DRAFT PAPER:

The MDGs and pro-poor policies:

can external partners make a difference?

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Note:

The author has given the Southern African Regional Poverty Network (SARPN) permission to post this draft paper on the SARPN website. The author welcomes any comments that readers might have of the analysis. They can be sent to the author at: **jan.vandemoortele@undp.org**

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"There are times when the enunciation of even the most elementary common sense has an aspect of eccentricity, irrationality, even mild insanity."
J.K. Galbraith

1. Introduction

The partnership between rich and poor countries takes many forms, including foreign aid or official development assistance. In essence, there are two major dimensions to that partnership: one is concerned with 'money changing hands' the other with 'ideas changing minds'.

The former covers the important aspects of budgeting, accountability and transparency; addressing the question where to spend aid money—geographically and sectorally—and how to spend it—direct budget support vs. technical assistance; bilateral vs. multilateral channels; government vs. non-government projects; development vs. humanitarian programmes; project vs. programme aid; centralised vs. decentralised management; etc. In essence, they represent a one-way street focused on money matters; often leading to micro-management at the expense of the larger objective of reducing human poverty. Once money is put on the table, the nature of the partnership between poor and rich countries changes dramatically; with concerns about procurement, accounting and reporting often overshadowing the pro-poor dimensions of aid. Therefore, it is best to keep the money outside the room until the broader issues of development are discussed and agreed upon.

When the partnership is too much focused on money issues, little time and energy are devoted to the crucial dimension of 'ideas changing minds'. However, it is only when the ultimate purpose of foreign aid is made clear and agreed upon between the recipient and the donor—mostly through active listening on the part of the latter—that its effectiveness and efficiency will measurably improve. Indeed, the issues related to 'ideas changing minds' involve a two-way traffic for advancing a genuine pro-poor partnership.

This paper focuses on the dimension of 'ideas changing minds'. It asks whether the Millennium Development Goals (MDGs) and the Poverty Reduction Strategy Papers (PRSPs) offer new opportunities for enlarging pro-poor policy choices at the country level. This question is broken down into more specific questions, including: Can all MDG indicators be taken at face value? Are we on track to meeting the MDGs by 2015? Does equity matter for the MDGs? What are pro-poor policies? Is narrow targeting always good for the MDGs? Are policies becoming more pro-poor and MDG-friendly? Can foreign aid help enlarge pro-poor policies and accelerate MDG progress? The paper concludes by proposing seven practical steps for operationalising the MDGs, based on country experiences where a target-driven approach to development has made a difference in the past.

2. Can all MDG indicators be taken at face value?

Before assessing MDG progress, it must be pointed out that not all indicators offer equally good gauges of reality. All economic and social indicators are based on two ingredients: observation and construction; but not all use them in the same proportion. The reliability of an indicator tends to decline as more construction is involved because construction involves making assumptions. Statistics on water, for instance, frequently overstate access in urban areas because they classify residents within 100 metres of a public supply point as adequately covered, based on the assumption that the same water tap or pump can serve the needs of the other 500 or 1,000 residents within that radius—always assuming that the tap or pump is actually in good working order.

In education, it is easier to observe whether a child is enrolled in school than to monitor whether she will complete primary education because of the possibility of repetition, dropout, re-entry and ultimate dropout. Hence, the indicator called ‘completion rate’ is more problematic than the ‘enrolment ratio’ because the former needs more construction. Similarly, it is not possible to visit a village or a slum and observe whether someone earns less than $1 per day; whereas it is possible to observe whether a child survived her fifth birthday or whether she is malnourished. As income poverty cannot be readily observed, it needs a large set of information and a complex process of construction—creating many occasions for errors and omissions to occur.

The world reportedly made impressive progress in the fight against income poverty during the 1990s; with the proportion of people in developing countries below $1 per day declining from about one third in 1990 to less than one quarter in 1999. But the World Bank data show that the global trend was heavily influenced by the two most populous countries—China and India. When they are excluded, the global poverty performance during the 1990s becomes one of stagnation, not of remarkable progress. This illustrates how the level of aggregation can influence claims about MDG trends. What is valid at one level of aggregation is not necessarily valid at another level. Kanbur [2001] argued that disagreement over policies can often be traced to differences in the level of aggregation.

The same is true for the choice of the indicators. What is valid based on one indicator is not always valid for another indicator. After reviewing four different definitions and measurements of poverty, Laderchi *et. al.* [2003] concluded, “What is striking, however, is that low levels of poverty according to one measure are compatible with high levels of poverty according to another.”

Therefore, one always needs to be aware and to beware. The choice of the indicator and the level of aggregation at which the analysis is done influence and shape many of the claims and conclusions made in social sciences, including development economics.

A growing number of analysts argue that the international poverty line of $1 per day is not a good poverty gauge [Reddy & Pogge, 2003]. In other words, a dollar per day does not necessarily keep poverty at bay. Many agree that the use of a national poverty line is preferable to the use of the international poverty line of $1 per day. Morrisson [2002], for instance, compared cross-country data on malnutrition with income poverty, using both national and international poverty lines. He concluded, “the number of malnourished children is correlated to the number of poor individuals if we use the national poverty line; they are less satisfactory, however, when we use the measure of $1 per day.”

In short, all indicators are imperfect but some are more imperfect than others. Among the indicators that are most frequently used, the top five we prefer for their reliability, coverage and relevance are: (i) under-five mortality rate, (ii) underweight among children, (iii) net enrolment ratio in primary education, (iv) ratio of girls to boys in primary and secondary schools, and (v) the proportion of births attended by skilled health personnel. The five we consider most problematic include: (a) proportion of the population below $1 per day, (b) proportion of the population below a minimum level of dietary energy consumption, (c) primary completion rate, (d) maternal mortality ratio and (e) the proportion of the population with access to safe drinking water. These indicators involve a high dose of construction, which can easily lead to esoteric statistics.

3. Are we on track to meeting the MDGs by 2015?

The internationally agreed agenda for development is summarised in the Millennium Development Goals (see box). The MDGs are morally imperative and legally binding as embedded in human rights treaties; they are technically feasible and financially affordable; they also make good economic sense. Yet, all is not well with the MDGs.

> The Millennium Development Goals (MDGs) are a set of measurable and time-bound targets that were adopted at the UN Millennium Summit in 2000. Achieving the MDGs at the global level would mean that during the lifespan of this generation, we would:
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> - halve the proportion of people suffering from extreme poverty and hunger;
> - guarantee that all children complete primary school;
> - ensure that girls have the same opportunities as boys;
> - reduce by two thirds a child's risk of dying before age five;
> - reduce by three quarters a mother's risk of dying from pregnancy-related causes;
> - halve the proportion of people without access to safe drinking water;
> - stop and reverse the spread of HIV, malaria & TB;
> - protect the world's ecosystems and biodiversity;
> - give people greater access to essential medicines; and
> - ensure that rich countries grant steeper debt relief, more foreign aid and fairer opportunities to trade.
>
> Many of these targets will be met either together or will not be met at all. For example, estimates suggest that an additional year of education of the mother reduces child mortality by about one-tenth. Education also proves to be a potent 'vaccine' against HIV infection. Greater access to safe water improves both the health and education profile of the population. Without more aid, trade and debt relief, most MDGs will remain unmet. Such complementarities and positive externalities exist for several other MDGs.

Without denying the great diversity in performance across countries, the story of the 1990s can be summarised in three main points. First, MDG progress continued but at a pace that was too slow for reaching the agreed targets by 2015. Second, in many cases less progress was made in the 1990s than in the 1970s and 1980s. Third, in many countries much of the progress bypassed the poor—the very people for whom the targets were meant in the first place.

Indeed, the 1990s were characterised by an unprecedented number of cases where human development stagnated or reversed. After seeing steady improvements over time, the number of countries that saw their human development index decline rose to 21 in the 1990s, compared with only 4 during the 1980s [UNDP, 2003a]. Most of the HDI reversals stemmed from HIV and economic crises, particularly in sub-Saharan Africa and in the transition economies. Nevertheless, it remains a bit of an enigma why the global prosperity of the past decade did not lead to faster and more robust progress in terms of human development. After all, the 'roaring' 1990s were associated with booming foreign direct investment and soaring trade flows—all part of the phenomenon of globalisation.

As of 2000, the world was reportedly on track for only two targets—income poverty and access to safe water. Both, however, have serious measurement problems. We believe that global poverty trends based on the metric of $1 per day are not a robust source of information. Given the inherent weakness of a fixed and static international poverty line and given the inaccurate PPP conversion rates, global poverty estimates must be interpreted with great caution. As to the water target, the picture is also clouded by measurement problems—although less severe than for the poverty target—and by the fact that much of the progress of the 1990s may not be sustainable as many parts in the world face growing and acute water shortages.

At the global level, most targets for hunger, health, education and gender equality witnessed about half the progress they should have seen during the 1990s in order to reach the agreed goalposts by 2015. For HIV/Aids, little or no progress was achieved apart from a few countries. Progress towards building a global partnership for human development was also disheartening.

Perhaps most disappointing was the progress for one of the most important MDG targets—primary education. There is no good reason why universal primary education should not be a practical reality today. Its cost is perfectly affordable; no new technologies are needed; everyone agrees that it makes good economic sense; and basic education is a fundamental human right. If these reasons are not sufficient to ensure success vis-à-vis the education goal, then we can only wonder what it will take to meet the other MDGs. Sadly, the failure to keep the education promise will undermine the chances of reaching the other MDGs—because of the high intrinsic and instrumental value of primary schooling.

The above picture does not get any brighter when we look beyond national averages. Not only was progress inadequate in most countries during the 1990s, much of it bypassed the poor. Slow 'average' progress was frequently compounded by limited progress for the poorest and most disadvantaged groups within countries. Global targets are primarily meant to help improve the situation of poor people, not only that of better off and privileged people. Unfortunately, the poor have benefited proportionately little from 'average' progress, as evidenced by widening disparities in terms of education, nutrition and health.

In sum, the world is not on track to meeting the global MDG targets by 2015. It is even difficult to argue that the glass is half full. The plain fact is that the 1990s saw less progress in the fight against human poverty than the 1980s and 1970s, in part—but not exclusively—due to the impact of HIV. Indeed, we have to admit that the way the global MDGs were formulated is not conducive to success because the HIV pandemic was acknowledged but not really internalised. By and large, global MDG targets were set on the premise that the global trends observed in the 1970s and 1980s would continue till 2015—i.e. during the lifetime of the current generation. While there is a separate target for halting and reversing HIV trends, the global targets for health, education and hunger were set as if no HIV pandemic existed—obviously overlooking the undeniable fact that HIV is already slowing down global progress in health and beyond.

Yet, the MDGs are not mission impossible; they are doable propositions While the 1990s failed to generate the desired progress in terms of reducing human poverty, it is not too late to avoid that the legacy of this generation will be a series of broken promises. Experience shows that stronger leadership, deeper participation, genuine partnerships, more home-grown pro-poor policies and extra money can put the world back on the MDG track.

4. Does equity matter for the MDGs?

After reviewing the growth literature, Temple [1999] concluded, "it has become extremely difficult to build a case that inequality is good for growth." Persson & Tabellini [1994] stated, "inequality is harmful for growth." Ravallion [2000] wrote, "On balance, the existing evidence […] appears to offer more support for the view that inequality is harmful to growth". Williamson [2003] admitted that if anything was omitted from his original ten reforms that made up the 'Washington Consensus', it was the need for "correcting the appallingly unequal income distributions that afflict the region [Latin America]."

Nevertheless, most poverty reduction strategies overlook equity concerns, big time. At best, the existence of inequalities is recognised but concrete policies to reduce them remain absent. This is exemplified by gender equality, which continues to get scant attention in most anti-poverty plans. A recent review by the World Bank [2003a] of 27 Poverty Reduction Strategy Papers reported that as many as 10 failed to include even the slightest recognition of the gender goal. Yet, gender equality is at the very heart of achieving the MDGs.

It is incorrect to assume that higher 'average' income will automatically lead to less poverty. Indeed, economic analyses raise the spectre of reasonable doubt. Recent research has documented the existence of a close link between high inequality and slow economic growth. Equity in terms of access to opportunities and basic services is central for poverty reduction. High inequality is not only harmful for the poor; it also inhibits economic growth and often delays overdue policy reforms. Thus, equity is good for the poor because it is good for growth. Growth alone is not the answer; only when the poor participate in, contribute to and benefit from economic growth will it make a measurable and lasting dent on human poverty.

Our concern about equity is not solely driven by noble ideals and compassion; it is primarily motivated by the need for laying the foundation of a strong economy. A just society can only emerge when there is a level playing field at the starting line. Only when people are given the means to become agents of their own development, rather than recipients of aid or handouts, will poverty reduction be sustainable.

Universal coverage of basic social services of good quality is key for ensuring equitable growth. Without their universal coverage, the virtuous circle of social and economic development will remain elusive. Once access to an integrated package of basic social services of good quality becomes universal, social progress and economic growth can be rapid and sustainable.

The increased attention paid to basic social services is the result of the 20/20 initiative. Born at the 1995 Social Summit in Copenhagen, it calls for the allocation of an indicative 20 per cent of the national budget and ODA to basic social services—comprising basic education, primary health, reproductive health, water and sanitation, and nutrition. The actual shares—as estimated for the mid-1990s—were both about 12 per cent [UNICEF & UNDP, 1998]. While both have shown a tendency to increase, faster progress from a 12/12 ratio to a 20/20 compact will be essential for reaching the MDGs.

Showing that foreign aid can help improve the access of people to primary health care, basic education and safe water will make it easier to convince parliamentarians and the public in donor countries that aid has a tangible impact on the lives of the poor. A greater focus on basic social services, therefore, will help reverse the decline in ODA that was observed in the 1990s.

5. What are pro-poor policies?

The concept of pro-poor policies is frequently kept vague and general. Growth is pro-poor, it is argued, if it uses the assets that the poor own, if it favours the sectors where the poor work and if it occurs in areas where the poor live. These obvious points, however, are seldom decoded into detailed reforms to make policies pro-poor in practice, not in theory. As is often the case, the devil is in the details. Once the objective of reducing human poverty is taken beyond the abstract level, it usually ceases to look as a 'universal good'. An honest search for real solutions to poverty invariably leads to hard trade offs and tough policy choices—hence the tendency of many to play it safe by sticking to conventional wisdom and generalities, even platitudes.

Pro-poor policies imply that the social and economic indicators for poor people improve more rapidly than those for the rest of society. It is not sufficient that the indicators for the poor improve; they have to improve at a faster pace than for the non-poor because absolute poverty always has a relative dimension. Therefore, before being called 'pro-poor', the policy framework needs a thorough examination.

McKinley [2003] draws a series of important lessons form UNDP's review of how macroeconomic policies incorporate—or fail to incorporate—the objective of reducing poverty in a number of Asian countries. One of them is that the policy framework needs to accommodate a more expansionary fiscal stance. Williamson [2003] calls for counter-cyclical fiscal policies instead of pro-cyclical ones, while recognising that urging fiscal restraint in times of plenty is never easy to do politically.

The standard macroeconomic framework tends to limit public investment programmes, based on the argument that they crowd out private investment. This, however, is at odds with empirical evidence. Public investment in sectors such as energy, rural roads, irrigation and primary schools has often generated and stimulated private investment. Public investment is key for fostering growth and reducing human poverty, as was the case in the Republic of Korea in the past and still is today in China and Viet Nam. But many governments lack public revenue to invest in growth and to fight poverty. Trevor Manuel [2003], South Africa's Finance Minister, recently wrote, "Most African states need to expand, not contract, their public sector".

Government needs to raise more money, besides allocating it better. While most poverty reduction strategies now devote more attention to directing scarce budgetary resources to pro-poor expenditure, few address the issue of raising more domestic revenue in a progressive way. Public revenue that accounts for 10 per cent or less of national income is woefully inadequate for reducing human poverty. In most developing countries, domestically raised revenue is too small, not too big.

Tax systems often make the poor pay proportionately more than the non-poor. In the 1990s, trade liberalisation reduced the significance of taxes on imports and exports as a source of public revenue. In many low-income countries, they were replaced by taxes on consumption, which tend to be more regressive than direct taxes. The lure of the value added tax (VAT) proved particularly irresistible. According to IMF data, the number of developing countries that adopted VAT more than doubled—to 73 in 2001 from 30 in 1989. By contrast, taxes on income and wealth remained low or were subject to generous loopholes and lax enforcement. The Inter-American Development Bank [1999] documents the regressive nature of the tax incidence for several Latin American countries. The evidence clearly shows that the tax system in many countries has become more inequitable and less pro-poor. Reforms are needed in direct and indirect tax policies to generate more domestic resources for the MDGs, and do so in a more progressive way.

McKinley [2003] and others have argued that tight inflation targets can hurt the poor. Out of 20 low-income countries recently reviewed by Oxfam [2003], 16 had an inflation rate of less than 5 per cent per year. The standard argument is that inflation is particularly bad for poor people because they are unable to maintain their level of consumption by drawing from savings. Therefore, stringent fiscal and monetary policies to achieve macroeconomic stability are assumed to be pro-poor—virtually by definition. However, the case that the poor are the prime victims of inflation has not been solidly proven. If the poor consume more own-produced goods and services than the non-poor—as is confirmed by numerous household-based studies—then they will be less affected by inflation because their consumption basket is less monetised. If anything, the experience in Latin America has shown that middle class families are most vulnerable in situations of high inflation—mostly because they are unable to protect their modest assets against monetary erosion.

What has been established is that moderate inflation—less than about 20 per cent annually—is not damaging for growth or the poor. Some will interpret this as a licence for pursuing policies of big spending, huge deficits and hyperinflation. This is absolutely not the case; we simply point out that there is no strong evidence in support of the argument that very low inflation is either pro-growth or pro-poor. Actually, too low an inflation rate can be as harmful to the poor as too high a rate of inflation. In several countries, the danger associated with too much inflation is being replaced by the risk of deflation—a spiral of falling prices, declining wages, negative growth and job losses.

All observers agree that macroeconomic instability hurts the poor as well as the economy at large; but the objective of poverty reduction cannot be considered as an automatic by-product of macroeconomic stability. It cannot be assumed that any policy mix to achieving price stability will always be pro-poor and pro-growth. That would be an act of faith, not based on facts. In practice, few of the macroeconomic policy reforms explicitly consider their impact on the poor. A recent IMF review, for instance, concluded that none of the documents that supported the Poverty Reduction and Growth Facility (PRGF) "present a rigorous study assessing poverty and social impact" [Inchauste, 2002].

If the commitment to the MDGs is genuine, then the objective of reducing human poverty must drive the policy framework, not the other way round. Although the introduction of the PRSP and the PRGF are an implicit admission that reducing poverty has to go hand in hand with increased public spending and more flexible macroeconomic policies, their policy framework seldom goes beyond the paradigm of fiscal conservatism and monetary orthodoxy.

Still according McKinley [2003], the record of financial liberalisation has been neither pro-poor nor pro-growth. It often destabilised the economy and denied access of poor people to credit. Real interest rates have tended to rise and the spread between the deposit and lending rates has widened—both undercutting jobs and growth. Farm and non-farm enterprises lost access to credit as banks focused on short term lending for consumer durables in urban areas. Banks and corporations have resorted to short-term external borrowing, making the country vulnerable to capital flight—and wreaking havoc in times of crisis, as was the case in East Asia in 1997. Birdsall [2002] wrote, "The 'villains' among the reforms have not been trade liberalization or privatization, but financial sector reforms and the opening of the capital account." Yet, financial liberalisation continues to be part of many so-called poverty reduction strategies.

Similarly, trade must be liberalised cautiously. Surging imports have had destabilising effects in many countries. Moreover, the benefits from trade are often concentrated in enclaves or benefit people with skills or capital that are beyond the scope of the poor. Also, heavily subsided exports from rich countries—for agricultural commodities such as cotton, sugar, fruits, maize, meat and diary products—have played havoc with the livelihood of millions of smallholders in poor nations. A recent study by Carnegie [2003] concluded that NAFTA (the North American Free Trade Agreement) has hurt subsistence farmers in Mexico and that the expected gains in jobs did not materialise; neither did it prevent real wages from declining and income inequality from rising. As other cases have suggested before, the study shows that it is incorrect to assume that trade liberalisation will automatically yield outcomes that are pro-poor, pro-jobs and pro-growth.

UNDP [2003b] recently reviewed how the global trading system can hurt the prospects for human development in low-income countries. The evidence supports the argument that open trade is more a result of development rather than a prerequisite for it. As countries grow richer, they gradually take advantage of new opportunities offered by global trade. Trade follows development, it seldom leads development; the causation between growth and trade has seldom been in the other direction. While recognising that no country has ever developed by keeping its borders closed, it is equally true that no country has developed by throwing open its borders to foreign trade.

The potential impact of trade on human poverty has also been affected by the entry of intellectual property rights in the policy arena. The TRIPS agreement (Trade-Related Intellectual Property Rights) has gained public attention as patents have barred access to anti-retroviral medicines for millions of HIV+ people in low-income countries. The rules regarding intellectual property rights have to balance the dual objective of serving as an incentive for innovation and for guaranteeing fair access to its results for poor countries and poor people. On balance, the TRIPS agreement has tended to err in favour of the former. Moreover, there is no strong evidence that patent protection has led to more research and innovation vis-à-vis tropical diseases. Also, the days are long gone when a pharmaceutical company gave away a profitable patent based on the conviction of its CEO that “medicine is for people not for profit”—a position taken by George W. Merck some 50 years ago when his company released its hold on the exclusive rights to the first antibiotic against tuberculosis.

6. Is narrow targeting always good for the MDGs?

Most poverty reduction strategies recommend targeted interventions on narrowly defined social groups or geographical areas. Narrowly targeted programmes are increasingly prescribed for reasons of efficiency and cost savings—for they claim to minimise leakage to the non-poor. Obviously, the merits of targeting depend on the nature of what is being targeted. Targeting fertiliser subsidies or micro credit, for instance, is very different from targeting vouchers for primary education or anti-retroviral drugs.

As far as basic social services are concerned, narrow targeting can have huge hidden costs. They result from the fact that it is often difficult to identify the poor and subsequently to reach them because the non-poor—most of who remain ‘near-poor’—seldom fail to capture a large part of subsidies that are destined for more destitute people. Also, administering narrowly targeted programmes is at least twice as costly as running untargeted ones. In addition, out-of-pocket costs can be a real obstacle because the poor must frequently document eligibility—which involves expenses such as bus fares, apart from the social stigma they generate.

Most importantly, however, is the fact that once the non-poor cease to have a stake in narrowly targeted programmes, the political commitment to sustain their scope and quality is at risk. Many countries have launched social investment funds or social action programmes but few of them have been institutionalised; most remain under the political patronage of the President or the First Lady. Therefore, the voice of the poor alone is usually too weak to maintain strong public support. That is why programmes meant to benefit exclusively the poor frequently end up as poor programmes.

Although social safety nets can lead to rapid responses in situations of crisis and emergency, they are seldom effective. Even if they are cost efficient, they are not necessarily effective because they are usually under-funded and seldom reach a significant proportion of the poor.

Another way of generating budgetary resources is through user fees. Fees are often justified on the ground of pragmatism. To reject them on the basis of principle, the argument goes, would leave large segments of the population un-served for the foreseeable future. Also, proponents of user fees argue that the policy of providing free primary education has failed to deliver quality schooling for all. User fees for basic education exist in over a dozen sub-Saharan African countries, including in Burundi, Cape Verde, Central African Republic, Madagascar, Mali, Swaziland, Tanzania, Zambia and Zimbabwe. It must be noted that none of these countries comes close to achieving full enrolment.

A review of experiences with user financing of basic social services leads to a more cautious stance [Reddy & Vandemoortele, 1996]. Despite the very modest amount of money they generate, user fees invariably lead to a reduction in the demand for services, particularly among the poor. Attempts to protect the poor—through exemptions or waivers—are seldom effective, although often expensive. The introduction of user fees also tends to aggravate gender discrimination, seasonal variations and regional disparities. Since basic services are public goods with strong synergies and positive externalities and are subject to principal-agent interactions and asymmetrical information, price signals will not guarantee greater efficiency and effectiveness.

Thus, basic social services should be either free or heavily subsidised—regardless of whether they are provided by public, private or non-governmental agencies. Whenever the option is contemplated of sharing their cost with the users, special attention needs to be paid to important details such as: retaining the bulk of the revenue and its spending authority at the local level; ensuring that users will see an immediate improvement in the quality of the service by using the extra money for quality enhancing inputs such as essential medicines, textbooks and spare parts of water pumps; relying heavily on community participation in the design and management of the cost recovery scheme; accepting different types of contributions (in cash, in kind or in labour); implementing an exemption scheme that is transparent and based on measurable criteria that are agreed by the community; exempting selected services and specific target groups that can be easily identified (such as pregnant women); using graduated fees whenever possible to promote cross subsidisation; and conduct regular monitoring to adjust and improve the scheme.

It is critical to demonstrate that user fees do not substitute for existing budgetary allocations. In the interest of both the users and the providers of services, it is important to maintain adequate regulation and oversight because self-policing has proved inadequate and ineffective—both for public agencies and private companies.

Since the mid-1990s, school fees have been abolished in Malawi and Uganda and more recently in Kenya. That pro-poor policy decision was followed by a surge in enrolment in all three countries; with girls being the prime beneficiaries. These positive experiences illustrate that even small nominal fees can be formidable obstacles for poor families. Nevertheless, the sceptics argue that such measures generated short-lived gains. As enrolment increased, they claim that the quality of education dropped precipitously so that pupils and parents lost interest in primary schooling. They argue that the surge in enrolment was soon followed by a surge in dropout—nullifying most of the initial gains. Whilst it is true that the initial spike in enrolment levelled off in subsequent years, it cannot be denied that enrolment stabilised at levels that were considerably higher than the ones that prevailed prior to the policy reform.

While narrow targeting, user fees, and social action programmes or social investment funds can play a role, they can never be the mainstay of a country's anti-poverty strategy. In most contexts, they are likely to yield savings that are 'penny-wise but pound-foolish'. High achieving countries in terms of human development—such as Costa Rica, the state of Kerala (India), the Republic of Korea and Mauritius—all applied broad targeting; none of them relied on shortcuts in the form of narrow targeting [UNICEF, 1995].

There is no doubt that public spending on basic social services includes wastage; but those who argue that existing budgets have to be used more efficiently before more public money can be invested fail to see that insufficiencies can—and often do—aggravate inefficiencies. Indeed, inefficiencies and insufficiencies in public spending are not independent but very much interdependent. For example, when 95 per cent or more of the budget for primary education is needed to pay teacher salaries—a basic expense—there is little scope for improving the quality of education. In such cases, extra resources will be a prerequisite for enhancing the efficiency of public spending.

7. Are policies becoming more pro-poor and MDG-friendly?

Poverty reduction strategies continue to look strikingly similar, even for countries that face very different challenges. If they were genuinely homegrown, it would be reasonable to expect that anti-poverty strategies would look a lot more diverse and different. Actually, most of them are little different from the policy framework that was prescribed during the era of structural adjustment of the 1980s, apart from the important fact that many now make a stronger case for basic social services. Growth continues to be seen as the panacea, and macroeconomic stability, financial deregulation and trade liberalisation as its prerequisites. But not everybody shares the faith some analysts have in the power of growth for reducing human poverty.

The centennial anniversary of the invention of flying offers an interesting analogy. The main protagonists in the competition to design the first flying machine in the United States in the early 1900s were Samuel Langley and the Wrights Brothers. With generous support from the War Department, Langley's strategy was to use brute power to get his theoretically stable machine aloft. The Wright Brothers, on the other hand, developed an engine that was less powerful than Langley's because they understood that moderate power combined with smart design would be sufficient to get airborne. The analogy is not unlike the different paradigms between those who strongly believe in the power of economic growth to reduce human poverty and those who argue that the pattern of growth and the design of pro-poor policies do matter at least as much as the rate of economic growth.

Participation is essential for enlarging pro-poor policy choices at the country level, and most PRSPs have generated more inclusive public debates and policy dialogues. But by itself, participation does not guarantee pro-poor outcomes. In many cases, participation has been more about process than about content. An evaluation commissioned by UNDP [2003c] regarding its role in the PRSP process found little or no correlation between the breath of participation and the policy content of the PRSP. Stewart & Wang [2003] also concluded, “PRSPs do not significantly empower poor countries.” Representatives from line ministries, trade unions, employers’ federations, civil society and academia are beginning to feel that they are involved in a process of ‘choiceless’ participation; sensing limitations for generating homegrown strategies.

Although the significance of basic services is now recognised more broadly, few poverty reduction strategies explicitly align their policy framework with the MDGs. The IMF [2003] reported, for instance, that low-income countries cut inflation and import tariffs by half over the past decade, reduced their budget deficits and improved their foreign exchange reserves; yet by its own admission these countries made little progress in terms of income growth and poverty reduction. Nonetheless, the validity of the standard macroeconomic framework is not called into question. Instead, the tendency is to add new elements to the policy matrix in terms of structural reforms, improvements in the rule of law, enforcement of property rights and civil service reform. A more ambitious and accommodating policy framework focused on the MDGs is seldom considered.

Most poverty reduction strategies still fail to translate the concept of pro-poor growth in specific and practical policy measures. An independent evaluation on the impact of the International Development Association (IDA)—the window of concessional lending at the World Bank—on poverty concluded, “the development outcomes of IDA programs have been partially satisfactory” [World Bank, 2001]. The evaluation confirmed that while macroeconomic stability improved and many economic distortions were removed, no strong evidence emerged as to whether the poor saw their income increase and their job opportunities improve. It proved difficult to come up with practical policies to achieve not just growth but equitable growth. Concrete measures were usually missing to transmit the benefits of policy reforms to the poor.

The good news is that pro-poor growth is perfectly possible, as has been shown by the case of the Republic of Korea. After studying five Asian countries, Pernia [2003] concluded that Lao PDR was the longest distance away from generating pro-poor growth in the (pre-crisis) 1990s, followed by Thailand, the Philippines and Viet Nam—with the latter two coming close to achieving pro-poor growth. But none of these countries saw the income of the poor grow proportionately faster than overall average income, except for the Republic of Korea. The latter also confirms that initial conditions of equity—through successful land reform and a deliberate education policy—do matter a great deal for reducing poverty in a sustainable manner.

8. Can foreign aid help enlarge pro-poor policies and accelerate MDG progress?

It cannot be denied that foreign aid has made a difference in the past. Alongside fairer trade and steeper debt relief, more and better ODA will be indispensable for reaching the MDGs by 2015, particularly—but not exclusively—in the least developed and low-income countries. But let there be no doubt, the bulk of the extra investment in basic services and the funding of anti-poverty programmes will have to come from domestic resources, not from external sources. However, this does not diminish the marginal value of ODA. Indeed, foreign aid can play a critical role in overcoming obstacles in the transitory phase towards pro-poor policies since the latter are bound to meet stiff resistance from several quarters. Budget restructuring, for instance, is never an easy task.

Regrettably, the adoption of noble goals for human development at world summits and international conference did not prevent the aid effort by rich countries from declining by one third in the 1990s. It remains to be seen whether the adoption of the MDGs and the Monterrey Consensus will reverse the trend. Early indications are not encouraging, as the fiscal position has worsened in several donor countries since these promises were made. Also, as we move closer to 2015, foreign aid will increasingly compete with the rising costs of public health care and state pensions for the ageing population in Europe, Japan and North America. Hence, the sooner we see a major increase in aid, the better it will be for both rich and poor countries—for keeping the promise in the former and for reaching the MDGs in the latter.

As ODA has fallen, concerns about its effectiveness have risen. Greater scrutiny regarding aid's effectiveness is a welcome development. Areas that have seen good progress in recent years include the untying of aid, directing it more to activities that are likely to benefit the poor, and the pooling of donor resources. Donors increasingly accept to simplify and harmonise their rules, procedures and procurement so as to lower the transaction cost for the recipient country. Indeed, foreign aid can be very expensive for recipients; although this may sound as an oxymoron. Nonetheless, improvements regarding the issues of 'money changing hands' cannot substitute for greater attention to be paid to the aspects related to 'ideas changing minds'.

A series of influential studies has been published that claim that aid is most effective when it is allocated to countries with good policies. Despite the fact that 'good policies' are hard to measure, the concept often influences decisions about aid allocations. Collier & Dollar [1999], for instance, argued that a diversion of aid to countries where the poverty problem is soluble, due to 'good policies', could lift 82 million people out of poverty each year—against 30 million with the present pattern of aid allocation. In terms of absorptive capacity, Devarajan et. al. [2002] calculated, "for countries which have policies and institutions that are among the best … the point beyond which the growth impact is zero is reached when aid is around 30 percent of GDP. By contrast, the saturation point for countries with extremely weak policies and institutions is calculated to be around 6 percent of GDP." A document to the Development Committee of the World Bank and IMF [2003b] uses the concept of 'good policies' to identify 18 priority countries for additional aid allocations—ranging from 20 to 100 per cent increases in ODA levels.

Not only do such studies stretch the reliability of the data—as they are often based on faulty indicators and inaccurate estimates and are often influenced by omitted variables—they also tend to mask the extent of judgement and subjectivity involved. The definition of 'good policies' is frequently based on the so-called CPIA index (Country Policy & Institutional Assessment) for which the World Bank country team assigns a value of between 1-6 to twenty different aspects of the economy. An average score of at least 3 is required for a country to be classified among those with so-called 'good policies'.

But several of these dimensions cannot be quantified or assessed objectively. For example, values are given as to whether the country has a distortionary minimum wage, excessive labour market regulations or too many public sector workers. It also asks whether the state is able to protect 'most of the citizens most of the time'. It is obvious that calculating the CPIA index is more an art than a science; likely to be influenced as much by perceptions and prejudice than by facts and figures.

Other studies that used different methods, different indicators or different levels of aggregation have concluded that aid is effective irrespective of the policy framework. A recent UNDP report on development effectiveness [2003d] pointed out that while a good policy environment is important for achieving development results, no single set of policies can guarantee desired outcomes. It stated, "aid seems to improve social indicators regardless of the type of policy environment".

In short, 'good policies' cannot be readily measured, certainly not objectively. The idea that there is some form of discontinuity between 'good' and 'bad' policies is inappropriate. All policy frameworks form a continuum; there is no clear break that can distinguish between 'good' and 'bad' ones. As beauty, it is in the eye of the beholder. On what basis would one argue, for instance, that Canada has better policies than say, Germany? Even if it were possible to rank countries objectively according to one specific policy dimension, how could one pretend to be able to do so at the aggregate level; stating that a country's policies are better than those of another country? This would be a daring endeavour; yet that is exactly what is being done—without meeting much objection or raising any alarm.

It seems, if anything, that the concern about aid effectiveness—although much welcomed—has led several countries to become less generous in the 1990s. Indeed, the sceptics of foreign aid have eagerly used the research findings about the importance of 'good policies' as a justification to cut ODA. This is unlikely to have helped any poor person in any poor country.

9. The 7 steps towards the 8 MDGs

We have noted that the story about MDG performance depends on the choice of the indicator and the level of aggregation. We have also seen that in most countries the policy framework is not yet aligned with the MDGs and the fundamental objective of reducing human poverty. Poverty reduction is still seen as an automatic by-product of economic growth and macroeconomic stability. Governments and their partners find it difficult to translate the concept of ‘pro-poor policies’ into practice. Equity continues to be the big absentee in most anti-poverty strategies.

Although the objective of reducing human poverty features prominently on the international agenda, its actual pursuit remains conventional, unimaginative and often ineffective. The question whether the MDGs and the PRSPs are enlarging pro-poor policy choices at the country level cannot be answered affirmatively—at least not yet—notwithstanding the overwhelming evidence that business-as-usual will not turn the MDG targets into a practical reality by 2015.

The first step towards enlarging pro-poor policy choices is to stop making assumptions about the impact of policy reforms on human poverty. It is seldom correct, for instance, to assume that what works for men will work equally well for women. The same applies for macroeconomic policies; many of the alleged pro-poor policies frequently end up bypassing the poor, sometimes hurting them. Policy reforms that are presumed gender-neutral are in fact gender-blind. Similarly, many of the so-called pro-poor policies are often blind to the realities faced by the poor.

Nobody should be gullible to arguments about the pro-poor nature of macroeconomic stability, financial deregulation, trade liberalisation, narrow targeting, aid efficiency or absorptive capacity. They must always be interpreted with caution. Just as the goldsmith handles gold—by rubbing, cutting and melting it—so must the validity of the pro-poor nature of reforms and investments be analysed within their specific context and circumstances. If that is not done, they end up hurting the poor rather than helping them.

As we move closer to 2015, many observers are increasingly worried about the possibility that the world will not meet the global targets. Our response is that we must move away from monitoring global targets towards measuring local progress. Tailored and customised targets at the national and sub-national levels need to replace global targets as benchmarks for success. Global target have their place but need to be kept in their place. The question is not whether a country or a community is on track vis-à-vis the global targets. What we have to ask, instead, is whether the greatest and fastest possible progress is being made, given the specific constraints faced by that country or community and given the level of external support in the form of aid, trade, technology and debt relief. It is not so much about being on track globally as it is about accelerating progress locally. Otherwise, real success may turn into reported failure, which would be a tragedy.

The MDGs cannot be dismissed as targets that are ‘easily set but never met’; that would be at odds with reality. Global targets have made a difference in the past [Jolly, 2003]. Success stories with target setting—such as those against smallpox and polio, for iodised salt or increased access to safe water—indicate that they have seven elements in common:

1. *The vision of development must be inspiring but expressed with measurable targets*. Fuzzily formulated targets are as unhelpful as they are un-measurable. Targets for reducing human poverty must be specific; they cannot rely on vague assumptions, faulty indicators or inaccurate data.
2. *Intermediate targets are indispensable*. Long-term goals will not guarantee immediate action because they are not to be achieved on the watch of today's political leadership. They must be broken down in actionable propositions that can be achieved within the lifetime of the current government.
3. *Tailored targets are vital*. Targets must strike a judicious balance between ambition and realism. Overly ambitious targets are unlikely to trigger action; non-challenging targets are unlikely to mobilise people and resources. The MDGs encourage all stakeholders to think global but to act local. MDG targets must be tailored and customised through an inclusive dialogue because only genuine participation will result in a consensus centred on a pro-poor development agenda.
4. *Targets must be well known*. They must reach the kitchen table; they must be mentioned in the daily paper and discussed in the bedroom as well as in the boardroom. Public interest must be awakened and nurtured, ambition stirred, expectation aroused. The media has a critical role to play in keeping the eyes of the public on the prize.
5. *Constant monitoring is essential*. A journey to an agreed destination requires a map. If we are to reach the MDGs by 2015, good statistics are needed to document progress, to mobilise people and to design pro-poor policies based on evidence, not only on economic theory. Monitoring must use a few solid but easy-to-grasp indicators and cannot be confined to specialists and experts. It must inform political leaders, parliamentarians, journalists, NGO activists and the general public. Monitoring must go beyond averages and aggregates. Data must be broken down according to gender, age, geographical location and socio-economic groups. Comparing the performance of neighbouring localities and communities can be a catalyst for change.
6. *Leadership does matter*. Targets that fostered success often had strong leadership behind them, frequently in the form of a public-private partnership—such as the Rotary Club against polio and the Carter Center against guinea worm. These actors constantly nag policymakers—both globally and locally—to stay focused on the target. They also bring technical expertise and good campaign tactics.
7. *Nothing speaks louder than financial commitments*. A balance must be kept between output and input targets. Results do not come for free; they carry a price tag. Two global input targets are the 20/20 target for the national budget and the aid target of 0.7 per cent of rich countries' income. Another relevant indicator is how much of the money budgeted for basic services actually reaches the unit of service delivery—such as a primary school or a rural health centre. The latter can serve as a proxy indicator of good governance.

The seven steps apply to both developing and developed countries, albeit in different ways. In the latter, for instance, opinion polls show similar levels of public support for foreign aid in countries that are less generous than those that exceed the 0.7 per cent aid target—the so-called G.7 members. Differences in actual aid efforts often stem from a series of deliberate actions within donor countries—such as regular briefing of parliamentarians and journalists, a focus on success stories rather than on failures; setting time-bound targets for ODA; explicit monitoring of aid levels when the national budget is submitted for a vote; and the strong involvement of top politicians, community or religious leaders and celebrities in making the case for aid.

The above steps offer a framework for operationalising the support that external partners can provide for enlarging pro-poor policy choices. The seventh step closes the circle by taking the debate from the issues of 'ideas changing minds' to the aspects related to 'money changing hands'. But that step should never come first—as is often the case in practice. Ultimately, real change is an act of free will, not an act of compliance with rules and conditionalities associated with 'money changing hands'.

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