a single indicator that describes the situation of a particular country in this sector. Context-specificity again is of great.

Overall, it would therefore seem that, despite the views of some analysts, there is little justification in broadening the scope of the MDGs, by adding more goals or more monitoring indicators. This may be possible only in some very precise areas, when it is known that a specific input is absolutely necessary for a particular outcome. Immunisation against various diseases may well be indispensable for child mortality reduction (immunisation against measles is actually one of the MDG targets) but on its own this may not be sufficient. On the other hand, difficulties in achieving immunisation campaigns may themselves be the result of more important and deep-rooted problems to be addressed. Moving in the direction of accuracy and specificity may be a useful exercise when thinking about *strategies* to implement the MDGs. As for the MDGs themselves, which already provide overall direction and focus on poverty in its multiple dimensions, broadening their scope or adding detail and precision does not seem warranted and would, in any case, require dealing with many of the MDG-related problems detailed at the beginning of this paper.

7.3 Concentrating on the core of the MDGs: Towards a forward-looking integrated view of MDGs and development

There are also arguments for lessening the importance of the MDGs and focusing more on general development objectives. Of course, this does not mean losing sight of the MDGs. Quite the contrary, it means keeping them as either consequences or inputs in a dynamic process of development. Yet by introducing a set of universal imperfect targets that mix up means and ends, confuse stocks, needs, financial flows or performances, we might weaken the process of development and also the process of assisting development. For example, the broad use of headcounts for many of the indicators (such as income poverty in MDG 1 or enrolment in MDG 2) provides incentives to offer quick gains to those closer to the target.

Alternatively, a case can be made for retaining the overall approach of the MDGs, but with focus on a smaller set of essential MDGs. To capitalise on the main feature of the MDGs, an international focus on multidimensional poverty reduction, concentrating on fewer indicators (for example, just income poverty, health, education, and sustainability) might be sufficient. More effort should then be concentrated in ensuring that the selected indicators make sense, can be measured effectively and are easy to understand, communicate and interpret.

There is also the question of whether the MDGs, which were set at a global level (and never actually designed to be goals for each country) should explicitly take account of regional and country heterogeneity. To be successful in the future, MDGs would have to reflect the realistic aspirations of a population for their desired condition at a particular point in the future. This would make them relevant

to the current generation, their children and would also require that the goals be expressed in the form of a set of ambitious forward-looking indicators. In fact, the current MDGs could have been used in this way, had they not been applied indiscriminately to an incomparable set of contexts, and had the resulting industry of rhetoric and monitoring not served to significantly undermine their objectives.

In the future, MDGs will have to take a form that will ensure that differing low-income countries are treated differently. At one level there are those countries whose overall outlook is one of hope, even if they are currently facing low incomes and considerable deprivation. They tend to experience continued deprivation in many dimensions, and will not necessarily achieve the MDGs. However, with an optimistic outlook of what development can deliver in the decades ahead, with reasonably clear trajectories, they will eventually achieve the goals shortly after 2015. Much of Asia is in this category, and a few countries in Africa may graduate to this group soon. There would be a strong case to consider these countries together with middle-income countries that have still failed to make sufficient progress on particular MDGs, but whose well-defined development trajectories can make achievable.

The other group is of more concern. It is made up of countries with limited signs of hope that are currently often sliding rather than progressing in terms of the MDGs, including (but by no means exclusively) many fragile states, and often including countries with severe and widespread deprivation, but relatively high incomes, such as Nigeria. A full compendium of MDGs does not make much sense here. A small number of priorities, offering the framework for a sustainable development processes, may be preferable. These could focus on the reduction in income poverty, human capital formation in terms of education, health and nutrition, and basic accountability of the state relative to its population.

For both types of countries, but maybe more so for the second, the practice of monitoring the MDGs has to be changed fundamentally. Too often, the MDGs have been used as pure backward-looking indicators. It is clear that it would be dangerous to stick exclusively to such a view. An analysis of why and how a country is lagging behind on specific MDGs should be given much more importance than has been done so to date. This will imply that the donor community calls into question the supremacy of measuring MDGs over understanding the processes leading to their most effective implementation. Under the guise of requiring evidence-based policy-making, a whole industry of monitoring the MDGs has indeed sprung up and risks concealing the need for a more analytical approach to MDG-achieving trajectories. Equally pertinently, a reduction in the number of indicators and more attention to modelling and understanding the overall development process that leads to success or failure in promoting the MDGs seems to be a more promising avenue.

Every country in the world (and every large financial institution) has developed relatively careful mechanisms to assess growth in its own economy based on the use of forecast models. With regards to poverty and the MDGs, these are almost uniformly lacking. In the context of the MDGs, the business of backward-looking performance monitoring has to be transformed into a forward-looking strategic monitoring business. This would harness knowledge of the past and of the heterogeneous processes involved in achieving different MDGs. This would, in turn, allow for the development of careful scenarios outlining if and how the core set of MDGs can be delivered.

8. Conclusions

Even though noticeable progress has been recorded for some MDGs, namely poverty reduction and gender parity goals, achievements have been disappointing in many other dimensions and most countries in all regions are likely to face serious difficulties in meeting most MDGs. There is an urgent need for a better understanding of the reasons why progress has been slow in many countries. Beyond measuring MDGs, and monitoring them through the use of backward-looking indicators, it is important to have a precise idea of the trajectories along which MDGs may be gradually implemented in the future. Even when progress is encouraging, it is necessary to determine to what extent it is attributable to a favourable external environment (such as the surge in commodity prices which started a little after the turn of the millennium and favourably affected a significant number of poor countries in Sub-Saharan Africa), to good domestic policies or effective international aid efforts.

In the end, the most critical objective is that as many countries as possible are (i) on the way towards achieving the MDGs, and (ii) that progress is sustainable. It is impossible to answer these two questions without using an analytical approach that places the achievement of MDGs in the context of the whole dynamic process through which poor countries unfold their development strategies subject to the constraints born of their external environment. In particular, the current slowdown in the world economy dims the outlook on growth for many developing countries, through lower capital, investment and migration flows benefiting developing countries and the increased risks of lower amounts of development aid.

Our analysis leads us to the following conclusions:

Policy coherence key to the achievement of MDGs

The MDGs as agreed in 2000 remain a valuable framework for development action to 2015. At the same time, there remain serious problems with practical aspects of the MDG related data gaps, lack of timely information, inconsistent indicators, and frequent revisions. Thus, they should be seen as a broad initiative to reduce poverty in its many dimensions, rather than a detailed blueprint for separate interventions on each target or indicator. There is therefore no need to complement them with additional goals or targets, as sometimes suggested. However, they do need to be part of a more coherent policy that integrates these goals within a framework that supports growth with equity and well-designed sectoral policies.

This has implications for all actors in the international development community.

The donor community must deliver on the promise of aid volumes and improved delivery

As far as developed countries are concerned, both the volume of aid and greater effectiveness must be top priorities. The Gleneagles commitments have been re-affirmed at successive summits, most recently at the G8 in Hokkaido. Despite this, aid volumes have recently declined. The current shortfall on commitments, to be met by 2010, amounts to US\$ 35 bn. a year, or approximately 35 per cent of present volumes of aid. The delivery of aid also leaves much to be desired as far as predictability, rapidity of disbursement, selectivity, coordination, harmonization, and bureaucratic demands on recipients are concerned. In particular, in countries with reasonably functioning institutions and a transparent and sound policy-making process, scaled up aid should mostly be delivered as predictable budget support, based on a clear compact with a few results-based targets (instead of ex ante conditionality). The Accra Agenda for Action, approved in September 2008, provides a framework and action plan for recipient country leadership, the use of country procurement systems, harmonization of procedures, building of effective partnerships among donors, mutual accountability, and other aspects of aid effectiveness. Donors need rapidly to deliver on all these pledges.

The crucial role of policies in developing countries

Concerning developing countries, both the historical record of development and the current weakness of the global economy lead us to say that it is essential to link the MDGs to the pursuit of shared economic growth. This requires in particular strengthening economic and political institutions, good governance, rigorous macro-economic management of resource flows (particularly foreign flows, possibly with the help of foreign aid to reduce vulnerability to sudden negative shocks), and creating a business-friendly investment climate. One message and one set of policies will not fit all countries in this respect, and the specificity of countries in terms of opportunities and constraints should be recognized and carefully analyzed. However, crucial dimensions in many countries include investments in infrastructure (roads, ports, power stations ...), and management capacity both in the public and private sectors. In the long-run, such investments are complementary with the MDGs. In the short-run, they should not be at the expense of basic needs and rights, if additional foreign resources are available, for instance under the form of 'aid for trade'. In many instances, considerable economies of scale could also be obtained from regional integration.

Policy coherence at the global level more important than ever

MDG policy coherence must drastically be improved at the level of the international community itself. This again covers various important dimensions. Progress on trade agreements that further open markets in rich countries to products from poor countries is a necessary condition for inclusive global growth. Better regulation of the financial system is a priority. Barriers to unskilled labour migration must be reduced in rich countries. Finally, action must be undertaken now on the mitigation of the risk of global warming, and on preparing adaptation in developing countries likely to be the most severely hurt by it. Greater financial, logistical, and military support must be made available to the international community to conduct peace-keeping and conflict-preventing action when and wherever necessary. Global economic governance is no less important to the MDGs than the creation of new funds for health or education. Indeed, it is arguably more so.

Social protection and insurance to mitigate uncertainty

When the global economy is hit by major shocks, the poorest need to be protected from the consequences, whether these are fluctuations in income, high food and oil prices or the emerging effects of climate change. Social protection, and more generally, protection of progress achieved in the MDGs in the face of risk and uncertainty should be on every country's agenda. In this respect, the diffusion of innovations in developing countries in the fields of cash transfers – so-called conditional cash transfers-, guaranteed employment schemes, or new insurance products is to be encouraged.

A special agenda for fragile states

There are particular problems in countries with weak institutions, often embroiled in or emerging from conflict – countries sometimes called 'fragile states'. If progress is being made in the way aid is delivered to non-fragile states, helping fragile states raises major difficulties. Fragile states lag behind most on the MDGs. It is thus essential that 'fragility' be tackled if progress on the MDGs is to be achieved. This will require sustained engagement and new, imaginative use of combined political, technical, financial and sometimes military resources, engaging with governments but also civil society and non-state actors. Multilateral approaches are necessary, with further strengthening of the UN Peacebuilding Commission. Exploratory work should be carried out on whether more flexible definitions are required of official development assistance in these cases.

Sustainable development and sustainable MDGs beyond 2015

Finally, it is important to begin now thinking about the MDGs beyond 2015. Global poverty will have been reduced by half but will not have been completely eradicated by then. The location and geographical distribution of the poor is changing, with China, India and other countries moving to middle income status, and with rapid urbanisation changing the economic prospects of the poor. Tackling chronic poverty will remain a priority for international partnerships after 2015. It is also not unlikely that the definition of income poverty thresholds will have evolved and will be higher than they are today. Another concern will also be that MDG achievements be sustainable beyond the present horizon. All this justifies considering the MDGs as part of an overall sustainable development strategy rather than a possibly increasing set of independent targets.

The special role of the EU

The European Union brings particular strengths to this new and enlarged 'project' to deliver the MDGs, as reflected in the European Consensus on development. Its own history shows the advantages of regional cooperation, support to weaker members and joint action to secure public goods of value to all. Its development policy and implementation capacity provides a unique marriage of political, economic and aid instruments, underpinned by a structure of mutual accountability through treaties and joint political bodies. The EU as a whole is the world's largest aid donor and a major trading partner. The EU's Member States have taken a leadership role in peace-keeping and peace-building. The EU is committed to improved practice in complementarity in aid delivery, through its Code of Conduct on Complementarity and Division of Labour. Based on its experience of economic integration, the EU can play a specific role in helping poor countries, especially in Sub-Saharan Africa, to reduce internal barriers to trade, correct market failures and increase regional ownership of reforms through peer-review. All this provides a platform for further engagement on the agenda we have outlined.

At the same time, much needs to be done at the level of the EU and its Member States to push this agenda forward. Policy coherence, particularly of trade, migration, and development policies, remains a challenge; and much remains to be done in scaling up aid and delivering it more effectively.

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