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

1. Introduction

The Millennium Development Goals (MDGs) are the expression of the strong commitment to universal development and poverty eradication made by the International Community in the UN Millennium Declaration in September 2000. They offer a set of concrete targets that can be used to assess the integrity of the political commitment made through the Declaration. Their coverage is quite wide and includes 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." It entailed clear obligations for the developed countries as they were expected to ease market access, lessen the debt burden, channel financial resources and provide development assistance to the developing world, which, in turn, 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) 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 both the volume of aid and its quality – through better co-ordination – while 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 will take place in New York in September 2008.

Nevertheless, in spite of their recurring political endorsement, the MDGs have been subject to a wide range of criticism.[3] Indeed, 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 questions, which have been addressed in a more technical companion report to the present paper.[4]

Notwithstanding the issues raised by the MDGs, they have played an essential political role in mobilising the support for development assistance at a time when aid disbursements were on a downward trend in many key OECD countries. Because of this potential mobilising role, the MDGs continue to enjoy strong support among many development actors. As the global economy is entering a slow down, it seems essential to make the most of this mobilising role. Some development actors have gone even further by suggesting more goals be added to the existing list.

At this crucial juncture, it is therefore very important to take stock of what has been achieved by the MDGs so far and to propose corrections that may be needed to ensure the commitments made at the

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[3] The initial high profile criticism was launched by the Centre for Global Development researchers in the US and includes various important notes on the topic. See http://www.cgdev.org/section/topics/mdg

[4] Bourguignon et al. (2008)

Millennium Declaration are delivered. Such an endeavour is all the more justified given that we now stand at midpoint between the MDGs' launch and the agreed deadline.

Box 1: List of MDGs[5]

Goal	Targets
Goal 1 Eradicate extreme poverty and hunger	Target 1.A Halve, between 1990 and 2015, the proportion of people whose income is less than a 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 HIV/AIDS Target 6.B Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it 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
Goal 8 Develop a global partnership for development	Target 8.A Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Including 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. Including: tariff and quota free access for least developed countries' exports; enhanced programme of debt relief for 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 *Sources*: The Millennium Development Goals Report 2007, United Nations; World Bank website, February 2008.	

Although this work is a contribution by European academic researchers to the debate, it is not an academic piece. It intends to focus on more practical questions about the implementation of the MDG 'project', taking into account the viewpoint of the main actors of the international development community. From the developed countries' perspective, in particular, we try to identify areas in which development action has to be scaled up. Special emphasis is placed on the European contribution, through, for example, the need to deliver on its promises and the way in which its positive experience with development management could be better internalised and used in the international debate. To elaborate this diagnostic, we focus on some very basic questions:

- How much has been achieved?
- What worked?
- What did not work well enough and why?
- What should be done to accelerate progress where needed?
- What could Europe do to contribute to the acceleration of the agenda?

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 'tripod' that leads us to focus on the global economy, on domestic policy in developing countries 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.

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. A 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 it is available, data are often plagued with comparability problems, and MDG indicators often come with considerable time lags. Improving data gathering and its quality in all countries should be a central focus of the second half of the MDG time frame and beyond. Reliable data and indicators are essential, not only to enable the international development community to follow progress on MDGs, but also for individual countries to effectively manage their development strategies.

2.1 Stylized facts on overall MDG progress

The 2008 Global Monitoring Report (World Bank, 2008) and the Millennium Development Goals Report 2008 (United Nations, 2008), 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 widely acknowledged, however, the progress on poverty is very much driven by overachievers in East and South Asia.

ii) In effect, there are *clear regional patterns* in MDG progress that depend on initial conditions and recent growth performance. If Asian countries are over-achievers in the income poverty goal, they perform relatively worse in health and, in the case of South Asia, in education and gender equity. Conversely, Latin America and the Middle East are relative underachievers in the poverty reduction goal, although their poverty level is low by international standards, but relative overachievers in

health, education and gender equity. Finally, Sub-Saharan African countries lag significantly behind other regions in all MDGs.

iii) *Most countries in all regions are off-track on most MDGs* (or data is missing to assess progress). This also includes countries that have experienced the best growth performance.

iv) The *MDGs' achievement gap is much larger in 'fragile' states*. One of the reasons why Sub-Saharan Africa lags behind on MDG progress 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 and their progress tends to be slow, on average.[6]

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 fragile states still lag considerably behind. Not a single country in Sub-Saharan Africa is on track to meet the goal at this stage.

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 are either less concerned by the MDGs, possibly because they are made up of mostly Middle Income Countries, or performed poorly, most notably Sub-Saharan Africa. Note that, with regards to Sub-Saharan Africa, the recently improved growth performance should have shown a better picture, had the relevant indicators for the most recent years 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 and the gap is much more pronounced in the poorest regions of South Asia and Sub-Saharan Africa.

2.2 Country heterogeneity in MDG performance

The preceding section emphasized heterogeneity in MDG performance at the regional level. Within regions, however, country heterogeneity remains considerable. For instance, with regards to poverty, Sub-Saharan Africa has experienced volatile fluctuations, including an annual decline of 4.6% in Ghana between 1999 and 2006, contrasted by an annual increase of 3.8% in Uganda between 2000 and 2003, despite the two countries having comparable rates of per capita GDP growth of about 2.5%. 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.[7]

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

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[6] 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)

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

enrolment. MDG performance in other regions also shows substantial variability. The issue then arises of whether these disparities may be explained by specific country characteristics.

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 *levels* of the various indicators, the distinction between fragile and non-fragile states explains very little of the variability in terms of *rates of change* of MDG indicators. In other words, the variability of performance remains extremely high within both fragile and non-fragile state groups. Fragile states like Ethiopia or Cambodia witnessed rapid poverty reduction performance, while in other fragile states like Niger, Nigeria and Zimbabwe poverty increased dramatically over the period.

Box 2: Alternative definitions of 'fragile states'

There are many different approaches to defining and responding to the complex development situation 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'. The main multilaterals (for example the OECD, World Bank, etc.) have their own definition as do some of the major bilateral agencies (for example DFID and USAID). The various lists include 30-40 countries depending on the definition used and the lists are not necessarily totally overlapping.

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, in English and in other languages, does not necessarily 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. An in-depth review of existing definitions suggests they are organised around three broad categories, based on their central themes or assumptions:

1) *Fragile, failed, or crisis states*: These definitions 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*: Most of the international financial institutions (IFIs) focus their approach to difficult environments around how well a country performs in terms of development outcomes, taking into account the quality of governance and policy choices. The World Bank's Low Income Countries Under Stress is the best-known example of this approach.
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.

Intra-regional country heterogeneity might be explained by other country characteristics. In Sub-Saharan Africa, for instance, the African Economic Research Consortium found it convenient to distinguish between landlocked, coastal and resource rich states in its recent analysis of growth[8]. As with the fragile/non-fragile distinction, however, if there are noticeable patterns in terms of the *levels* of the MDG indicators, no clear patterns emerge in terms of MDG *progress*.[9] 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.

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[8] The "Explaining African Economic Growth Performance Project", as it is known, was conceived in 1997 as a collaborative effort by Harvard University, Oxford University and the 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.

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

It follows that country heterogeneity with respect to MDG performance in Sub-Saharan Africa has to be explained by a complex combination of specific country characteristics and initial conditions, rather than by a few geographic and institutional features. The same is largely true, although to a lesser extent, in other regions.

2.3 Heterogeneity across MDGs

There is heterogeneity across countries within the same region or between countries displaying similar observable characteristics with respect to progress in any given MDG. Moreover, there is also heterogeneity of progress across MDGs within a given country. Simple assessments of the degree of correlation between any combinations of pairs of MDGs often show little or no correlation among them, as if they were resulting from wholly independent factors and policies. For instance, 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. The correlation is close to zero between different non-income MDGs, for instance between primary education and under-5 mortality. Somewhat surprisingly, however, there is a strong correlation between poverty reduction and changes in underweight[10], although there is virtually no correlation between poverty reduction and undernourishment. Of course, these observations could be partly driven by measurement errors and comparability issues. Yet it is hard to believe this explains everything.

If the MDGs are weakly correlated amongst themselves, could they be more strongly correlated to some general economic indicator? Of course, poverty reduction is closely correlated with growth, especially when measured by growth in household per capita income.[11] On average a 1% growth in mean income generates a 1% drop in the poverty headcount. However, this effect appears to be lower in quite a few countries, including China, Honduras, Ghana, Uganda and Cambodia. The relatively low effect of growth in the mean income of the population on poverty reduction is closely related to rising income inequality in most developing countries since the early 1990s.[12]

The correlation between GDP per capita growth and non-income MDGs is practically zero thus confirming the limited linkage found between those indicators and poverty reduction. This limited correlation reflects some relative independence of the policy instruments governing progress towards MDGs from economic growth, as well as substantive differences in country policies and circumstances that may affect the relationship between these policies. Interestingly enough, whilst these results do not invalidate the argument that growth is necessary to achieve the MDGs, for instance by generating needed budget resources, they suggest that growth alone is not enough.

A point seldom emphasized 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. However, data that would allow the analysis of this distributional aspect of MDGs is rarely available.[13]

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[10] See also Klasen, 2008.

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

[12] 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). There is some recent evidence of declining income inequality in some high-inequality countries in Latin America, including Brazil and Chile which appear to be linked to pro-poor social policies and a stable macro environment; if these declines were sustained and spread to more countries, they would again help to increase the poverty elasticity of growth.

[13] See Klasen (2008b) for a suggestion about how to monitor the distribution of progress of non-income MDGs.

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 achieving the MDGs. It is this diagnosis that can provide lessons on what the international community and the developing countries themselves can do to accelerate progress.

We use a simple analytical framework across all countries for all different MDGs to identify some key factors that can help us understand success and failure. In outlining these, three dimensions are used: first, the global economic context in which developing countries operate; secondly, the volume, nature and effectiveness of the aid they receive from developed countries; thirdly, general and MDG specific domestic policies pursued by developing countries.

The global economic context matters, as growth opportunities and the global economic architecture have changed at a fast pace since the MDGs became shared objectives and they are likely to continue doing so in the near 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 achievements 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 other policies, not least in terms of 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 MDGs 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 in 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 an 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 pursuit of MDGs to be effective. At least two issues cannot be ignored. First, heterogeneity in the process of achieving particular MDGs, which arises

out of the specificity of each goal. Secondly, heterogeneity across countries, which makes it necessary to identify required conditions for progress and, possibly, to define priorities amongst MDGs.

With regards to the, making progress on each MDG is not just a simple process of creating growth opportunities, policy commitment and providing sufficient aid, even though this may be an adequate framework for *some* MDGs or some 'targets'. For example, the experience of a number of countries has shown that boosting primary school enrolments ('bums on seats') can be relatively easily achieved 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 the persistent process of the intergenerational transmission of poverty. Child health outcomes, such as malnutrition, are possibly even harder to address, as the return to general supply measures related to healthcare is 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 deliver the MDGs. In particular, complementarity across MDGs and between MDGs and other policy goals may be strong 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) and 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.[14]

It is striking that if any of the MDGs will be achieved worldwide, it is going to be the income poverty goal. For many of the countries making substantial progress in this goal, conditions are created to galvanise further support to deliver against the remaining targets, as part of achieving shared growth. A focus on the multiple dimensions of poverty is therefore appropriate. At this juncture in the global economy, resource-rich developing countries may find themselves able to spend sizable amounts on the multiple dimensions of poverty, which underpin the MDGs. However, the issue arises of the conditions under which progress towards the MDGs will be sustainable, particularly if a reversal occurs in the terms of trade, and/or institutions are unstable.

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

[14] The MAMS model, built by a World Bank team, intends to account for all these externalities and complementarities among MDGs and between MDGs and other economic performance indicators in MDG planning (Bourguignon, Diaz-Bonilla and Löfgren, 2008). This 'policy coherent approach' to the MDGs goes beyond simple fixed coefficient models of the type initially used by the Millennium Project and still used today to measure MDG financing needs (Millennium Project, 2004).

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 on its features, which are also affected by 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, 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 least 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 performance of developing countries

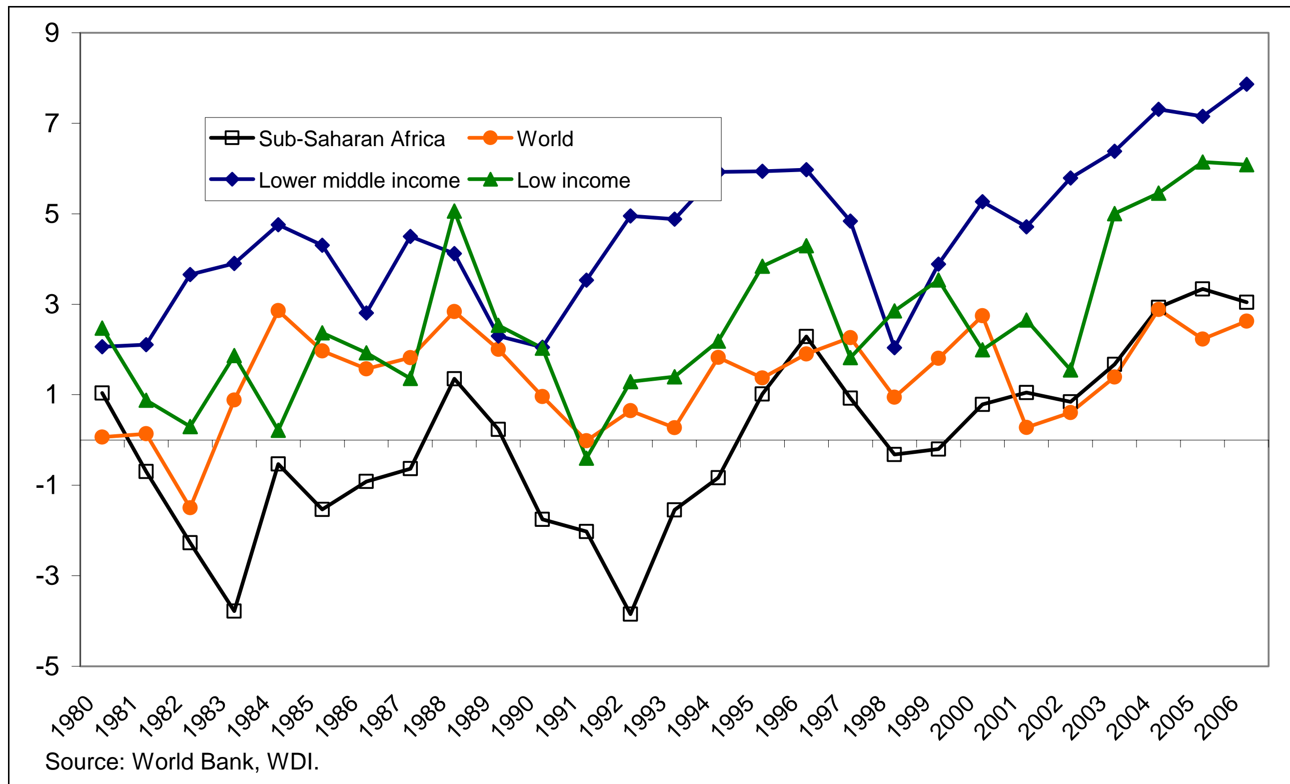
From 2000 to 2007, developing countries benefited from a buoyant world economy, with real global GDP growing at an annual rate in excel of 4% on average (see Figure 1). Annual growth rates were, on average, 3 to 5 times higher in emerging/developing economies than in developed economies, and almost all developing countries experienced positive growth of GDP per capita. 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 now been positive for 7 consecutive years, in line with world growth, and therefore higher than growth rates in advanced economies. This is the first time this has occurred since the 1970s. Of course, there are exceptions at the country level: some countries (Benin, Comoros, Gabon, Madagascar, Togo) still suffered from a stagnation of real GDP per capita and some others even registered a drop, often due to military conflicts (Burundi, Côte d'Ivoire, Eritrea, Guinea Bissau, Liberia, Zimbabwe). 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.

One of the side effects of the buoyant economy has been the surge in commodity prices. Almost all commodity prices increased from 2001 to 2007 even though at different speeds. In Sub-Saharan Africa, this hike translated into positive terms-of-trade shocks in a majority of countries, with the most important beneficiaries being countries exporting oil or minerals like copper or uranium. However, some countries did not do as well. Notable exceptions were countries specialising in agricultural products that were heavily protected by developed countries. Exporters of these commodities saw their terms of trade grow only marginally or even worsening. For instance, stagnating prices of cotton due to US subsidies led to a worsening of the terms of trade in countries like Benin or Burkina Faso. 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.[15] Amongst 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 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.

Figure 1: GDP per capita growth rate (% annual)



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 increase in oil prices, followed by stabilization at a level slightly below the rates observed in recent years.

A key feature of the global economy today is increasingly autonomous growth in big emerging countries although the slow-down in developed countries will affect this group too. However, several factors which 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 be present for a long time. This should also have a favourable effect on those developing countries which 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.

Another important issue is the durability of high commodity prices and their impact on growth. According to AfDB/OECD (2008), agricultural prices are likely to fall when the transitory factors

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

experienced in 2007/2008, such as negative yield shocks and speculation, are overcome. However, prices are likely to remain higher than at the turn of the millennium because of higher input costs, due to higher oil prices, and because of the demand arising from substitution towards bio-fuels in developed countries. There is still great uncertainty with regards to the evolution of commodity prices and their consequences for developing countries such as, for example, the potential severity of the effects of Dutch disease[16].

Of particular interest is the price of oil. A consensus is now building that the price of oil will remain high for some time although it will probably not remain as high as its recent record level in the long run. 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, within individual countries; the poorest regions will be hit the hardest.[17] This could make the progress achieved so far on the MDGs unsustainable in the long run, unless an adequate adaptation policy can be launched.

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. Nonetheless, FDI is very unequal across countries. For instance, FDI represented 86% of GDP in Gambia in 2006, but less than 5% in Senegal, Niger or Burkina Faso. In Sub-Saharan Africa, however, FDI is mostly directed towards 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 with respect to the

[16] Dutch disease, named after booming gas exports from 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 non-resource exports, thereby damaging long-term development prospects.

[17] See W. Cline (2007).

international market.[18] The former is linked to the increasing saving capacity in 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. The increase in sovereign spreads is the result of a flight-to-quality, whereby capital moves away from risky investments and foregoes higher for safer returns on investment. However, in comparison with previous periods of global financial turbulence, the impact of the recent financial crisis on sovereign spreads in developing countries has been 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 keep growing. 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 the multilateral debt. A country like Ghana was even able to issue sovereign bonds on international markets at a reasonable spread a few years ago, and has been imitated by a couple of countries since then. However, even with emerging economies as new major international investors, this source of financing is likely to remain marginal for years to come.

International migrations from poor to rich countries may help development in various ways, but they may also have a cost. 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.[19] On the negative side, migration may deplete the country of origin of valuable skills and slow down development. Remittance flows have considerably increased in recent years - although part of that increase may be due to an improvement in statistical coverage. For low-income countries, the share of remittances in GDP has practically doubled since 1990 and has fluctuated between 3 and 4% over the recent years. Remittance rates are lower in Sub-Saharan Africa where they represent 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 most probably reduce both migration and remittance flows.

It is already the case that countries with high migration rates suffer a skills shortage because the migrant population is disproportionately more skilled than its no-migrant equivalent. This is the case in Sub-Saharan African countries like Ghana, Malawi, Rwanda or Uganda. It is important to note that skilled migration may not only affect the rate of growth of the economy, but also the pursuit of some MDGs. In particular, the migration of doctors and nurses can only have a negative impact on the healthcare sector and health MDGs. Without some kind of regulation by host countries, the globalisation of the skilled labour market may thus prove to be detrimental to the MDGs. In contrast, unskilled or semi-skilled labour migration is highly restricted in many rich countries, with barriers being particularly formidable in Europe. However, allowing easing the restrictions on such migration could positively affect poor countries through remittances without leading to the 'brain drain' problems just described.

[18]See World Bank, Global Development Finance, 2008
[19] See for instance Lucas (2005), and Ozden and Schiff (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 simply not be possible today in many other countries, particularly in Sub-Saharan Africa. However, even better integrated countries may 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 margins[20], AGOA agreements seem to have been successful in boosting African exports to the United States, notably thanks to the relaxation of 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, the base was so tiny that this only had a marginal impact on the volume and structure of exports.

The experiences of the Cotonou and 'Everything but arms' agreements, and the results of AGOA, suggest that the slow development of African manufacturing exports may relate more to the difficulty in meeting standards in advanced economies and logistical problems rather than to the mere level of tariffs, although the rules of origin may be rather limiting. It can also be argued that selective tariff cuts on imports could enhance export capacity when imports are inputs in the exporting sectors.[21] It should also be kept in mind that these preferences were granted to the least developed countries, which were less able to take advantage of them than less poor countries.

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 proposal, tabled in mid 2007[22], 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 les strongly felt in agriculture, except for very specific products (such as bananas). The net detrimental impact of the proposal on the textile industry raises the case for 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). With respect to preferential agreements, they will have to be consistent with WTO rules, especially the 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 agreements suggests that EPAs would have a very significant impact on those countries' exports when compared to the WTO-compatible GSP/EBA alternative[23]. However, the tariff cuts on imports from the EU could have a large impact on tax receipts for some countries such as Congo, Ghana, Togo or Mauritius. This serves to highlight the importance of the "development" section

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[20] Generally less than 5% compared to the most favoured nation tariff, see Laborde, Mitaritonna and Puppetto (2008).
[21] See Collier and Venables, 2008
[22] See Decreux and Fontagné (2008).
[23] See Fontagné, Laborde and Mitaritonna (2008).

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. The increase by over 20% of their share between 1990 and 2006 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.

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, 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 the issue is that these are figures rarely available.
Will the 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 hinder their long-term growth or whether the slow-down is simply the downward slope of a cycle within the favourable trend. There seems to be a consensus that emerging countries will continue to grow quickly, though not as quickly as before, and this will have a positive effect both on the world economy and in other developing countries. In particular, it is likely that commodity prices will remain high, with positive consequences for some countries and negative consequences for others. The same varied effects may also emerge in some countries, with high food prices impacting net consumers negatively and net producers positively. Hence, now more than ever before, 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 countries affected by the global slow-down. There is still some potential for development-oriented improvement in trade policies and 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 relaxing 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 in developing countries. ODA can alleviate the budget constraint faced by governments in developing countries and may also concentrate on 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 help of donors in specific programmes. However, experience shows that foreign resources and involvement in development programmes is 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.

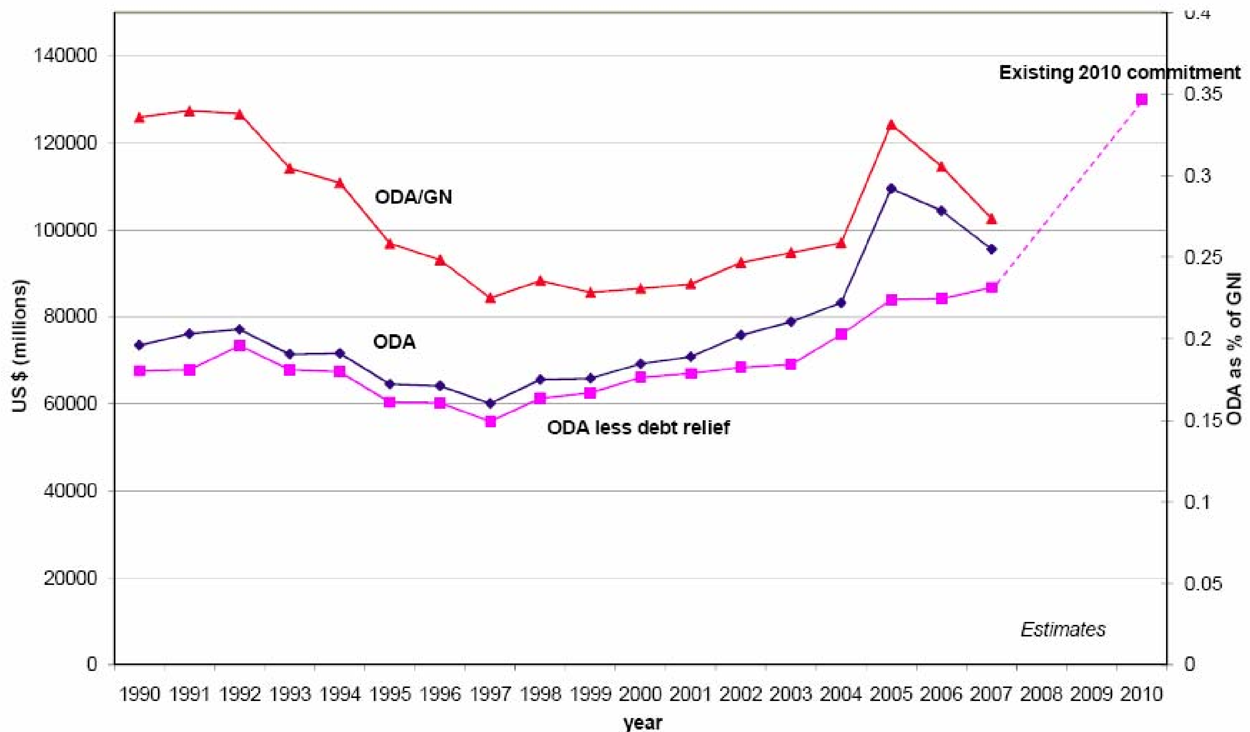
5.1 Volume, structure and impact of aid: A brief factual review

Official Development Assistance by the countries that 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 would continue to fall in 2007.

These figures lead to several conclusions. The first is that the volume of actual aid is still insufficient. Clearly, the 0.31% of GNI figure is well below the objective of 0.7% 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 delivered on this commitment. 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 2).

However, it represents a huge progress relative to the 0.22% observed in the late 1990s just before the Millennium declaration. Yet, today's volume of aid is quite far from what was committed by the G8 countries at Gleneagles – and confirmed both in Heiligendamm 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 roughly $35 billion by 2010 (in real terms), substantially more than the progress actually recorded since 2000.

Figure 2. DAC-countries: ODA flows, 1990-2007



The EU is committed to play a major role in the acceleration of aid. Its 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. 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.

The second consideration concerns the composition of aid and, in particular, the role of debt relief in the recent development of total aid by DAC countries. 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 performance 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 have - also aided by the PRSP process – been, for the first time in a while, in a position to devise and implement policies to promote growth and poverty reduction. However, the point here is that debt relief is largely completed and that the promised scaled up aid has to come from higher budgetary allocation or other new financing mechanisms.

The final comment on the evolution of the volume of aid concerns the increasing role of non-DAC countries and private (NGO) donors. Although statistical information is less reliable than for DAC countries' ODA, available evidence suggests that these non-traditional sources have contributed a rapidly increasing amount to development assistance. Non-DAC flows, as recorded by DAC, are estimated to have increased by a little more than $5 billion between 2000 and 2006, whereas NGOs based in DAC countries may 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 a further $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.

Such an evolution might not seem problematic if aid were allocated essentially against need. Given the growth performance of developing countries, the 'need' for ODA should diminish. Aid per capita should then fall in richer populations, and development assistance should flow towards slow-growing poorer countries. Actually, until recently, there was very little such restructuring. The share of the total aid provided by DAC countries going to low-income countries, or at least that part of aid that can be assigned to particular countries, has been declining sharply from the late 1980s to the early 2000s. In effect, ignoring the exceptional efforts made for the Democratic Republic of Congo when it emerged from a long war in 2003, it is only in 2006 that the share of aid going to the poorest countries recovered to the level observed in the late 1980s. This reversal in the allocation of total aid reflects the recent commitment of developed countries to devote more resources to Sub-Saharan Africa.

The preceding discussion 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 on aid and development indicators of the MDG type. Of course, this does not mean that aid is systematically ineffective, but that its effectiveness is hard to assess.

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

Aid effectiveness is 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 some 'aid fatigue' has 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 subsequently decreased. However, at the same time effectiveness appears also to have declined as donors seek to exert more control on the aid being given, independently of the way in which recipient countries manage the money they receive. Here are a few examples:

- The presence of several donors in the same developing country raises the issue of co-ordination and harmonization of their actions. The 2005 Paris conference aimed at making progress in this area. However, results have been limited so far[24], although the September 2008 meeting in Accra reiterated and increased the commitments on this front.
- The lack of predictability of aid is another source of ineffectiveness. Recipient countries' uncertainty about future aid flows, despite present commitments, lead governments to systematic revisions of their development and MDG strategies.
- Donors are increasingly earmarking aid through specialized Global Funds. The so-called Monterey compact was supposed to give recipient countries as much responsibility as possible in the use of aid funds, provided that they could demonstrate ownership through Poverty Reduction Strategies. 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, or the lack of results they lead to, may reinforce the feeling in donors' constituencies that spending on aid is indeed ineffective for development, thus making them more hesitant to scale up aid and to lift controls on how it is used. The way out of this 'low-level low-effectiveness of aid' vicious circle is to increase the effectiveness of aid and provide clear evidence of it.

Developed countries can also contribute to development and MDG achievement 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. [25] Diplomatic and military interventions aimed at keeping peace in particular countries or regions should also be mentioned.

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[24] 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).

[25] The vigorous campaigns by some donors for free presidential elections in Africa and elsewhere in the 1990s was based on the threat of reduced future aid. With hindsight, it has been rather effective even though, in several countries, it is unclear whether it contributed to 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.

Preventing conflicts, or helping early resolution, may contribute more to development than huge aid flows.

More fundamentally, it is essential to consider that aid or peacekeeping interventions are only some of the available instruments in the hands of developed countries to help development and MDG progress. In effect, most policies in developed countries with some international implications may have an impact on developing countries. As seen above, this is true for trade, migration and financial flows but also for domestic policies on greenhouse gas emissions, as seen with the impact of the production of bio-fuels on food prices. Beyond specific instruments, especially ODA, it is crucial that, following the example of a few European countries, policy makers in developed countries systematically think in terms of 'development policy coherence', whether dealing directly with development-related matters or in policy areas with only indirect impact on developing countries.[26]

5.2 How to improve aid effectiveness to reach the MDGs

Aid effectiveness is now at the centre of the discussion about aid. This paper has already outlined some of the ways which aid delivery by donors could be responsible for some of its ineffectiveness. The paper now concentrates on circumstances within recipient countries, highlighting how considerable scope remains for making 'traditional' aid more effective.

First, it is now understood – but not yet fully taken into account – that, in some circumstances, channelling aid to poor countries in the form of project finance makes little sense since resources are *fungible* so that 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, by now, widely accepted and it is recognised that aid should be mostly channelled as budget support when possible, much aid continues to be provided as project finance and, increasingly, as MDG-project finance. Parts of the bilateral aid programmes and much of the activities of the IFIs might usefully 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 not completely convincing except in particular circumstances when it can be ascertained that aid-funded projects would not have been undertaken and completed without donors' intervention or that of a third party like an established NGO.

Secondly, aid cannot be effective in all countries. That aid can be effective only in a 'good policy environment' has become widely (but typically only half-heartedly) accepted, in spite of the econometric controversies that still surround the evidence for this position.[27] The recognition is half-hearted in two ways. Although the allocation of aid depends more on the quality of institutions and policies than ever before, donors are still reluctant to withhold aid from countries with a poor policy and/or institutional environment. This reluctance reflects the incentive structure in donor agencies (e.g. where careers are based on disbursing rather than withholding money), reinforced by the belief of policy makers that strict selectivity would mean abandoning poor people who had the bad luck to live in countries with poorly functioning institutions. It is true that, in some instances, well-managed project aid in fragile states is considerably less effective than it would be elsewhere but is still able to reach poor people. However, recent debates on donor policies for fragile states have also made it clear that donors have other options than giving aid in situations where it is most unlikely to work effectively.

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

[27] For a survey of this literature see for instance Clemens et al. (2004)

For example, there is evidence (Collier, 2007) that giving aid to countries that have just emerged from civil war is a waste of money; generally, they lack institutions to ensure that aid can be spent effectively and donors can find it difficult to exert control. 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 signal clearly what would need to change before they give aid (for example, freedom of the media and empowerment of parliament to scrutinise public expenditures). Such 'ex ante governance conditionality' (Collier, 2007) would help reforming factions.

There is another reason for the donors' lack of enthusiasm for selective aid allocations that favour well functioning governments. Selectivity seems to force donors to concentrate aid in those countries that need it least in the sense that, if their policy environment is so good as to make aid effective, they have good development perspectives. This could also possibly offer better access to the international capital market. Thus, from the donors' point of view, aid would therefore become superfluous or, at least, less needed than in other countries.

In practice, however, access to the international capital market remains problematic. Improvements in the policy environment can facilitate a country's prospects to access commercial loans, but the process is very slow.[28] In the 1990s, for example, Uganda had radically improved its policy environment, but obtained only a very modest improvement in its credit rating and was, for a long time, unable to access the international capital market. Various such experiences suggest that there may be an extended period during which aid can be highly effective. While providing bridging finance is not a role donors envisage for themselves, it is probably one of the best things they can do. Note that concerns over 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. Ghana managed to float a substantial loan only in 2006 – after seeing much of its foreign debt written off. In this context Ghana's borrowing was interpreted as a negative sign.[29]

The lesson that traditional *ex ante* conditionality does not work has not been fully absorbed yet. While donors recognize the importance of 'ownership', as in the Monterey compact and through the practice of Poverty Reduction Strategy Papers, this recognition often does not extend beyond lip service. This wariness is understandable. It is still insufficiently appreciated that aid aimed at long-term development (as opposed to, for example, humanitarian aid) is an appropriate instrument for only a 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. Whilst it might be advisable to end such aid relationships, or to invent new relationships, the common approach is to fall back on these traditional mechanisms of donor control, which can make things worse. The combination of the rhetoric of ownership (sometimes practised 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, using aid in the form of budget support only in countries where relying on ownership seems appropriate. This is not to say that aid has no role in other types of countries, but rather that budget support is not always 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 if donors provide those services directly or through contracts with reasonably reliable service delivery organisations.

Such principles are the logic behind the MDG contracts allocated under the form of budget support by the European Commission to well-performing countries. In countries where performance is worse the decision to move to budget support depends on the level of confidence in the recovery process after a

[28] See, for example, Collier and Gunning (1999).
[29] Gunning and van Wijnbergen (2006).

conflict (security and political aspects), on the confirmation of a positive trend in economic stabilization (accompanied by resuming relations with the IMF) and on the willingness of the authorities to carry out reforms. Note, however, that budget support in this kind of situation often is of a short-run nature. [30]

The reluctance fully to accept country 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. The expertise and experience in the International Financial Institutions, regional development banks and bilateral donor agencies needs to remain available to developing countries. However, the finance-cum-advice package should be 'unbundled' (i.e. recipient governments should be free to decide where to hire the technical expertise). In this case the government could still turn to, say, EU expertise, not because it came as part of a package, but rather because that source of advice had proved itself in competition with other agencies.[31] This would also improve accountability and provide a powerful signal that the government, rather than the donors, is responsible for development policy.

Finally, there has been little explicit progress towards results-based aid. The literature in the late 1990s on the 'failure of conditionality' had made it clear that tying aid to promises of policy changes could not work in theory and certainly did not work in practice. Results-based aid, or 'ex post conditionality' would link disbursements to progress achieved towards targets agreed ex ante. Such a system clearly provides strong incentives for recipient governments to get as close as possible to 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 materialise, whereas recipient countries need aid money precisely to finance a particular programme. For example, what happens when a government has no time to establish a track record? A 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 is that of governments inheriting bad results from their predecessors and being punished for it despite their goodwill.

There are no easy answers to these reservations. The result-based aid contract must necessarily give the benefit of the doubt to governments in a first phase[32] and then aid can become conditioned on a set of indicators. Those indicators may include actual 'outcomes' (say poverty), but also 'inputs' in policies and programmes that are most likely to lead to favourable outcomes (for instance, school enrolment rates are likely to lead to better learning achievements, whilst immunisation rates can lead to a drop in infant mortality). This description includes some features of the MDGs, which in some sense may appear as intermediate goals within the development process, but also as the basis for measuring results in some given period. An approximate result indicator could also include institutional features within developing countries that are known to favour adequate policy choices to achieve pre-determined goals like the MDGs. The big difference with the old conditionality model here is that those indicators should not include the policies themselves – as implicit in the so-called Washington consensus. Indeed, the key point is that the choice of policies should be left to recipient countries' governments. [33] Efforts are already being made in this direction. The PRSP process used by several International Financial Institutions to monitor their aid programmes has some features of this new aid compact. Likewise, the European Commission is financing programmes where aid disbursement

[30] See "Towards an EU Response to Situations of Fragility", EC.
[31] A very encouraging development is that donors are beginning to collaborate intensively (with each other and with governments) in the area of evaluations. Joint evaluations of sector programmes are rapidly becoming more common. This should contribute directly to the effectiveness development or MDG policies in recipient countries, and indirectly to the effectiveness of foreign aid.
[32] See Collier *et* al. (1997)
[33] For a short discussion of these issues see Bourguignon and Sundberg (2007).

includes a fixed and a variable component, the latter being linked to progress (or lack thereof) towards specific targets such as primary school enrolment[34].

Is more and faster progress in this area possible? Donors are obviously reluctant to make open-ended long-term commitments with uncertain disbursements. However, the more 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. Donors are, understandably hesitant to commit to providing aid for a long period, during which the policy environment may change drastically. This is understandable, however the implication is not to abandon results-based lending, but rather to distinguish between 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 as possible 'show stoppers'. For example, the outbreak of a civil war or a significant worsening of some governance indicator could be legitimate 'show stoppers', leading to cessation of the regular aid programme. Barring such extremes, the programme would continue, and future aid levels would be tied to results at the end of an agreed period. The use of monitoring variables as show stoppers might well overcome the reluctance of donors to move further towards results-based aid.[35]

Regular aid programmes built on the preceding 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 most important ones in terms of 'needs'. Donors are understandably more concerned about other developing countries, notably the fragile states, where standard conditional and tightly monitored aid programmes are probably more appropriate. Innovations are needed, for example, using technical assistance rather than project financing in post-conflict situations or the 'ex-ante governance conditionality' mentioned earlier. It may also be in those fragile states that the alignment and co-ordination of donors promoted by the 2005 Paris conference – and reaffirmed in Accra – is most needed. In non-fragile states, there is much less need for such co-ordination among donors if more use is made of budget support and common criteria can be defined for result-based aid.

There is another aspect of aid that is worth highlighting especially because, despite its obvious implications for effectiveness, it is seldom emphasized in either the academic or the more policy-oriented literature. It has to do with donor involvement in insurance mechanisms, where donors have started to play an important role in assisting poor countries in risk coping. Commodity risk management for example, allows farmers to effectively buy crop price insurance, rainfall insurance and health insurance. Consider the case of rainfall insurance: 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 (up to 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. In contrast, microfinance institutions are able to reach these target groups at low costs, but usually are unable to pool risk sufficiently. Linking the two, microfinance institutions and multinational insurance companies, is feasible. Until this is done and run efficiently, donors can play an important role, providing reinsurance themselves or, possibly, acting as an intermediary between countries and multinational companies. Donors' potential contribution is not just limited to the provision of crop price insurance. Donors can also play a part in smoothing the macro-economic effects of fluctuations in the price of commodities and the terms of trade, thereby reducing the 'vulnerability' of developing countries to exogenous shocks. Evidence is accumulating that the absence

[34] See Adam and Gunning (2002)

[35] 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 maximizing recipient countries' incentives.

of insurance has a remarkably strong negative effect on investment and growth. Hence the payoff (in terms of economic growth and ultimately poverty reduction) to interventions related to risk coping might well be underestimated.

6. MDGs and policies in developing countries

Besides the global economic environment and the volume and quality of aid, factors that influence past and future progress towards the MDGs need also to be found in domestic policies. Even in the most favourable global scenario, a country may lag behind in progress towards MDGs because of bad domestic policy choices at the macro-economic or sectoral levels. For example, growth and poverty reduction may stagnate because of an adverse investment climate or a lack of progress in health because of an inefficient healthcare system at the point of delivery. This section reviews national policies that cut across sectors, as well as policies with a direct impact on MDGs, and discusses the role of these domestic policies in promoting, or preventing, progress towards MDGs. It shows that, beyond the universal need for satisfactory governance, there is no unique or simple recipe. All in all, this specificity of domestic policies is a strong argument in favour of the country ownership principle.

6.1 Cross-cutting national policy issues.

Debates on development policy usually focus on what *should* be done, most often in very general terms. 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, there are a few more general rules, contrary to what has often been suggested by, for example, uncritical adherents (or indeed critics) of the 'Washington Consensus'. There are, for instance, substantial differences (largely related to the accidents of geography and history) between developing countries or groups of countries in what constitutes an appropriate policy stance. As emphasised in the recent report by The Commission on Growth and Development[36], sustained high growth can take place in a diversity of policy environments. Identifying the right policy environment for a particular country context requires scope for experimentation, learning, and if need be, policy changes.

The recent AERC study quoted earlier identified four 'syndromes' that have frustrated African economic growth since independence and which also apply to all low-income countries with low growth performance at various junctures. *Regulatory syndromes* involve extensive state ownership and excessive regulation of the economy and, in the most extreme cases, effectively enforce price controls and licensing of all investment and trade. The *redistributive syndrome* is characterised by the use of the state to redistribute 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. The final syndrome is that of *state breakdown* when the state is unable to maintain security, as in the case of a civil war.

Avoiding the syndromes is partly technical, but largely a governance issue. 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 with resource wealth or agricultural exports. During the recent commodity boom, for example, many countries have saved a large part of the windfall and have largely held 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. This is very good news.

[36] Available at http://www.growthcommission.org.

Part of the syndromes can be attributed to incompetent or ill-informed policy decisions. In addition, another, perhaps more important, explanation of low development performance, whether in aggregate or sectoral (MDG) terms, is that policy makers often had *incentives* to adopt damaging policies or, conversely, lacked incentives to make appropriate choices. For example, many governments of oil or commodity exporting countries in the 1970s and early 1980s recognized the temporary nature of the booms. However, with limited transparency and accountability for their decisions, they had much more to gain from spending than saving the windfall. Because 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, two countries (Chad and Ecuador) recently decided to move away from saving part of the oil revenues, possibly in 'oil funds', and decided to spend both the current flow of oil revenues and part of the accumulated savings.

In addition, the two other syndromes, redistribution and state breakdown are, of course, 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. In the case of Sub-Saharan Africa, whilst showing a very marked reduction in the probability of regulatory or inter-temporal syndromes since the 1980s, the study highlights that the incidence of the redistribution syndrome has declined to a much lesser extent, at least in landlocked and coastal countries. In resource rich-countries this syndrome is as common now as it was in the 1960s, 1970s or 1980s and, most worryingly, state breakdown affected as many people in Africa in the 1990s as it did in earlier decades. Indeed, this suggests that technical lessons have been learned, but that institutions and incentives for policies that are dysfunctional in aggregate terms are still strong.

There is now a consensus, amongst both academics and donors, that weak institutions are, through various channels, including the aforementioned syndromes, ultimately the cause of slow development and poverty reduction. However, the influence of institutions on development may be context-specific. A weak institution that blocks development in some context may not be so much of an obstacle in another. 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 fragmentation, 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. Yet donors have typically interpreted democracy narrowly as free multi-party elections. Two other requirements of a democracy have been relatively neglected: transparency and accountability regarding public spending and protection of groups (possibly ethnic groups) not in power. Safeguarding democracy in this wider sense is a necessary condition for becoming (or remaining) syndrome-free. The narrow concept of democracy, long propagated by donors is, at best, only part of the solution.

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. The only exception to that statement concerns macro-economic policy, which must be as rigorous as possible to avoid inflation, to prevent unsustainable disequilibria and to sustain economic activity.

Overall, 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*. Although there has been a proliferation of regional trade blocs in Africa and other regions, these typically have quite high external tariffs. Most of these countries have little potential for manufacturing exports, but they may well have a comparative advantage in agriculture. In fact, few of these countries actively pursue rural development or agricultural export promotion. In most of these

countries improving transport is thus a top priority, something not explicitly covered by the MDGs. *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 fragmented 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 and corresponding financial flows. For most *coastal (resource scarce) countries*, the Asian model example of export-led industrialisation and development is the preferred one. The point is to find the appropriate specialisation within the global economy, knowing that competing with Asian labour-intensive manufacturing exports may not be the easiest option, except maybe in very specific industries. In Africa and in Latin America, agriculture and agro-industrial products in general 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.

Some policy areas, rather than single policies, are of more general relevance. In the long run the most important general lesson from development experience is probably to create an investment environment favourable to private investment. Much wealth in Africa or in Latin America is still held outside the region, the result of capital flight. Part of it would come back if the investment climate and investment opportunities were to improve. This implies improving the environment of would-be entrepreneurs through infrastructure, access to justice to enforce contracts, rigorous management of public spending, the availability of skilled workers and the like. At the same time, it is essential to recognise that, depending on the context and development achievements, there are areas where private investments would not go and must be substituted by public resources. The transition from public to private operations may translate in a slow process, including in key sectors covered by the MDGs (e.g. water and telecommunications).[37]

Secondly, 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 for the development of a market economy. It undermines competition, hampers the spread of business information and often diverts resources available for investment into defensive rather than development strategies.[38]

Two other areas of general policy recommendations indirectly related to the MDGs concern agricultural policies and the management of risk and vulnerability. The recent global increase in food prices raises the issue of whether poor countries should devote more resources to agriculture to become more self-sufficient. The fact that, in most developing countries, poverty is concentrated in rural areas may be yet another argument for governments placing more emphasis on agricultural policies. A recent World Development Report by the World Bank (2008) advises against ignoring countries' international comparative advantages in agriculture and new opportunities opening up in the global economy, even though this may have a cost in terms of self-sufficiency. However, it also recognises that the poverty reduction objective, and in effect the MDGs, require paying more attention to rural populations who are generally oriented towards the domestic market, even in areas where land is less productive. It insists, in particular, on efficiency gains that can be obtained from allocating more resources and directing more services towards rural populations.

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[37] Estache (2008)
[38] There is much evidence on this from the Regional programme on Enterprise Development (RPED) surveys of manufacturing firms in the 1990s, see for example Bigsten *et al .*(2000), Fafchamps *et al.* (2000).

To be successful, such an agricultural policy in low-income countries requires the adequate coverage of risk. 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, for example in relation to food prices. ODA by rich countries could 'smooth international shocks' to avoid the loss of benefits from international comparative advantage. For the same reason, insurance should be provided to small farmers and the rural economy. The idea of social protection against income uncertainty, including among farmers, is increasingly widely being perceived as necessary. Improving productivity, and increasing income, is only possible if farmers have adequate insurance against risks, whether originating from climactic factors or from markets. Policies that help firms and farm households to cope with risks, for example by introducing formal insurance, may substantially increase growth.[39] Recent work on Zimbabwe and Ethiopia indicates that their effect can be very strong: rural households would grow out of poverty much faster if they had access to safe assets or to formal insurance.[40]

More generally, recent experiences with expanded social protection schemes, have demonstrated the feasibility and affordability of expanding social protection. This reduces vulnerability and uncertainty helps reduce poverty and inequality and can promote investments in human capital. Examples of such schemes includes pioneering conditional cash transfer programmes in Latin America, which are also being replicated also in African contexts, and public works or employment schemes in some Asian and African countries.

6.2 MDGs specific national policies

The previous section referred to development in general rather than the achievement of MDGs per se. Of course, to the extent that development is strongly correlated with poverty reduction and progress on the health and education fronts, one could say that the preceding paragraphs implicitly refer to the MDGs. However, this is not totally accurate. Making sustainable progress towards the MDGs requires economic growth, as has been outlined in this paper. However it also requires more. For instance, some countries grow at a very fast speed, but their poverty rates decline slowly because of increasing inequality: this is the case with China. Making progress towards the MDGs thus also often requires more specific policies that go beyond improvements in sector specific programmes. In addition, there may be a requirement for policies or countrywide improvements aimed at enhancing the efficiency in the delivery of social services, such as good quality education and healthcare. Here too, overall MDG policy coherence is absolutely crucial at the domestic level.

Within a policy coherence framework, achieving the MDGs requires consistency between the general development strategy and the MDGs implementation strategy. One way of dealing with this is to focus on costs. Assuming a set of fundamental tasks that must be implemented in order to achieve the MDGs, one may rely on estimated fixed coefficients for each task and compute arithmetically how much is needed to succeed. This was the method adopted by the Millennium Project, which led to the 2004 MDG report to the UN. Such a fixed coefficient approach ignores the fact that 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, on the one hand, training more teachers means less educated workers available for the other sectors of the economy. This causes an increase in both teachers' salaries and the ministry of education's budget. In turn, this may result in higher costs of public services in general, modifying, possibly drastically, the budget constraint of the government. On the other hand, more skilled workers may accelerate growth in the medium or long-term. Understanding

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[39] 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.
[40] 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.

this complex set of interactions is necessary to establish an MDG strategy that fully takes into account the specificity of a country. [41]

Healthcare in African countries provides a good example of the issues. Whilst 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 geared to practically deliver treatment to large numbers. 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 in turn reflects not just poverty, but mainly the common (and correct) perception that the current quality of healthcare is not worth paying for.

Another illustration of the need for consistency between the national and the sectoral policy contexts is offered by assessing the scope for increased decentralisation and local participatory governance, such as the Community Driven Development (CDD), and the improved delivery of local public goods, both in quantity and in quality. This issue is particularly important for non-income MDGs, which are of more concern at the local level, namely schooling, healthcare or access to water (MDG7). In theory, participatory governance is commendable. The idea 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.

Critics disagree with these arguments and assert that local governments or communities are too susceptible to elite capture, that they lack technical, human and financial resources and that they are too prone to play upon divisive proclivities to allow for healthy interregional redistribution of resources. Moreover, their profligacy is likely to undermine macroeconomic stability[42]. Empirical evidence is hard to gather and interpret in this particular field. It has however drawn attention to the critical role of heterogeneity driven by several dimensions: social differentiation, political domination and ethnic fragmentation. The characteristics of the institutional environment do matter in its role as a support mechanism for decentralised development[43].

7. ‘MDG plus’: The road ahead

The difficulty experienced with keeping the MDGs on track, even in countries with excellent performance in terms of economic growth, raises the question of whether this set of goals represents the general objective of development in the appropriate way. Two lines of thought have developed on this issue. The first one would tend to introduce monitoring indicators, to allow both domestic policy makers and donors to see more clearly why progress is slow or fast on particular goals. In some ways this reinforces the UN initiative 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 may still miss some important aspects of the process that may lead to the MDGs. The second line of though is in favour of simplifying the existing MDGs, possibly replacing some of 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 an ‘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 comprehensive development strategies. Midway to 2015 deadline, this

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[41] As mentioned earlier, 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. See the description and some application of the MAMS model in Bourguignon, Diaz-Bonilla and Löfgren (2008).

[42] See, for instance Platteau, 2008; Mansuri and Rao, 2004

[43] See Bardhan and Mookherjee 2006: Chap. 1

debate is still relevant. This section reviews the main arguments on both sides of the debate, in 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 in aiding the development process?

Each of these questions leads, in turn, to some sub-questions that unpack the possible rationale, and that highlight the strengths and weaknesses, of the MDGs and the MDG 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 to. However, some of them, gender (MDG3), environment (MDG7) and international co-operation (MDG 8) raise questions that in fact apply to the other MDGs, and to the MDG process as a whole:

i) Do the MDGs command universal agreement and, if not, are there other excluded elements that would?
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?

Coverage of the MDGs. Each MDG is broad enough that many sub-goals, satisfying many constituencies, can be brought together under a particular umbrella. However, there are some categories that are excluded, the most prominent of which are voice and accountability as independent goals of development. The evidence on these categories’ effectiveness is decidedly mixed, as discussed earlier. However, conceptually and from a normative point of view, the real questions are: 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. In a world of limited resources, it is likely that there will often be situations where advance on one MDG will have to be at the expense, or postponement, of another. Suppose country A rushes ahead on MDGx but falls behind on MDGy, while for country B the situation is the other way round. 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 will be particularly relevant if aid allocation were tied to the MDGs, as it would be the case if it were more result-based.

Nature of the MDGs. Spending on teachers is an input, the number of teachers hired is an output resulting 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? 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 achieved. Scarce resources could be used to expand access at given or lower quality, or to improve quality for those who have access. Again, this raises questions of assessment – how are we to compare

two countries, one of which emphasizes quality, whilst the other emphasizes quantity? Such trade-offs are present within each of the MDG categories.

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 there is more and more clarity 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:

i) Goal setting at the national level focuses debate, decision and action.
ii) Goal setting helps quantifying resources needed from the outside, and helps mobilise world opinion for development assistance.
iii) Goal setting and performance assessment helps 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. What role can the MDGs play in this respect? One possibility is that they can act as *'international standards'*. If, generally, countries are adopting the goal of halving poverty by 2015, it is difficult to imagine domestic policy makers being less ambitious. In this sense the MDGs may help in 'raising the sights' of both policymakers and the population. Certainly, the rhetoric of domestic goal setting has adopted some of the MDG language but not much of it. But there is in fact a sense of lack of ownership of the MDGs in developing countries, as they are often seen as instrument for the developed countries. If the outcome of the domestic debate is to be more ambitious on some goals, but less ambitious on others, it must be accepted. For example, if the policy makers of a country feel that building roads is a key input to achieve many objectives, including education and health, they may spend more on infrastructure and less on education and health – but these input indicators should not necessarily be used as a gauge of their objectives on outcomes. Again, this is an issue of policy coherence, but also involves the knowledge and, possibly, normative judgements of domestic policy makers.

Goal setting and resource mobilisation. National level goal setting on outcomes can be a useful first step in quantifying resource needs. In order to do this, however, the crucial requirement is a credible model of the economy and of government intervention from which resource need, especially aid, can be established, particularly given the trajectory of the required outcomes. Such exercises are now routine in finance ministries, ministries of planning in developing countries and in aid agencies of donor countries and can be carried out for several of the MDGs. For example, the cost of achieving universal enrolment can be calculated and has been calculated county by country by the UN's MDG project.

The MDG process is not wholly necessary to conduct the sort of analysis described above. Indeed, many countries were already doing this analysis. However, the MDG process has the potential to put donor assessments of resource needs on a common footing, if all donors focus on the achievement of specified MDG targets. In addition, as seen above when discussing the result-based aid model, the MDGs can be used not only to estimate resource needs, but also to assess performance and thus to inform aid allocation and reallocation.

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 needs. The alternative would be to rely on the inputs supposed to lead to a specific result with respect to a given MDG. However, the complexity and the context specificity of the process that transforms inputs into outcomes may be such that it is easier to assess development efforts and performance through the MDGs themselves.

Take, for example, the 'reduction of under five mortality by two thirds' (MDG4). Very few would disagree with this as an objective of development. The question, however, is how to achieve it. Some argue that policies and interventions that maximise economic growth will achieve the objective. However, others argue that indirect routes (for example improving women's education and their empowerment) also work. Direct interventions (for instance vaccinating against diseases that kill small children), are also sometimes championed. There is little consensus on how exactly to proceed. Thus, assessing performance through the input side is bound to be contentious. Suppose the local government leans heavily on one of the three routes because it interprets the evidence differently from third parties. Is it then to be marked down in the performance assessment carried out by third parties and perhaps given less aid as a result?

MDGs may offer a way out of these dilemmas, although some issues might persist. Given the uncertainties in identifying specific channels of causation and given the difficulties of disentangling lack of political will from lack of technical knowledge, one route to assessing performance is to give far greater weight to the actual evolution of what the MDGs are targeting – child mortality in the specific case above. The MDGs, at least those that are clearly about outcomes and around which 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 could be a measure of performance.

There are still many other issues that require in-depth research. For instance, 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 development consistent manner.[44]

7.2 Is there a case for broadening MDGs for a better monitoring of development?

Another possible way out of the dilemma concerning the choice between outcomes (MDGs) and inputs (as means to reach the MDGs) in monitoring the pursuit of MDGs, is to combine both inputs and outcomes. This would imply upgrading the MDGs by adding a set of input-based monitoring indicators to the standard indicators usually considered in MDG assessments.

Various suggestions have been made to either extend the list of MDGs or to drop some of the targets associated with them. It is not always clear, however, whether these new targets are again monitoring instruments and inputs into specific MDGs from the initial list or new desired outcomes. Decent employment, recently introduced within the MDG/target set, may be considered as a crucial input of poverty reduction and an objective per se.

The same is true of various other suggestions that are often debated. We briefly consider three of them here to show that, even if the issues they refer to are clearly important, monitoring development and the original MDG process along these lines is unlikely to be either feasible or effective.

Should the financial, human and institutional absorptive capacity be monitored together with the MDGs? This question is clearly more general than any individual MDG – except probably MDG1 – since it deals essentially with macro-economic circumstances surrounding the MDGs and the macro-economic constraints in absorbing the aid that might be necessary to fund them. Although macro-economic coherence and consistency are key to the success of any MDG strategy, it may seem too far from the MDGs themselves to be taken as a one of the MDG monitoring indicators.

[44] see Easterly (2008).

Should the interpersonal, inter-regional and inter-temporal equity of the MDGs implementation strategies be monitored? 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. Development or general MDG strategies should definitely give some attention to this issue, provided that equity is interpreted as equality of opportunities, rather than exclusively incomes. But, here too, much caution is required. It is possible that an efficient development path and the efficient pursuit of the MDGs include at some stage a worsening of the distribution of income and maybe of some opportunities. As long as this is only temporary and will have no implications for the future, this may not be too much of a problem. Again, this is an issue that requires general monitoring by policy makers, but not necessarily in close relationship with the MDGs.

Should the voice revelation mechanisms be monitored? Voice is another area that has often been mentioned as a possible additional MDG. Our discussion on 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 in the presence of potential capture by the elite, but it may, on the other hand, be beneficial to the welfare of the poor and the pursuit of the MDGs in different contexts. Here too, defining indicators that would have uniform validity across countries and contexts seems rather inappropriate.

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 what is necessary to deliver MDG outcomes. Where they can be identified with not too much uncertainty, this could be addressed. 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 can 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 to install faster? Given the nature of these questions, it is unclear as to whether we can get very much of any uniform indicator describing the situation of a country in this area. Context specificity again is too important.

Overall, it would thus seem that, despite the view of some analysts, there is little justification in broadening the scope of the MDGs, adding more goals or more monitoring indicators.

7.3 Towards a forward-looking integrated view at MDGs and development

There are also arguments for reducing the importance of the MDGs and focusing more on general development objectives. Of course, this does not mean losing the MDGs. Quite the contrary, it means retaining them as either consequences or inputs in a dynamic process of development. Yet, by introducing a set of universal imperfect targets that mix together means and ends, and confuse stocks, needs and performance, the present MDG process may unintentionally 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.

To be successful in the future, MDGs would have to reflect the realistic aspirations of a population for conditions at a particular point in the future. This, in turn, would allow them to be relevant for the current generation and their children 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.

In the future, MDGs will have to take a form that ensures that different low-income countries are treated rather 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. In all likelihood they will continue experiencing deprivation in many dimensions and will not necessarily achieve the MDGs. However, with general optimism of what development can deliver in the decades ahead, and even with reasonably clear trajectories, they will eventually achieve them more or less shortly after the 2015 deadline. 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, albeit with well-defined possible trajectories.

The other group is of more concern. It includes countries with limited signs of hope, including (but by no means exclusively) many fragile states with severe levels of deprivation, but with relatively high incomes (such as Nigeria) that are currently often regressing rather than progressing in terms of the MDGs. A full compendium of MDGs does not make much sense here: a small number of priorities, which could establish processes that form the foundations of sustainable development, may be preferable. These could take the form of reductions 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 solely as backward-looking indicators. The point is, however, that it would be dangerous to adhere 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 questions 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 MDG monitoring industry could emerge, thus concealing the need for a more analytical approach to paths for achieving MDGs.

Every country in the world (and every large financial institution) has developed relatively careful mechanisms to assess growth in its own economy based on forecast models. These are entirely lacking in most countries in the world with regards to poverty and the MDGs. In the context of the MDGs, backward-looking performance monitoring has to be combined with, if not transformed into, a forward-looking strategic monitoring business. Based on past experience and knowledge about the heterogeneous processes of achieving different MDGs, we must make sure that they are well integrated into a framework that permits the design of efficient development strategies where MDGs are part of the objective function. Increasing their number is only likely to divert from more fundamental objectives.

8. Conclusions

The Millennium Development Goals have managed to focus world attention to the plight of the poorest and to achieve a significant reversal in ODA commitment. And they have provided a framework within which countries may plan their social and economic development and donors may provide effective aid. These are very significant achievements.

Midway to the 2015 deadline, noticeable progress has been recorded at the global level for some MDGs namely poverty reduction and gender parity goals. But achievements so far have been disappointing along many other dimensions. Moreover, progress has been highly uneven. 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 other 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. In effect, at this stage it looks as if most countries will fail most goals.

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. Moreover, the impact of growth on poverty has been smaller than expected due to rising inequality in the majority of developing countries since 1990. In addition, there is surprisingly little correlation of progress in the different MDGs. Thus, there does not seem to be a package that delivers all of them together. In particular, if economic growth seems to be a necessary condition to achieve the MDGs, it is certainly not sufficient. Other dimensions of development matter.

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 (i) are on the way toward achieving the MDGs; and that (ii) progress on this way 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.
At the country level, simple economics theory suggests that MDG performance is broadly driven by three main 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. In particular, the current slowdown in the world economy dims the outlook on growth for many developing countries, increasing the odds of lower capital, investment, and migration flows benefiting developing countries as well as increased risks of lower development aid.

The analysis conducted in this paper along the preceding line 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 MDGs due to 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. But they 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.

Donor community must deliver on 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$ 35bn per year, or approximately 35% 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 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 to deliver rapidly on all these pledges.

The crucial role of policies in developing countries

Third, 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 articulate MDGs with the pursuit of shared economic growth. This requires in particular strengthening economic and political institutions, good governance, a 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, etc.) 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 may 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 be drastically 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 in 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

At a time, the global economy is hit by various major shocks, the poorest need to be protected from their effects, whether these are fluctuations in income, high food and oil prices or the emerging consequences 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 are those lagging 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 thinking now 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 limits 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 presently 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 for 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-reviewing. All this provides a platform for further engagement with the agenda we have outlined.

At the same time, much needs to be done at the EU and its member states level to push this agenda forward. Achieving policy coherence, particularly in 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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