International Poverty Centre

United Nations Development Programme Working Paper number 3 November, 2004

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Working Paper

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ISSN: 1812-108X

THE MDGs AND PRO-POOR POLICIES: RELATED BUT NOT SYNONYMOUS

Jan Vandemoortele*

ABSTRACT

The working paper asks whether the millennium development goals (MDGs) have created opportunities for enlarging pro-poor policy choices at the country level. It concludes that in most countries the policy framework is not yet aligned with the fundamental objective of reducing human poverty. Poverty reduction continues to be 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 growth' 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. Poverty reduction strategies also look strikingly similar, even for countries that face very different challenges. It is tragic that countries with high HIV prevalence rates have a macroeconomic framework that is not dissimilar from that for countries without HIV/Aids.

If the MDG targets are to be achieved, then poverty reduction strategies will have to make a quantum leap in public investment, in domestic resources mobilisation, in external assistance and debt relief as well as in meaningful trade concessions. The era of targeted, small-scale anti-poverty interventions is over. If small is beautiful, big is now indispensable.

The paper disputes the view that MDG targets are 'easily set but never met'. For a target-driven approach to be successful, seven "do's" are suggested.

Too often, the partnership between rich and poor countries puts the emphasis on aspects related to 'money changing hands' at the expense of the dimension of 'ideas changing minds'. Yet, real change is ultimately an act of freedom, not an act of compliance with rules and conditionalities associated with 'money changing hands'. A Peer & Partner Review is proposed for making the periodic consultation between a developing country and its external partners less asymmetric and more substantively focused on pro-poor policy choices.

> "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

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1 THE DEVELOPMENT COIN

The partnership between rich and poor countries takes many forms but its most explicit expression is embodied in foreign aid — formally known as official development assistance or ODA. Foreign aid is a coin with two faces; one side deals with issues associated with 'money changing hands'; the other side addresses the aspects of 'ideas changing minds'.

The former covers the important aspects of budgeting, accountability and transparency. It addresses the questions of 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 organisations; development vs. humanitarian programmes; project vs. programme aid; etc. Concerns about procurement, accounting and reporting are important but they tend to overshadow the debate about the purpose of aid. In essence, that side of the coin represents a one-way street focused on money matters, often leading to micro-management at the expense of the larger question about the ultimate role of development assistance.

When the partnership is too much focused on money issues, little time and energy are devoted to the crucial dimension of 'ideas changing minds'. Also, once money is put on the table, the nature of the partnership between poor and rich countries changes radically. However, it is only when the ultimate purpose of foreign aid is made clear and agreed upon between the recipient and the donor beforehand — mostly through active listening on the part of the latter — that its effectiveness and efficiency will improve measurably. Indeed, the issues related to 'ideas changing minds' involve a two-way traffic for advancing a genuine partnership, based on the principles of equality, mutual respect and national ownership.

In this working paper, we focus on the dimension of 'ideas changing minds'. We ask whether the millennium development goals (MDGs) have created opportunities for enlarging pro-poor policy choices at the country level, especially through the poverty reduction strategy papers (PRSPs). We examine whether policy frameworks are becoming MDG-friendly and we look into the potential role of external partners in engendering pro-poor policies. We highlight three "don'ts" when making the policy framework pro-poor. We conclude by asking whether global targets really make a difference.

Before examining these central questions, we describe the differences in perception that surround the MDGs; we review some of the issues concerning the MDG indicators; and we summarise the progress made towards the targets in the 1990s.

2 ARE THE MDGs A STEP FORWARD, SIDEWAYS OR BACKWARDS?

The MDGs (see box) are subject to different views and perceptions. Some see them as a major step forward because they represent an internationally agreed agenda

for human development, something that has eluded the international community so far. Others see the MDGs as a step sideways because they represent a familiar agenda that is rather minimal in scope. Still others see the MDGs as a step backwards. They argue that the quantitative and time-bound targets do not explicitly cover human rights, reproductive health, jobs, inequality, good governance or the role of the private sector. Neither do they adequately address concerns about gender equality and environmental sustainability.

The millennium development goals, or MDGs, are a set of measurable and time-bound targets that were adopted at the UN Millennium Summit in 2000. Achieving them would mean that during the lifespan of this generation, we would:

- halve the proportion of people suffering from extreme poverty and hunger;
- guarantee that all children complete primary school;
- ensure that girls and women have the same opportunities as boys and men;
- 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 and adequate sanitation;
- stop and reverse the spread of HIV, malaria & TB;
- protect the world's ecosystems and biodiversity;
- give people greater access to essential medicines;
- grant debt relief, give foreign aid and offer trade opportunities.

Thus, the MDGs can be seen as either an agreed agenda, a minimalistic agenda or an incomplete agenda for human development. The fact of the matter is that the MDGs were not developed from scratch; they resulted from an incremental and sometimes piecemeal process of generating a political consensus on the elements of a global development agenda — mostly through a series of world summits and international conferences of the 1990s.

Given these profound differences in perceptions, it might be useful to paraphrase John F. Kennedy by inverting his famous statement in that we should not ask what we can do for the MDGs but what the MDGs can do for our cause — the realisation of fundamental economic and social rights. That approach is likely to broaden the constituency in favour of the millennium development goals.

The different views often stem from different paradigms. Some consider the MDGs as a new global compact between rich and poor countries, while others see the MDGs as an old paradigm of welfare entitlements or North-South recriminations. Those who take the latter position often view the 'new' paradigm as development that is driven by good governance and the private sector. Different views also exist as to the relevance of MDGs. Some people limit their relevance to low-income countries or the least developed countries while others see them as essential for

addressing human poverty in all developing countries, including in middle-income countries where pockets of deep poverty persist.

Many of these targets will either be met together or not 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, fairer trade and steeper debt relief, most MDGs will remain unmet.

3 CAN ALL MDG INDICATORS BE TAKEN AT FACE VALUE?

Before assessing MDG progress, we point 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 these ingredients in the same proportion. The reliability of an indicator tends to decline as more construction is involved because construction is based on assumptions. Statistics on water, for instance, frequently overstate access in urban areas because they report that all residents within 100 metres of a public supply point as adequately covered, based on the assumption that one single pump or tap can cover the needs of 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 estimate 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. The proportion of the population in developing countries below $1 per day is estimated to have declined from about one-third in 1990 to less than one-quarter in 2000. But the poverty data produced by the World Bank show that the global trend is heavily influenced by two countries — China and India. When they are excluded, the global poverty performance during the 1990s becomes one of stagnation, even regression — 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.

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 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 invariably influence the claims and conclusions made in social sciences.

Another factor that can influence the interpretation of data is the time horizon or the base year. Whilst it is true, for instance, that the reduction in the under-five mortality rate in developing countries has been impressive — dropping from an average of 223 per 1,000 live births in 1960 to 91 in 2000 — it is equally true that the progress made in the 1990s was much slower than that witnessed in the 1970s and 1980s. Base years and time horizons are sometimes chosen to hide the lack of progress in recent years behind rapid progress of earlier decades. Hence, the choice of the time horizon can shape the claims and conclusions about MDG progress — or the lack thereof.

In short, all indicators are imperfect but some are more imperfect than others. Among the most frequently used MDG indicators, we prefer the following top-five for their reliability, coverage and relevance: (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. On the other hand, 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.

4 ARE WE ON TRACK TO MEETING THE MDGS BY 2015?

The MDGs are morally imperative and legally binding — as they are 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. Although all member states of the United Nations pledged to "spare no effort to free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty" [UN, 2000], global progress towards the MDGs has been slow and uneven.

Without denying the great diversity in performance across countries, the story of the 1990s can be summarised in three main points. First, progress was made but it 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, much of the progress by-passed the poor. The countries and the people who most needed to see progress frequently saw the least of it.

The 1990s were characterised by an unprecedented number of cases where human development reversed. The number of countries that saw a decline in their human development index rose to 21 in the 1990s, up from 4 during the 1980s [UNDP, 2003a]. Most of the reversals stemmed from the HIV/Aids pandemic and economic crises, particularly in sub-Saharan Africa and in the transition economies. Nevertheless, it remains 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 and might be on 'statistical steroids'. Global poverty trends that are based on the metric of $1 per day cannot be considered as a robust source of information.

Regrettably, a dollar per day does not keep poverty at bay. A growing number of analysts argue that the international poverty line of $1 or $2 per day is not a good gauge [Reddy & Pogge, 2003]. After examining cross-country data on underweight and income poverty — using both national and international poverty lines — Morrisson [2002] 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." Indeed, many analysts agree that the use of a national poverty line is preferable to the use of the international poverty line of $1 per day. The inherent drawbacks of a fixed international poverty line, combined with inaccurate conversion rates into purchasing power parity, argue for an extremely cautious interpretation of the poverty data.

As for the water target, the picture is also clouded by measurement problems and by the fact that much of the progress of the 1990s may not be sustainable as many parts in the world face growing water shortages.

During the 1990s, most targets for hunger, health, education, and gender equality witnessed about half the progress they should have seen in order to reach their 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 — the so-called MDG-8 in terms of aid, trade and debt relief — was also disheartening.Perhaps most disappointing of all is the situation vis-à-vis primary education. An estimated 115 million children are 'out of school' and perhaps three times as many are 'out of education' — in the sense that they do not acquire basic literacy and numeracy. There is no good reason to explain this sorry state of affairs.
The cost of universal primary education is perfectly affordable [Delamonica *et. al*., 2004]; no new technologies are needed to make it a reality; everyone agrees that it makes good economic sense; and basic education is universally seen as a basic human right.

If these arguments do not convince policy-makers about the absolute necessity of reaching 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 targets because of its high instrumental value. New HIV infections, for instance, are disproportionately concentrated among young illiterate women — supporting the existence of a so-called 'education vaccine' against HIV [Vandemoortele & Delamonica, 2000].

The above picture does not get any brighter when we look beyond global and national averages. Not only was progress inadequate in most countries during the 1990s, much of it by-passed the poorest countries and the poorest people. The least progress occurred where most progress was needed — both across and within countries. Slow 'average' progress was frequently compounded by limited progress for the poorest and most disadvantaged groups within countries. Quantitative 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 within countries in terms of education, nutrition and health [Minujin & Delamonica, 2003].

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. While progress was made in the 1990s it was slower than that observed in the 1970s and 1980s, and too much of it by-passed the countries and the people who were most in need of it.

Moreover, 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 one generation. While a separate target for halting and reversing HIV was inserted in the Millennium Declaration, the quantitative targets for health, water, education, income poverty, and hunger were set as if no HIV pandemic existed — thereby ignoring the undeniable fact that HIV is slowing down global progress in health and beyond.

Yet, meeting the MDGs is not 'mission impossible'; they remain doable propositions. While the 1990s failed to generate the desired progress, it is not too late to avoid the legacy of this generation from becoming a series of broken promises. Experience shows that determined leadership and awakened public interest can put the world back on the MDG track. This is exactly what happened in the 1960s when the US Administration decided to send a man to the moon. At the time, nobody knew how to realise that technological feat, let alone how much it would cost; yet it was turned into a practical reality. The same can be achieved for the MDGs — given strong political leadership and deliberate public advocacy for the MDG targets at the local, national and global levels.

5 ARE POLICY FRAMEWORKS 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 not be unreasonable 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 prescribed during the era of structural adjustment of the 1980s, apart from the important fact that they now make a stronger case for pro-poor public expenditure. Growth continues to be seen as the panacea, and macroeconomic stability, financial deregulation and trade liberalisation as its prerequisites. But not

everybody shares the same faith in the power of economic growth for reducing human poverty.

China, for instance, is frequently looked at with admiration and awe as rapid growth reportedly led to a steep reduction in income-poverty. Between 1981 and 2001, nearly 400 million people are estimated to have escaped poverty [World Bank, 2004a]. Yet, the link between growth and poverty remains a bit of a mystery. Over the last five years of that period, for example, the Chinese economy expanded by about one-half; yet the number of poor people (i.e. those below $1 per day) remained unchanged. It is a moot question why such impressive growth between 1996 and 2001 failed to make a difference for the estimated 212 million people who struggled to survive on less than $1 a day in that country.

The centennial anniversary of the invention of flying offers an interesting analogy. The main protagonists in designing the first flying machine in the early 1900s were Samuel Langley and the Wrights Brothers. With generous support from the Defence Department — the called 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 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 believe in the overwhelming power of economic growth to reduce human poverty and those who argue that the pattern of growth and the design of pro-poor policies are at least as important as the rate of economic growth.

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]. A strong commitment to the MDGs would imply that the objective of reducing human poverty drives the policy framework, not the other way round.

Most PRSPs have generated more inclusive public debates and policy dialogues, but participation by itself does not guarantee pro-poor outcomes. 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." An Oxfam paper [2004] reports that out of 20 countries, 16 had an agreed PRGF prior to the completion of the PRSP — thereby severely limiting the influence of national stakeholders over macroeconomic target setting. Representatives from line ministries, trade unions, civil society and academia are beginning to feel that they are involved in a process of 'choiceless' participation. All sense severe 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 fail to translate the concept of 'pro-poor growth' into 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]. An independent evaluation of the PRS-approach (poverty reduction strategies) notes, "it has not yet fulfilled its full potential" [World Bank, 2004b].

These evaluations confirm 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 the Republic of Korea was the only country that saw the income of the poor grow proportionately faster than average income. That country also confirms that initial conditions of equity — through successful land reform and deliberate health and education policies — do matter a great deal for reducing poverty in a sustainable manner.

6 WHAT ARE PRO-POOR POLICIES?

Although increasingly used, the term 'pro-poor growth' remains 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 un-bundled into detailed reforms that make policy frameworks 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 conditions for the disadvantaged 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.

We examine whether the standard elements of the policy framework are really pro-poor and whether it can be claimed that existing frameworks will meet the MDGs. Seven elements are highlighted, including fiscal, monetary and trade policies. They draw from lessons identified by UNDP's review of how macroeconomic policies incorporate — or fail to incorporate — the objective poverty reduction in a number of Asian countries [McKinley, 2003].

6.1 AVOID A DOGMATIC VIEW OF THE 'SMALL GOVERNMENT' PARADIGM

The first element covers fiscal policy. A policy framework that is focused on poverty reduction and on the MDGs must accommodate a more expansionary fiscal stance. 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; yet their policy framework seldom goes beyond the paradigm of fiscal conservatism and monetary orthodoxy. The standard framework proposed by the International Financial Institutions seldom makes a strong case for increased taxation, although an overall tax rate of 10-12 per cent of national income is woefully inadequate for any government to keep its MDG promise.

The standard macroeconomic framework is premised on keeping the size of the public sector to a strict minimum; based on the assumption that low taxes and limited regulation will stimulate investment and generate economic growth, which in turn will reduce poverty. Public investment programmes are often kept to a minimum, 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 often stimulates private investment. Public investment was a key instrument for fostering growth and reducing human poverty in the Republic of Korea; and still plays that role in China and Viet Nam — two top performers vis-à-vis the MDG targets.

But many governments lack public revenue to invest in growth and to fight poverty. Thus, 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 public expenditure, few address the issue of raising more domestic revenue in a progressive way. Public revenue that accounts for 15 per cent or less of national income is grossly insufficient for reducing human poverty. In most developing countries, domestically raised revenue is too small, not too big. Trevor Manuel [2003], South Africa's Finance Minister, recently stated, "Most African states need to expand, not contract, their public sector".

The tax systems in developing countries often make the poor pay proportionately more than the non-poor. The Inter-American Development Bank [1999], for instance, documents the regressive nature of the tax incidence for several Latin American countries. 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 benefited from generous loopholes and lax enforcement. The evidence clearly shows that the tax system in many countries has become less equitable and less pro-poor. Reforms are urgently needed in direct and indirect tax policies to generate more domestic resources for the MDGs and do so in a more progressive way.

Winning the battle on pro-poor public expenditure was the result, at least in part, of the UN's advocacy and analytical work, which crystallised in the form of the 20/20 initiative [UNICEF, 1987; UNDP, 1990]. Endorsed at the 1995 Social Summit in Copenhagen, it calls for the allocation of an indicative 20 per cent of the national budget and 20 per cent of 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.

Thus, the next battle will focus on pro-poor public revenue. It would be incorrect to assume that most of the MDG funding gap will be financed from external sources. This would be an untenable proposition from an economic, financial and political perspective. While more — and better — foreign aid will be part of the solution, aid cannot be viewed as the principal source for funding priority spending at the country level.

6.2 USE COST RECOVERY SPARINGLY

When the policy framework is driven by low taxation, an alternative way of generating budgetary resources is through user fees. The merits of user financing will depend on the type of services. Charging fees for non-basic services is very different from charging for basic services. Since basic services are public goods with strong synergies and positive externalities, they should be either free or heavily subsidised — regardless of whether they are provided by public, private or non-governmental agencies.

A dozen countries in sub-Saharan Africa, for example, currently charge fees for basic education. Fees are often justified on the ground of pragmatism. To reject them on the basis of principle, the argument goes, is to leave large segments of the population un-served for the foreseeable future. A review of experiences leads to a more cautious stance vis-à-vis user fees for basic social services [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.

Whenever the option of cost sharing is contemplated, 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 inputs such as essential medicines, textbooks and spare parts for water pumps); accepting different types of contributions (in cash, in kind or in labour); implementing an exemption scheme that is based on measurable criteria agreed by the community; using graduated fees whenever possible to promote cross-subsidisation; and conducting regular monitoring to adjust and improve the scheme — relying heavily on community participation. 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 was followed by a surge in enrolment in all three countries — with girls being the prime beneficiaries. These positive experiences illustrate that even a small nominal fee can be a formidable obstacle for poor families. Nevertheless, the sceptics argue that such measures generated short-lived gains. As enrolment increased, they claim, 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 a level that was considerably higher than the one that prevailed prior to the policy reform. Claiming that such policy reforms are ineffective for reducing human poverty is tantamount to making the perfect the enemy of the good.

6.3 USE NARROW TARGETING WITH CAUTION

Given severe fiscal constraints and limited options for user financing, 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 what is being targeted. Targeting fertiliser subsidies or micro-credit, for instance, is very different from targeting vouchers for primary education or anti-malaria bednets.

As far as basic 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 to reach them because the non-poor — most of who remain 'near-poor' — seldom fail to capture a large part of subsidies destined for more destitute people. Also, administering narrowly targeted programmes is at least twice as costly as running untargeted ones. In addition, the poor must frequently document eligibility — which involves expenses such as bus fares, apart from the social stigma they

generate. Such out-of-pocket costs can be a real obstacle. 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. 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.

As part of narrow targeting, many countries have launched social investment funds or social action programmes; but few of them have been institutionalised. They mostly remain under the political patronage of the President or the First Lady. 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 beyond an insignificant proportion of the poor.

While narrow targeting, user fees, and 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 through user fees, narrowly targeted programmes or social investment funds [UNICEF, 1995].

There is no doubt that public spending on basic 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. In many instances, inefficiencies in public administration and governance result from the lack of adequate public resources to fund basic services. Indeed, inefficiencies and insufficiencies are not independent but very much interdependent. For example, when 98 per cent 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 without raising the budgetary envelop first. In such cases, extra resources will be a prerequisite for enhancing the efficiency of public spending.

6.4 SET INFLATION TARGETS THAT ARE NOT TOO TIGHT

Mckinley [2003] and others have argued that tight inflation targets can hurt the poor. Out of 20 low-income countries 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 is not a solid one. If the poor consume more own-produced goods and services than the non-poor — as is confirmed by numerous household 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 is not damaging, neither for growth nor for the poor. Studies define moderate inflation within the range of 5-30 per cent per year; mostly clustered around 10-15 per cent. Ultimately, the optimal rate of inflation will change in space and in time, and will be positively correlated with the rate of economic growth. While some will interpret this as a licence for big spending, huge deficits and hyperinflation, 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.

All observers agree that hyperinflation and 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 set of policies aimed at achieving price stability will always be pro-growth, pro-jobs and pro-poor. That would be an act of faith. It often reflects the false logic of opposites; whereby it is often assumed — either consciously or unconsciously — that when something does not work its opposite will work. For instance, if high inflation is bad for the poor then low inflation will always be good for the poor; if large budget deficits are bad for the economy then a budget surplus will always be good for economic growth; if autarchy is bad for the economy then free trade will always be good for the poor. Such thinking reduces the policy debate to rather simplistic 'either-or' options. At most, they set up straw men that fail to reflect the complexities and many nuances encountered in real situations. Moreover, straw men often prove highly flammable in policy debates.

6.5 DEREGULATE FINANCIAL MARKETS WITH GREAT CARE

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 often lost access to credit as banks focused on short-term lending for consumer durables in urban areas. Banks and corporations have frequently 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. After reviewing Latin America's experience in recent years, 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.

6.6 LIBERALISE TRADE CAUTIOUSLY

Similarly, trade must be liberalised cautiously. Surging imports have had destabilising effects in many countries. 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—such as sugar, cotton, fruit, corn, meat and diary products — have played havoc with the livelihood of millions of smallholders in poor nations. A study by Carnegie [2003] concluded that NAFTA (the North American Free Trade Agreement) has hurt subsistence farmers in Mexico and that the expected gain in jobs did not materialise; neither did it prevent real wages from declining and income disparities from rising. It stated, "Trade agreements do not need to result in this kind of hardship for the world's rural poor." The study reconfirms that it is incorrect to assume that trade liberalisation will automatically yield outcomes that are pro-poor, pro-jobs and pro-growth.

UNDP [2003b] reviewed how the global trading system can help or hurt the prospects for human development in low-income countries. It 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. 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. Current rules no longer allow countries to follow an export-led development strategy similar to that experienced by the so-called East-Asian tigers in the 1970s and 1980s because global trading rules have narrowed the policy space for individual countries to use selective export subsidies and import tariffs.

The potential impact of trade on human poverty has also been affected by the entry into force of intellectual property rights. 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-positive 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 erred in favour of the former. Moreover, there is no evidence that stronger patent protection has led to more research and innovation vis-à-vis tropical diseases. In sum, the days are 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.

6.7 BRING EQUITY CONCERNS INTO THE POLICY DEBATE

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". A study by ECLAC, IPEA & UNDP [2002] concluded, "there is every reason to suspect that some amount of redistribution […] might in fact contribute to more economic growth." Williamson [2003]

admitted that if anything was omitted from his original ten-point reform agenda that came to be known as 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; although gender equality is at the very heart of achieving the MDGs. A recent review by the World Bank [2003a] of 27 PRSPs reported that as many as 10 failed to include even the slightest recognition of the gender goal.

It is incorrect to assume that higher 'average' income will automatically lead to less poverty; economic analyses raise the spectre of reasonable doubt. Research has documented the link between high inequality and slow economic growth. High inequality is not only harmful for the poor; it also inhibits economic growth; delays policy reforms and entrenches special interests. 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. A little equity will go a long way towards reducing 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 rapid and sustainable.

Universal coverage of basic social services 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.

7 CAN EXTERNAL PARTNERS PLAY A ROLE IN ENLARGING PRO-POOR POLICIES?

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 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 and targets at world summits and international conference of the 1990s did not prevent aid efforts from declining by one-third. Initiatives such as the Fast Track for Education-for-All; the Global Fund for AIDS, Tuberculosis and Malaria; the Rollback Malaria initiative, and the HIPC Trust Fund have been all severely hampered by inadequate funding. It remains to be seen whether the Monterrey Consensus will reverse the trend. While early indications show a hesitant recovery, most observers agree that foreign aid is unlikely to recover the ground lost during the 1990s because the fiscal position has worsened in several donor countries since the promises for more aid were made. Also, as we move closer to 2015, foreign aid will increasingly compete with the rising costs of public health care and social security 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.

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 poor people. A greater focus on basic social services, therefore, will help reverse the decline in ODA that was observed in the 1990s.

As ODA has fallen, concerns about its effectiveness have risen. Greater scrutiny regarding aid's effectiveness is welcome; areas that have seen progress in recent years include the untying of aid, directing it 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 claim that aid is most effective when allocated to countries with good policies. 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 current ODA levels.

Not only do such studies stretch the reliability of the data — as they are often influenced by faulty indicators, inaccurate data and 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 and institutional assessment) for which the World Bank country team assigns a value of between 1-6 for 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. UNDP's 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". Mosley [1987] called the attention to the 'micro-macro' paradox whereby the impact of aid is observable when measured at the local level but becomes more difficult to detect at the aggregate level on economic growth.

In short, 'good policies' cannot be readily measured, certainly not objectively. Moreover, the idea that there is some form of discontinuity between 'good' and 'bad' policies is inappropriate [Stewart & Wang, 2003]. 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 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.

The introduction of the 'LICUS' category (low-income countries under stress) is not unrelated to the fact that a strict policy of aid selectivity, based on the criteria of 'good' policies, is likely to by-pass many of the countries that are most in need of external support. As such, the LICUS concept is an attempt to keeping a degree of common sense within the context of merit-based aid allocations.

It seems, if anything, that the debate 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 claims about the importance of 'good policies' as a justification to cut ODA, which is unlikely to have helped any poor person in any poor country.

8 WHAT ARE THE "DON'TS" WHEN MAKING THE POLICY FRAMEWORK PRO-POOR?

Three "don'ts" must be considered when trying to engender pro-poor policy frameworks. The first is not to be statistically illiterate. We saw how the story about MDG performance depends on the choice of the indicator and the level of aggregation, as well as the time horizon. In order to interpret the validity of the different versions of such stories, the stakeholders and the public at large need to improve their basic statistical literacy to be able to separate false arguments from valid ones — always admitting that any version of the story will inevitably include an element of judgement and subjectivity.

The second "don't" is not to make assumptions about the so-called pro-poor nature of specific policy reforms. It is seldom correct, for instance, to assume that what works for men will work equally benefit women. The same applies for macroeconomic policies; many of the alleged pro-poor policies frequently end up by-passing the poor, sometimes hurting them. Policy reforms that are presumed gender-neutral are in fact gender-blind; similarly, many policy reforms are often blind to the realities faced by the poor. Thus, one is never to be gullible vis-à-vis arguments about the pro-poor nature of macroeconomic stability, financial deregulation, trade liberalisation, user fees, narrow targeting, and aid selectivity. 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.

The third "don't" is not to focus too narrowly on short-term results but to seek sustained partnerships — based on the principles of equality, mutual respect and national ownership. The drive to improve aid efficiency is certainly welcome but should not blind external partners to the reality that reaching the MDGs will require prolonged efforts. Success in the fight against river blindness and polio, for instance, did not occur overnight. External partners have to accept that over such prolonged periods of time some policy changes will inevitably be imperfect and that progress will not always be linear. There will be instances when events or reforms will be perceived as setbacks or as 'bad' policies — which have traditionally triggered a suspension in aid flows. But such drastic measures inherently contradict the pursuit for equal partnership and national ownership. Greater understanding and more flexibility on the part of external partners is therefore *sine qua non* for sustained partnerships. For many donors — bilateral as well as multilateral — this will require more active listening. Turning the development coin will change the way foreign aid is managed from a one-way street centred on 'money changing hands' to a two-way exchange of 'ideas changing minds'.

9 CAN GLOBAL TARGET MAKE A DIFFERENCE?

After several false dawns and missed opportunities, it might be tempting to dismiss the MDGs as targets that are 'easily set but never met'. This would be

incorrect; global targets have made a difference in the past [Jolly, 2004]. Success stories with a target-driven approach to development — such as those against smallpox and polio, for iodised salt or increased access to safe water — indicate that they have seven elements in common. The seven "do's" for operationalising the MDGs include:

First, do express the vision of development in an inspiring but measurable way. 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.

Second, do make sure that the targets are well known; they must reach the kitchen table. Targets must address presidents, prime ministers, parliamentarians, preachers, parents and primary school teachers. Public interest must be awakened and nurtured, ambition stirred and expectation aroused. The media has a critical role to play in keeping the eyes of the public on the prize.

Third, do tailor the targets to the national context and local priorities. Targets must strike a judicious balance between ambition and realism. Over-ambitious targets are unlikely to trigger action; under-ambitious targets are unlikely to mobilise people and resources. The MDGs encourage all stakeholders to think global but to act local. 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. At the same time, tailored targets cannot turn into an escape clause, whereby the government hides inadequate political commitment behind targets that lack any sense of ambition or urgency.

Fourth, do formulate intermediate targets. Long-term goals will not guarantee immediate action because they are not on the watch of today's political leadership. Targets must be broken down in actionable propositions that can be achieved within the lifetime of the current government. Such intermediate targets must drive the shorter-term policy framework, budgetary priorities and decision about aid allocations, debt relief and trade reforms. A target-driven approach that pays insufficient attention to the immediate realities is likely to lead to a situation of 'meeting the target but missing the point'.

Fifth, do constant monitoring. 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 hard evidence — not only on economic theory. Monitoring must use a few solid but easy-to-grasp indicators. It cannot be confined to specialists and experts alone; 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.

Sixth, do provide leadership. 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.

Seventh, do remember that 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.

10 SUMMING UP

We noted 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 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. It is a tragedy, in our view, that countries with high HIV prevalence rates have a macroeconomic framework that is not dissimilar from that for countries without HIV/Aids. The framework for the former should be much more accommodating and expansionary for the foreseeable future if they are to achieve the MDGs and overcome their HIV/Aids crisis.

The poverty reduction strategies have to face the MDG challenge more explicitly. This will require a quantum leap in public investment, in domestic resources mobilisation, in external assistance and debt relief as well as in meaningful trade concessions. The era of targeted, small-scale anti-poverty interventions is over. If small is beautiful, big is now indispensable for reaching the MDGs.

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 seven steps mentioned above 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, irrespective of the country's actual aid effort. Countries where such efforts are low register equally high levels of public support for foreign aid than countries 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

politicians, community or religious leaders and celebrities in making the case for foreign aid.

The seventh step closes the circle by turning the 'development coin' from the side of 'ideas changing minds' to the side of 'money changing hands'. But that step should never come first — as is often the case in practice — because real change is ultimately an act of freedom; it is never an act of compliance with rules and conditionalities associated with 'money changing hands'.

The periodic consultations between a developing country and its external partners provide an opportunity for substantive discussions about the national development strategy. However, these events frequently turn into a ritual of compliance with the rules and conditionalities associated with 'money changing hands', which overshadows the dimension of 'ideas changing minds'. We propose a Peer & Partner Review to make such consultations less asymmetric and more substantive. The current mode whereby a developing country faces 20-30 bilateral donors and multilateral institutions is not always conducive for an equal exchange and a frank debate. A Peer & Partner Review would involve peer countries and a more select group of external partners to review the anti-poverty strategy, programmes and financing plans. When Lesotho, for instance, would meet with its external partners, it could be joined by Mozambique, South Africa, Zambia, and perhaps another land-locked country such as Bolivia and Nepal. A person of distinction could also join the consultative process to help maintain the high moral ground. A Peer & Partner Review could combine existing mechanisms such as the peer review within NEPAD (New Partnership for African Development) and DAC (Development Assistance Committee of the Organisation of Economic Cooperation and Development).

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