Overcoming the Obstacles

What will it take to lift the world's neediest out of poverty?

WITH the international community agreed on the Millennium Development Goals (MDGs), the debate is now focusing on how to raise the resources necessary to help poor countries achieve them. Aid in itself will not be enough to make substantial progress (see box). Rather, it is part of a larger agenda whose other main components are trade and debt relief. And sustained action on these three fronts—aid, trade, and debt relief—must be accompanied by better policies and governance in developing countries so that all available resources are used productively to encourage economic growth and improve conditions for the poor.

Against this backdrop, *F&D* wanted to find out what some of the key players thought were the main obstacles to reaching the MDGs. We spoke to the Catholic Agency for Overseas Development, a U.K. nongovernmental organization that has campaigned hard for further debt write-offs for the heavily indebted poor countries; Norway, one of the top five aid donors; and Bangladesh and Mozambique, two developing countries that have made good progress in implementing economic reforms and have also been able to continue servicing their debt.

The road from rhetoric to reality

Hilde F. Johnson

Minister of International Development, Norway

The MDGs have given us new hope—perhaps unprecedented—for the future of the millions who live under unacceptable conditions. For the first time, world leaders have agreed to make a difference for the poor around the world. From New York to Nairobi, from Paris to Pretoria, from Oslo to Ouagadougou, they have agreed on a common agenda to fight poverty and hunger. The MDGs are built on a wealth of political capital from all corners of the world. This capital must be spent wisely and swiftly on concrete actions to help the poor.

Our task is fourfold: creating a better trade, debt, and investment framework that allows for a more level playing field for developing countries; strengthening poverty reduction and pro-poor growth policies in developing countries; securing more and better coordinated development assistance; and encouraging business and civil society to play a greater role in fighting poverty. The MDGs must become guidelines not only for assistance and development policy but also for our overall political priorities. Coherence is essential for making progress on poverty.

Over the past decade, 54 countries have become poorer, while the gap between rich and poor countries has increased. The state of affairs in poverty alleviation has shocked us all to speak out and unite behind the MDGs. Political leaders and the public agree that the goals must and can be reached. This is a challenge and an opportunity of millennial proportions.

In Norway, we have been working hard to move in the right direction. We have virtually eliminated tied aid, as well as quotas and tariffs on products from all of the least developed countries. We are working on measures to improve market access for products from other developing countries. The events in Cancún illustrate the need for reforms in the international trade system. We remain strong supporters of the Heavily Indebted Poor Countries (HIPC) Initiative and other debt relief measures, knowing full well that such measures, coupled with appropriate social and economic reforms, make it possible for poor countries to increase investment in key sectors like health and education. Last, but not least, we aim to increase our overseas development assistance spending from its current level of 0.93 percent of GNP to a full 1 percent by 2005. This must be combined with a joint international effort for better and more efficient aid.

The primary responsibility for reaching many of the MDGs rests—as it must—with the developing countries. Without good governance and solid poverty reduction strategies in each country in need, millions of aid dollars will do little lasting good. But the rich countries must take responsibility for a trade and investment system that is failing the developing world, a fragmented and flag-touting donor society that frequently earns the "circus" label, and aid budgets that remain woefully inadequate.

The MDGs can be reached only if both the developed and the developing countries ensure that all policies, domestic and international alike, take into account the common goal of poverty reduction. Not as an afterthought. Not as a matter of secondary importance. But as a litmus test of the sustainability of our political choices. It is this test we have to pass.

Rethink debt sustainability criteria

Henry Northover
Policy Analyst, Catholic Agency for Overseas Development

It's crunch time for the World Bank and the IMF's financing strategy for low-income countries. The international financial institutions are facing a stark choice that will soon test the political will behind their stated aim of ensuring that low-income countries achieve both manageable debt burdens and the MDGs.

Three low-income countries coming before the Bank and the IMF present a problem for existing debt and aid policies. Niger, Rwanda, and Ethiopia have debt stocks pushing at the limits of their debt sustainability thresholds as defined by the HIPC Initiative. They also need additional resources if they are to finance their poverty reduction strategies and meet the MDGs. But the only additional financing available to them is in the form of new borrowing. And even if they borrow at the most concessional rates, they will move back into unsustainable positions. So the stark choice facing the Bank and the IMF is this: either they allow these HIPCs to break through their officially recognized debt sustainability ceilings or the countries do without the requisite finance and miss out on achieving the MDGs.

The fundamental problem lies with the criterion used to assess debt sustainability under the HIPC Initiative. At the moment, HIPC determines a country's debt sustainability by comparing its debt stocks against its annual export income. However, for most low-income countries, exports are an extremely volatile variable subject to the vagaries of weather, commodity price fluctuations, and economic shocks.

Debt campaigners argue that, tragically, a far more stable way to judge the level of affordable debt servicing is to balance debt-servicing obligations against the obligation to finance poverty reduction programs. Our proposal is to assess debt sustainability by how much finance governments need for their poverty reduction programs or the MDGs and to use debt relief as a way of closing any funding gaps.

In a recent paper (Northover, Ladd, and Lemoine, "Debt and the Millennium Development Goals," *www.cafod.org.uk/policy*), aid agencies argue for a new comprehensive MDG

Promises, promises . . .

For years, the UN has been encouraging countries to provide 0.7 percent of their gross annual income in development aid, and industrial countries reaffirmed their commitment to this goal at the UN conferences in Monterrey and Johannesburg. But, so far, only five countries—Denmark, Luxembourg, the Netherlands, Norway, and Sweden—meet that target. The good news is that official development assistance (ODA) is recovering from the all-time lows recorded in the past three years. In 2002, donor countries in the OECD Development Assistance Committee increased their ODA by almost 5 percent in real terms, raising it from 0.22 percent of gross national income to 0.23 percent. This rise included a 12 percent increase in U.S. aid to $12.9 billion, and a 3 percent increase in aid from the European Union (EU) to $29.1 billion. Also in 2002, this group of countries provided $57 billion in aid to developing countries.

But a number of estimates point to a need for at least $50 billion a year in additional aid to reach the MDGs. Reaching this sum would require almost a doubling of current aid levels. And because the international community has so far committed itself to increasing aid by only $16 billion annually by 2006, this leaves a sizable financing gap still to be filled.

What are the prospects that this gap can be filled in time to meet the goals by 2015? According to the OECD, the outlook is more positive than it has been for some time. Following commitments from most donors at the Monterrey conference, aid volume is expected to increase by about 30 percent in real terms by 2006. The EU, for instance, has pledged to increase its development assistance budget from 0.33 percent of EU countries' GDP to 0.39 percent by 2006. But even if these projections materialize, more money will be needed if the $50 billion figure is to be reached. The quality of aid must also be improved. Aid must be untied, and flows must become more predictable, so recipient countries can plan ahead. Donors must become better at coordinating their efforts. And then there is the question of whether aid should be provided in the form of loans or grants. Many low-income countries already have a high debt burden, and some countries that have benefited from debt reduction under the Heavily Indebted Poor Countries (HIPC) Initiative are in danger of once again having their debt become unsustainable.

Apart from its commitment to increase ODA, the international community has so far failed to agree on a common approach to the financing question. Even so, there are several proposals on the table. For example, the United States is pressing multilateral development banks—including the World Bank—to provide more aid in the form of grants. The United Kingdom last year proposed an international financing facility that it says would double aid flows from $50 billion to $100 billion annually by enabling donor countries to borrow from international capital markets. The UN, in its *2003 Human Development Report*, is calling for a new compact involving all development partners. It says the guiding question should no longer be: What can be achieved within the bounds of current development assistance? but instead: What levels and types of donor assistance are needed to achieve the MDGs, and will countries make effective use of that assistance? The report also encourages the World Bank and the IMF to help low-income countries mobilize the resources necessary to reach the goals, rather than telling countries to "lower their sights."

As all contributors to the debate on how to reach the MDGs agree, however, more aid is not an answer in itself. Progress on other fronts, including trade and debt relief, will have to be made if the world's poor are to be better off by 2015.

financing and debt sustainability strategy. We argue that the starting point should be determining the costs of low-income countries' poverty reduction strategies or of the MDGs. When debtor countries have an outstanding deficit between their net feasible revenues and MDG expenditures, enhanced levels of debt relief and aid should be mobilized to bridge the funding gap.

The Bank and the IMF are also considering reforming their debt sustainability criteria. They are looking at a more complex set of variables than that used in the HIPC Initiative. This is to be welcomed, but with strong caveats.

Any new approach using multiple criteria must make financing poverty reduction programs a top priority. There are two things the Bank and the IMF must do if their stated commitment to the achievement of the MDGs is to be taken seriously. First, they need to recognize that current debt stocks will have an impact on future external financing requirements. As a first step toward meeting the MDGs, most low-income countries need further debt write-offs. Up-front debt relief invested in good national poverty reduction strategies is a cheap, efficient, and effective form of resource transfer that will lighten future borrowing needs. Second, future borrowing strategies need to be made coherent with the MDGs. For instance, borrowing levels should be calibrated according to the levels of future debt servicing that are optimal for maximizing economic growth prospects consistent with achieving the first Millennium Goal.

But, ultimately, any rethinking by the international financial institutions will be determined by the joker in the pack—the political will of official donors. As nongovernmental organizations, we are adamant that it is not politically tenable for the donor community to give rhetorical support to the achievement of the internationally agreed poverty targets while refusing to implement the means by which to mobilize the outstanding financial support.

Moving beyond consensus

Luisa Diogo
Minister of Finance, Mozambique

The growing consensus on the MDGs is important and necessary, but it is not sufficient for effecting the social and economic transformation required for a significant improvement of welfare in developing countries.

General policy recommendations are abstract. To achieve the MDGs, developing countries must deepen their knowledge and innovate, design, implement, assess, adjust, and exercise ownership over their poverty reduction strategies, policies, plans, programs, and projects—which have to be tailored to the specific conditions of each country. Only if they do this serious work will they be able to formulate feasible strategies, policies, and programs that have a chance of being successfully implemented.

Over the past five years, Mozambique has been reshaping and (progressively) carrying out social and economic policies in pursuit of its main objective—poverty reduction through social and economic development.

A household survey carried out in 1996/1997 showed that absolute poverty was pervasive in Mozambique, with 70 percent of Mozambicans living below the poverty line. The high incidence of absolute poverty was associated with high illiteracy rates, low levels of education, and gender inequality in access to education; endemic diseases and a growing HIV infection rate; malnutrition; high infant and maternal mortality rates; lack of access to health care, fresh water, and sanitation; weak physical infrastructure; low productivity; environmental damage; vulnerability to natural disasters; regional imbalances; and high fiscal and external dependence.

The survey's findings led the government to deepen its commitment to improving the welfare of Mozambicans. Poverty reduction was explicitly adopted as a central objective of the five-year plan for 2000–2004. Mozambique's Poverty Reduction Strategy Paper (PRSP) serves as the main medium-term planning instrument and is one of the supporting documents for the elaboration of annual planning instruments, which are approved by Mozambique's Parliament. Hence, Mozambique's poverty reduction strategy is continuously subject to adjustment.

Priority programs are concentrated in six areas: education, health care, basic physical infrastructure, agriculture and rural development, good governance, and macroeconomic management. Environmental sustainability is another main concern, and the government is making efforts to ensure that the rules it has adopted in this area are followed by all institutions and investors. By selecting these priorities, the government has assumed responsibility for building human, physical, and institutional infrastructure, as well as for providing critical basic services and encouraging private initiative and investment. And, by doing so, it hopes to spur the kind of broad-based, inclusive economic growth that is critical to job creation and the reduction of poverty.

The government has adopted indicators that enable it to continuously monitor and evaluate its programs. At present, the education and health indicators are the most advanced. To monitor the incidence of poverty, the National Institute of Statistics (INE) plans to conduct household surveys every five years. A household survey similar to the one carried out in 1996/1997 to guarantee comparability has been under way since mid-2002. The preliminary results will be available at the end of 2003. In the meantime, the INE has delivered the findings of a limited survey on basic welfare indicators.

Within this framework, progress toward the MDGs is monitored through a broad subset of indicators related to the absolute incidence of poverty, the prevalence of

Doing repairs in a Mozambique workshop

HIV/AIDS and the number of children orphaned by the disease, the incidence of underweight children, access to fresh water, school enrollment and dropout rates, gender equity in schools, infant and maternal mortality, and malaria mortality.

Although Mozambique may meet the targets in its own programs, it may not be able to meet the MDGs at the same time. To do so, it will have to improve the effectiveness and efficiency of public services and vigorously and systematically update its PRSP. But, even if Mozambique becomes more efficient, it does not have the resources it needs to accelerate progress toward meeting the MDGs. Poverty limits Mozambique's ability to raise sufficient domestic resources, and it is therefore likely to require substantial predictable medium- and long-term inflows of concessional foreign financing. The likelihood of this happening is slim, however, given the downward trend of ODA flows.

Additionally, the conditions imposed by the Bretton Woods institutions on their loans to the developing countries and the advice they offer are due for a change: the stringent targets these institutions set for developing countries' primary balance may prevent the use of foreign resources needed for critical infrastructure programs. To accelerate radical changes in the poorest countries, the Bretton Woods institutions must reassess these targets, while developing countries need to eliminate their dependence on aid, which will require fiscal reform—a critical need in Mozambique—and time.

Moreover, the urgent need for a more favorable international trade environment for poor countries cannot be overlooked. Delays in the elimination of tariff and nontariff barriers and subsidies, particularly in the agriculture sector, have impeded the social and economic change needed if poor countries are to experience the faster economic growth that can bring them closer to reaching the MDGs.

Free and fair trade should back MDGs

M. Saifur Rahman
Minister of Finance and Planning, Bangladesh

In recent years, Bangladesh has made great strides. During the 1990s, economic growth averaged 5 percent a year, with per capita GDP growing by an impressive 3.3 percent. At the same time, we achieved remarkable success in reducing poverty in all its dimensions: the share of the population living below the poverty line declined from 59 percent to 50 percent, and significant improvements were made in enrollment rates and infant mortality. Compared with the development records of other low-income countries in the region and elsewhere, this is a unique success achieved despite many challenges.

A good rice crop in Bangladesh

We have aligned our development objectives with the MDGs and, earlier this year, developed a homegrown interim PRSP that outlines the policies we intend to implement to meet our development goals. In the strategy document, economic growth is targeted to rise from 5 percent to 6–7 percent so that the proportion of the population living in poverty can be halved by 2015.

The current government took on the task of advancing development from the day it entered office in October 2001. It first had to confront the onerous task of managing a weakened economy. Economic mismanagement of the previous regime had opened up economic fragilities, which left Bangladesh fully exposed to external shocks caused by the faltering global economy. Against this backdrop, the government implemented a set of pragmatic recovery programs, including improvement of budget management and deficit reduction, rationalization of economic policy, and reforms in state-owned enterprises, trade, and the banking sector. The Bangladesh taka was floated successfully.

Implementation of these reforms required significant and sometimes painful efforts, but the benefits were substantial and universal. Economic stability and growth momentum were restored. GDP growth in 2002–03 was around 5.3 percent, and inflation was contained to 4.4 percent. Reversing the negative growth of the previous year, exports grew at the respectable rate of 9.5 percent, and international reserves, which had fallen to precariously low levels when this government assumed office, have since doubled. According to the latest UN *Human Development Report*, Bangladesh has graduated from the lowest human development category to the medium human development category. The World Bank has markedly increased its financial support to Bangladesh on the basis of the improved performance. In addition, we have secured a loan from the IMF under the Poverty Reduction and Growth Facility.

Looking ahead, we are well aware that there is no quick fix for poverty. Good governance, sound macro policies, and people's participation are cornerstones of our development strategy. But they are not enough. Like other low-income countries, Bangladesh needs huge investment for the development of physical infrastructure and human resources. And like those countries, Bangladesh has to rely on external sources for financing of key investments. In this context, we appreciate the support of the World Bank and the IMF for the ongoing reforms in Bangladesh. However, the IMF and the Bank need to be more flexible and take better account of the dynamic socioeconomic and political constraints to reform in a democratic country. Support should be provided in a forward-looking manner, taking into consideration what can be achieved, and not be singularly focused on the track record so far.

We would also like to encourage the IMF, in its role of "gatekeeper" for mobilizing donor support for low-income countries, to go beyond its traditional core areas and actively coordinate efforts of other development partners. Bangladesh also needs preferential access for its exports to the markets of developed countries. The Bank and the IMF will have to play a greater role, not only in mobilizing concessional aid, but also in ensuring free and fair trade for the developing countries. ■