EUROPEAN REPORT ON DEVELOPMENT 2013

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MOBILISING EUROPEAN RESEARCH
FOR DEVELOPMENT POLICIES

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EUROPEAN REPORT ON DEVELOPMENT

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Post-2015: Global Action for an Inclusive and Sustainable Future

Full Report

European Centre for Development Policy Management
ecdpm

d·i·e
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ABBREVIATIONS

$	Dollars; $ refers to US$ unless otherwise stated
°C	degree Celsius
ACP	African, Caribbean and Pacific
AFD	Agence Française the Développement
AfDB	African Development Bank
AfT	Aid for Trade
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AU	African Union
BASIC	Brazil, South Africa, India, China
BCBS	Basel Committee on Banking Supervision
BEPA	Bureau of European Policy Advisers
BRICs	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
CAP	Common Agricultural Policy
CARMMA	Campaign on Accelerated Reduction of Maternal Mortality in Africa
CDDC	Commodity Dependent Developing Countries
CDM	Clean Development Mechanism
CEACR	Committee of Experts on the Application of Standards and Recommendations
CER	Certified emission reduction
CFP	EU's Common Fisheries Policy
CIRES	Centre Ivoirien de Recherches Economiques et Sociales
CMW	Convention for Migration Workers
CO2	Carbon dioxide
COM	European Commission
COP	Conference of Parties
CPA	Cotonou Partnership Agreement
CSO	Civil society organisations
DDR	Doha Development Round
DFI	Development Finance Institution
DFQF	Duty–free quota-free
DRC	Democratic Republic of Congo
EAC	East African Community
EAP	East Asia and the Pacific
EBA	Everything but Arms
ECA	East Central Asia
ECOSOC	UN Economic and Social Council
EDF	European Development Fund
EDPRS	Economic Development and Poverty Reduction Strategy
EIB	European Investment Bank

EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreements
ERD	European Report on Development
ETS	European Trading Scheme
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
Franc CFA	Franc de la Communauté financière africaine
FSB	Financial Stability Board
FTA	Free trade agreements
FTT	Financial transaction tax
G20	Group of 20
G8	Group of Eight
GAMM	Global Approach to Migration and Mobility
GATS	General Agreement on Trade in Services
GAVI	Global Alliance for Vaccines and Immunisation
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GFI	Global Financial Integrity
GFMD	Global Forum on Migration and Development
GHG	greenhouse gas
GII	Gender Inequality Index
GMG	Global Migration Group
GNI	Gross National Income
GPG	Global Public Good
GPNs	Global production network
GSP	Generalised System of Preferences
GVC	Global value chains
HDI	Human Development Index
HDR	Human Development Report
HIC	High Income Country
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
HLF	High Level Forum
HLPE	High Level Panel of Experts
HPI	Human Poverty Index
IA	Impact Assessment
IATI	International Aid Transparency Initiative
IBSA	India, Brazil, South Africa
ICT	Information and communication technology
IEA	International Energy Agency
IEP	Insituto de Estudios Peruanos

ABBREVIATIONS

IFF	Illicit financial flows
IFFIm	International Finance Facility for Immunisation
IFI	International financial institutions
IFs	International Futures
IHDI	Inequality Adjusted Human Development Index
ILO	International Labour Organization
IMF	International Monetary Fund
IMR	Infant mortality rates
IOM	International Organization for Migration
IPAR	The Institute of Policy Analysis and Research
IPCC	Intergovernmental Panel on Climate Change
IPR	Intellectual property rights
ISD	Inclusive and sustainable development
ITF	Infrastructure Trust Fund
LDC	Least developed countries
LIC	Low-income countries
LLDC	Landlocked developing country
LMIC	Lower-middle-income country
M&E	monitoring and evaluation
MDG	Millennium Development Goal
Mercosur	Mercado Común del Sur
MFN	Most Favoured Nation
MIC	Middle Income Countries
MIDIS	Ministry of Development and Social Inclusion in Peru
MIPEX	Migrant Integration Policy Index
MoD France	Ministry of Defence, France
MPI	Multidimensional Poverty Index
NGO	Non-governmental organisation
NIC	Newly industrialised country
NIF	Neighbourhood Investment Facility
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OECD/DAC	OECD's Development Assistance Committee
OPEC	Organization of the Petroleum Exporting Countries
OWG	Open Working Group
p.a.	per annum
P4R	Program-for-Result
PBA	Programme-based approach
PCD	Policy Coherence for Development
PPP	Purchasing Power Parity
PPPs	Public private partnerships
PRSP	Poverty Reduction Strategy Papers

PSG	Peace-building and state-building goal
RBA	Results-based approach
RBSC	Roland Berger Strategy Consultants
RCP	Regional consultative process
REC	Regional economic community
RoO	Rules of origin
RPF	Rwanda Patriotic Front
SAWTEE	South Asia Watch on Trade, Economics and Environment
SDG	Sustainable Development Goal
SDR	Special drawing rights
SIA	sustainability impact assessment
SIDS	Small Island Developing States
SME	Small and medium-sized enterprises
SOE	State-owned enterprise
SSA	sub-Saharan Africa
SSC	South-South cooperation
SVE	small vulnerable economy
SWAp	Support for sector-wide approach
SWF	Sovereign wealth fund
TB	tuberculosis
TMP	Temporary migration programme
TNC	Transnational corporation
TPM	Transfer price manipulation
TVET	technical and vocational education and training
U5MR	under-five mortality rate
UDHR	Universal Declaration of Human Rights
UMICs	Upper-middle-income countries
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNFPA	United Nations Population Fund
USA	United States of America
WBGU	Wissenschaftlicher Beirat der Bundesregierung Globale Umweltveränderungen
WBIF	Western Balkans Investment Framework
WDR	World Development Report
WEF	World Economic Forum
WTO	World Trade Organization

WORKING DEFINITIONS OF KEY TERMS

This Report uses the following working definitions for certain terms that can be understood in different ways:

Developing countries: There is no single official definition for this collective term as various international organisations use different systems to categorise groups of countries. We use the term in a loose sense to refer to countries whose economies still have some distance to develop. The UN's Committee for Development Policy list of 48 Least Developed Countries (LDCs) and the World Bank's list of 36 Low-income Countries (LICs), 54 Lower-middle Income Countries (LMICs) and 54 Upper Middle-income Countries (UMICs) are all sub-sets of the group commonly referred to as 'developing countries'.

Emerging economies: (also referred to as emerging markets or emerging powers) are those countries that are experiencing rapid growth and industrialisation, in particular Brazil, China and India. An emerging market is 'a financial or consumer market in a newly developing country or former communist country' (Collins online dictionary). The term 'BRICs' (Brazil, Russia, India and China) was coined by investment analysts at Goldman Sachs in 2001 (Zhang and Grimm, 2012) and has achieved some official recognition as the BRICS (now also including South Africa) grouping holds its own summits.

European Union: The European Union (EU) of 27 Member States is served by a central executive institution, the European Commission, which has its own right of initiative and the competence over a number of EU policy areas (such as trade or fisheries) where it acts on behalf of the Union. Development cooperation is a 'shared competence' with the Commission and many of the Member States each having their own development programmes and bilateral aid agencies. These are, however, guided by a common policy document, the European Consensus on Development (2005), and there are efforts to promote joint action and complementarity among them. In this Report unless otherwise stated the term EU is used to refer to the collective effort of the whole Union, that is Member States and the Commission. At times the abbreviation COM, used in official circles for the European Commission, is also employed.

Fragility: Fragility refers to a substantial disequilibrium in state–society relations. A fragile state has a weak capacity to carry out the basic functions of government across its entire territory, and lacks the ability to develop mutually constructive and reinforcing relations with society. Fragility exists in degrees and can take different forms, even within one country (OECD, 2011).

Global Public Goods: Contrary to private goods, public goods are goods, services or resources which are non-rival in consumption and non-excludable. In other words, the use of this type of good by one person does not diminish the use by another person; equally, no one can be excluded from their benefits. The concept of global public goods (GPGs) applies these criteria of 'publicness' to the solution of challenges at the global level, such as global health and international security. GPGs suffer from supply problems due to free-riding since positive externalities can be enjoyed even without contributing to the good. In contrast, the failure to provide joint solutions to global problems results in global public 'bads' (e.g. climate change).

North-South: The term originates from the influential Brandt Report: 'North–South: A Programme for Survival' published in 1980. The term 'North' is used to refer to countries of the world that are considered to be richer based on people's standard of living and on their level of industrial and economic development. The expression covers mainly countries in Europe, North America, and parts of East Asia and Oceania. 'South', on the other hand, is used to indicate the poorer countries of Africa, Asia and Central and South America.

Policy Coherence for Development (PCD) refers to the need to ensure that, as much as possible, a state's policies other than its development cooperation policy do not undermine ('do no harm') and indeed ideally also support development. This applies to both external policies (e.g. trade or security) and internal policies (e.g. agriculture or finance) that have external effects, which is increasingly the case as globalisation intensifies.

South-South Cooperation (SSC) refers to 'a broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains' (UNDP). Development assistance is therefore only one element of SSC, which often combines loans, grants, trade, investment and technical cooperation. SSC is characterised by the principle of 'non-interference', this means it tends not to be conditional on the adoption of policies regarding governance, or economic and institutional reform. Although SSC may not come with policy-related conditions and therefore appears more flexible that traditional ODA, it is often earmarked and provided in the form of in-kind grants or loans for projects or technical cooperation that are tied to purchases from the providing country.

Structural transformation: Structural transformation (or structural change) usually refers to the reallocation of labour from low-productivity activities to more dynamic higher-productivity activities, which is a pre-requisite for sustainable economic and social development. For instance, Timmer (2007) argues that structural transformation involves four main features: (i) a falling share of agriculture in economic output and employment, (ii) a rising share of urban economic activity in industry and modern services, (iii) migration of rural workers to urban settings, and (iv) a demographic transition that leads to a spurt in population growth before a new equilibrium is reached.

A **transformative agenda** aims to achieve structural transformation while at the same time ensuring that it leads to a sustained and inclusive development at the local, national and global levels. A transformative development path requires profound changes to infrastructures, production processes, regulation systems and lifestyles. Policy options, such as green growth, should be explored as an important means to promote sustainable development for instance.

EXECUTIVE SUMMARY

Introduction

The international community is on the verge of a unique opportunity to reset the global development agenda. There is considerable debate and widespread interest in establishing a post-2015 global framework to succeed the Millennium Development Goals (MDGs) and guide global collective action on development. This Report argues that, given the generally positive experience of the existing framework, world leaders should agree on its successor promptly so as to maintain the momentum of the unprecedented global movement for development the MDGs have inspired. The new framework should still be rooted in the United Nations Millennium Declaration and build on the achievements of the MDGs, but it will need to go further. It is also important that the European Union (EU), and its Member States, contribute significantly to this new global agenda in view of its commitment to development and to effective multilateral action.

This Report aims to provide an independent contribution to the post-2015 debate by focusing on how best global collective action can support the efforts of developing countries to achieve development. It is based on wide-ranging research and consultations carried out by a team from three European development institutes, as well as four country studies conducted by national research institutes in Nepal, Rwanda, Côte d'Ivoire and Peru. The analysis provides arguments and evidence for constructing a post-2015 development agenda.

EXECUTIVE SUMMARY

Constructing the post-2015 Agenda

The MDGs have been one of the most successful attempts ever to encourage global collective action around a limited set of goals with one core objective: a significant reduction of global poverty. They have come to be central to the way the international community thinks about, mobilises support for, implements and monitors development cooperation. Yet the international collective action they have inspired also has its limits and the aim to achieve a global partnership for development, as set out in MDG8, has been one of the least successful. The MDGs have also come to be closely associated with development assistance and a donor–recipient model of development. So, as 2015 approaches, there is a need to review how the momentum of this international effort can be sustained and improved in a changing global context. But it is equally important to reflect more deeply on the key international drivers of development and how to work with and harness these better in the future. In considering options for a new framework the Report therefore seeks to step outside the framework of goals and instruments used to pursue the MDGs, and to look 'beyond MDGs' and 'beyond Aid'.

Key conclusions

The analysis of the ERD 2013 leads to a series of main messages listed at the end of this summary and detailed in the Report. Overall the analysis reaches four key conclusions for a post-2015 agenda:

- **A transformative agenda is vital:** The international community should pursue a wider and more transformative approach to development than was captured in the MDGs, if poverty is to be eradicated. This calls for economic and social transformations that emphasise creating employment, addressing inequality and finding sustainable solutions. Poverty should remain a core focus of this agenda, but the objective should be to tackle its causes by adopting a model of development that is more inclusive and sustainable.

- **National ownership is key**: A new framework should pay more careful attention to how global goals relate to national policy needs and targets, respecting domestic policy space and linking national and international efforts in a mutually supportive and flexible manner. It may help to opt for some form of 'mixed-design' framework that allows for both global and national goals, as well as both targets and broad principles.

- **Scale up global collective action**: Richer countries, such as those in the EU, should strengthen their support for a new framework by extending collective action to areas important to development, such as international financial regulation, trade, migration and climate change; by enhancing the coherence of all policies with international development, in line with the principle of Policy Coherence for Development (PCD); and by continuing to increase both the level and effectiveness of their aid.

- **A new framework should be about instruments as much as about goals**. The temptation in considering a successor to the MDGs is to focus only on the goals and human development targets to be achieved. Yet some of the areas where progress has been least promising, such as MDG8, has been precisely in making better use of the instruments identified for international cooperation, such as official development assistance (ODA), as well as other resources, international agreements and regimes. A new framework should therefore clearly highlight the instruments to be used and the targets set for their use.

Building on the MDG experience

The Millennium Declaration was the basis for the MDGs and so is an important starting point for any post-2015 global development agenda. The Declaration is not exclusively about poverty reduction, but takes a wider view. For largely pragmatic reasons the MDGs focused on a limited number of issues related more directly to poverty, principally (MDGs1–6). Although MDG7 brought in environmental and sustainability concerns, and MDG8 highlighted the importance of a global partnership, these two goals have received far less attention than the others.

Experiences of the MDGs vary considerably but can usefully be considered from three angles:

- **Global experience** has given rise to a number of specific criticisms, which should be corrected in any successor to the MDGs. Among others, the MDGs tended to mask inequalities and omitted some issues of key importance to development (e.g. productive employment, climate change, governance, migration, conflict, security and disability). MDG commitments by rich countries were only partially honoured, and the translation of global goals and targets into national policy was difficult for many countries. In other words, a new framework should promote a broader vision, with a more carefully calibrated interplay between national policy targets and reliable international action. The Millennium Declaration remains a useful starting point, but the way it is translated into goals, which are then implemented, needs to be strengthened.

- **Country experience**, based on research undertaken for this Report in four countries and on wider evidence, suggests that the MDGs are seen and used in very different ways. The case study countries most dependent on ODA or facing fragile situations gave the MDGs most prominence, while for MICs they were less relevant and the targets largely inappropriate. In none of the four case study countries was ODA the only external force for development. International trade, foreign investment, migration and remittances were also crucial, suggesting that their linkages with national policy need to be better understood and managed. Domestic efforts to raise taxation have helped to enhance national policy space, whereas the more aid-dependent countries have

Main message 1

“A new global development framework is needed.

The MDGs have been instrumental in mobilising global support for development, while the vision behind the Millennium Declaration remains highly relevant. A new development framework should build on these efforts. The scale and urgency of the challenges and opportunities facing developing countries also provide a strong rationale for a post-2015 agreement. Given their intrinsic international nature, the new framework would need to cover a range of global issues that affect development outcomes such as climate change and consumption patterns.”

Main message 2

"The framework should promote inclusive and sustainable development.

Poverty eradication remains a central objective, but its achievement and protection will require development strategies that are both inclusive and sustainable because long-term poverty cannot be eradicated simply through social provisions. Economic growth is key but it needs to be socially inclusive and environmentally sustainable in order to eradicate poverty decisively. Exclusion and growing inequalities undermine sustained economic and social progress, while those living in poverty tend to be disproportionately affected by environmental degradation and adverse climate change."

found that donors' close adherence to the MDG agenda has not always matched national priorities.

- **International partners' including the EU's experience** have been mixed, despite good policy acceptance and a concerted effort to raise ODA and increase PCD. In the EU as a group, as in most OECD countries,[1] ODA targets will not be reached and PCD remains very difficult to put into practice. But perhaps the most crucial issue has been the failure of the international community to reach agreement on key issues such as climate change and trade or to achieve a stable and transparent international financial system.

Looking forward

A new global framework for development will contend with and must adapt to a world that is changing rapidly. By 2050 the global population is expected to reach 9.3 billion and 80% of it will be located in Asia and Africa. Poverty is falling but is likely to remain high in sub-Saharan Africa (SSA) and to be increasingly concentrated in fragile states. Several environmental planetary boundaries are already being transgressed. By 2050 the world may require 80% more energy. Forecasts of economic, demographic and environmental trends all point to the urgent need for bolder and more radical approaches to global collective action than even the MDGs were able to inspire. Global prospects are bleak, due in part to the long-term impact of the global financial and economic crisis and climate change, yet growing trade, capital and migration flows will make the world more interdependent, emphasising the importance of achieving an international policy environment that is supportive to development. Equally, the impact of the consumption patterns of a growing global middle class on environmental trends is likely to be particularly severe on the poorest countries. The need for coordinated and effective global collective action to tackle all three aspects of sustainable development – economic, social and environmental – is therefore becoming ever more urgent.

The international political context is also changing. Global power is shifting, with new state and non-state actors becoming more prominent and better able to support international development, whereas OECD countries have experienced economic setbacks. This will make the negotiation of a post-2015 agreement more complex, but there may also be more potential contributors to achieving solutions. In any case there will be a need for an inclusive approach to agree on any successor to the MDGs and to ensure its effective implementation.

The contribution of recent research to a greater understanding of the complexity of poverty and wellbeing needs to inform any new framework. For instance, the multi-dimensional and dynamic nature of poverty has been highlighted as many people move in and out poverty, whereas chronic poverty

1. With the exception of Norway, the five OECD DAC members (Denmark, Luxembourg, Netherlands, Norway and Sweden) that contribute more than the 1970 internationally agreed 0.7% ODA/GNI target, are all members of the EU.

blights the lives of particularly disadvantaged groups. Not all dimensions of wellbeing correlate with income. Moreover, inequalities generally intersect, which increases the chances of being both poor and socially excluded. This suggests the need to focus more on deprivation at the social or structural level within a more transformative agenda to find sustainable solutions to poverty that also tackle structural inequalities and particularly those affecting specific groups, such as minorities, youth or women. Redistributive mechanisms and social protection systems should be part of these solutions.

As countries become wealthier, and a greater proportion of the poor live in middle-income countries (MICs), persistent inequalities become an even more pressing and often persistent issue. Tackling inequalities, encouraging inclusiveness and looking for sustainable solutions are, therefore, all part of the transformative agenda that a future development framework should emphasise. Fragile states, as a group, have done least well with the MDGs and will require special attention in an approach that includes but goes well beyond social provisions. All this points to the need to seek to go beyond reducing poverty and stress the more holistic goal of inclusive and sustainable development (ISD) that encompasses an ambition to tackle poverty at its roots and in a sustainable manner.

International drivers of development

A number of international drivers have a major impact on creating an environment that is conducive to development. The Millennium Declaration and MDG8 point to some of them, as do the four country case studies. This Report focuses on three drivers represented by international movements of money, goods and people, namely (a) development finance, (b) trade and investment, and (c) labour migration.

The analysis of Development Finance points to the importance of diversification and to the prioritisation of financial sources that maximise national policy space. The specific characteristics of different types of development finance make each one suited to particular purposes. Domestic fiscal revenue gives a government maximum flexibility and control. South–South Cooperation (SSC) increases options for governments and emphasises mutually beneficial solutions. Foreign direct investment (FDI) can provide larger-scale finance to stimulate economic growth. International migration is a valuable self-help solution for individuals, although seldom the very poorest, but the remittances they provide are often also significant at a national level. Official Development Assistance (ODA) has a particular value because it can be carefully targeted and used as leverage, which means that richer countries still need to increase its volume and improve its effectiveness. They can also act collectively to help developing countries to control international financial flows and restrict illicit flows and so improve their fiscal capacity.

A review of trends in international Trade and Investment in terms of their impact on reducing poverty points to the problems

Main message 3

"The framework must build on an updated understanding of poverty.

A post-2015 framework will have to tackle absolute poverty and deprivation both from an income and a non-income perspective, thus relating to concepts of multi-dimensional poverty. It will also need to address issues of relative poverty, which incorporate aspects of social inclusion and inequality."

Main message 4

"A transformational development agenda is essential for this vision.

A stronger emphasis on promoting structural transformation and particularly job creation will be crucial to foster sustainable economic and social development. This may entail a fundamental reconsideration of the current development paradigm to ensure greater coherence of global action. A transformational agenda will require a greater emphasis on processes and transition paths. For instance, a focus on productive employment would support those economic, social and political transformations, which in turn would promote greater inclusiveness and sustainability."

facing marginalised and vulnerable economies, including the lack of economic and trade diversification. Creating productive jobs is a key means to tackle poverty, improve social inclusion and achieve economic and social transformations. International support for government efforts to promote modern-sector exports by designing appropriate international trade and investment regimes, combined with measures to reduce vulnerabilities to external shocks, should therefore be central to any new framework. The fact that the MDGs made little progress in this area makes this all the more urgent.

Migration for employment can be a life-transforming experience for any individual. For low-skilled migrants in particular, it may be the biggest single step they can take to move out of poverty. Migrants' remittances can have a huge impact on their families, enhancing their ability to gain access to services and improve their wellbeing. But migration often has high costs and can be fraught with dangers. The fact that irregular migrants take such risks shows the powerful appeal of labour mobility as a way out of poverty. While some developing countries see a place for establishing a migration policy and the value of the remittances, most governments of sending and receiving countries alike could do far more to reduce the difficulties and dangers faced by migrants. In so doing they could also find more lasting solutions to reduce irregular migration and enhance the supply of labour for promoting their own national economic growth and at the same time for optimising the impact on global development.

Forging collective action

Strong international collective action in a variety of areas is fundamental to eradicating global poverty and fulfilling the Millennium Declaration's promise. Despite the limited progress achieved on MDG8, the MDGs have in many ways been a success in encouraging this collective action, so it is important to build on their achievement.

Encouraging more extensive and reliable international action and support for global development should be a core element of a new post-2015 framework. Although governments need the policy space to follow national development agendas, and there are many internal factors that encourage or impede their implementation, it is also important that governments have an enabling international environment in which to pursue their development agendas. International collective action in a wider range of fields than just development cooperation is therefore vital and should include joint action on trade and investment, appropriate international finance systems and transparent regimes for managing migration as well as agreements in other areas such as climate change. The EU, as one group of richer countries, can make a valuable contribution both to promoting such collective action and by continuing to adjust its own policies to maximise PCD.

While it may prove impossible to integrate goals and targets in all these fields into a single framework, it is essential to recognise their interdependence and agree on a series of mutually supporting agreements to ensure that any successor to the MDGs achieves the eradication of poverty. It may be an attractive option to adopt a mixed design that allows for both global and local goals and for targets as well as broader principles. This could increase the flexibility of the framework, allow for diversity and help maximise national ownership.

Beyond MDGs and Beyond Aid

The argument of this Report is built on the observation that to make progress on the broad vision of the Millennium Declaration, the MDGs' pragmatic approach was to focus on income poverty and human development. Yet the wider scope of the Declaration encompasses many issues such as employment, human security, sustainability, support to the vulnerable as well as more equitable and predictable international trading and financial systems, all of which are fundamental to development. The research for this Report suggests this vision remains very relevant, but that to achieve it requires agreement on a broader set of goals than the MDGs. Equally, its achievement requires a wider range of instruments than ODA, the main tool of the MDG effort, and an approach that moves beyond the historical donor–recipient relationship.

The Report is therefore framed along two main axes, shown schematically in Figure A. One axis refers to the types of objectives that may be pursued in a global agenda; the other refers to the types of instruments that may be mobilised towards achieving those objectives. This matrix is therefore an invitation to consider how to improve the current MDG framework and devise a successor to the MDGs.

The first axis, **'Beyond MDGs',** concerns the objectives. Since their adoption, international development cooperation has become increasingly focused on achieving the MDGs. In crude terms, much of the effort has been on the social sectors of education and health (MDG2 through to MDG6) in the expectation that these would lead to the reduction of income poverty and hunger (MDG1). Moving 'beyond MDGs' thus means broadening the focus beyond the social sectors to include more comprehensive objectives that would re-focus development efforts and guide international cooperation. For example, poverty would be defined not only in terms of income, but would also integrate new thinking on wellbeing, social exclusion and multidimensional poverty. Possible new objectives may thus relate to job creation, productive investment, pro-poor growth, inequity and inequality, security, climate change, coping with scarcity of resources, etc. Moving across Figure A from left to right on the horizontal axis suggests aspiring to a broader set of objectives than were captured in the MDGs.

The second dimension, **'Beyond Aid',** is about instruments. The Millennium Declaration recognises that achieving its vision depends on a variety of measures, such as better international regimes for trade and finance, more and better development assistance, policy coherence and improved

Main message 5

"The global development framework should support country policy choices and development paths.

The policy space of governments should be respected both determining national development priorities and in other areas such as development finance, trade and investment and migration. A global framework on development should support such aims and be designed to recognise that flexibility is required to cater for diverse national circumstances."

Figure A: Moving beyond the MDGs and Aid to a global development agenda

BROADENING INSTRUMENTS 'BEYOND AID'

II. A GLOBAL ANTI-POVERTY AGENDA

MDGs as we know them, but moving beyond aid as we know it

- The current anti-poverty agenda continues
- Coordinated and diversified instruments and sources of finance. Greater PCD and more use of international regimes

IV. A GLOBAL DEVELOPMENT AGENDA

Moving beyond aid and beyond MDGs: More diversified instruments and objectives

- Focus broadened to include other development objectives and global challenges
- Coordinated and diversified instruments and sources of finance. Greater PCD and more use of international regimes.

I. AN MDG-TYPE AGENDA

Development cooperation as we know it: Focus on MDGs with aid as the main instrument

- Poverty reduction is the main objective – with a continued focus on a limited number of areas.
- Aid as the main instrument of international cooperation.

III. AN INTERNATIONAL COOPERATION AGENDA

Aid as we know it but Moving beyond MDGs to more diversified goals

- Focus broadened to include other development objectives and global challenges.
- Aid continues to be seen as the main instrument of international cooperation.

BROADENING OBJECTIVES 'BEYOND MDGs'

governance. Despite significant emphasis since 2002 on raising the level of ODA, few of the other instruments of international cooperation outlined in MDG8 have been effectively pursued.

Moving 'beyond aid', up the vertical axis of Figure A, therefore implies looking at international policies that affect a country's ability to achieve inclusive and sustainable development. This can include the major linkages between developing countries and the EU and other rich nations such as through trade or migration, or the international financial system. At the same time it also means that a global framework will need to address development finance in a more comprehensive fashion, incorporating other (international and domestic) resources beyond ODA, into a new global understanding of ways in which to finance development, that includes resources such as global public finance, climate finance, FDI, remittances and domestic resources, including tax revenues. The concept of PCD is central, since it implies that all policies, and not merely development cooperation, should be conducive to development, e.g. policies in the areas of trade and investment or agriculture and fisheries should promote (or at the very least not thwart) development.

To describe the aim of a new post-2015 framework, this Report uses the term inclusive and sustainable development (ISD). The concept is felt to encapsulate the vision of the Millennium Declaration (see Sections III–VI). The term itself has been used by the World Bank and UNCTAD and appears in the EU's recent Agenda for Change. Achieving inclusive and sustainable development is about eradicating poverty in a sustainable manner, socially, economically and environmentally. The linkages between inclusiveness and sustainability have been tackled before, but the interaction between them and economic growth (especially the need for job creation and structural economic transformation) is crucial to a development model that tackles the roots of poverty and does not simply seek to reduce its incidence, whatever the inherent value of such an effort. For this reason, inclusive and sustainable development should be at the heart of any new global development framework. Its dimensions underline the importance of its three key features: the quality of development (addressing the causes of poverty), the spread of development (reducing inequality), and its long-term perspective.

Country experience

A major aspect of the approach taken in this Report is to build on evidence and arguments based on developing countries' experience of the MDGs. Four country case studies were commissioned from national research institutes in Nepal, Rwanda, Côte d'Ivoire and Peru as key inputs to the background research for this Report. These countries were chosen to present a range of development experiences with the MDGs, and very different links with the global economy, international cooperation and the EU. Twenty years ago all four were LICs, but two, Côte d'Ivoire and Peru, are now MICs. All four

Main message 6

"The deployment of a broad range of policies 'beyond aid' is essential.

Policies in areas such as trade and investment, international finance and migration have significant effects on development outcomes and need to be designed accordingly and in a coherent manner. ODA will continue to be important, but it will need to be used in a more focused and catalytic manner and to leverage other appropriate forms of development finance."

EXECUTIVE SUMMARY

Main message 7

"A range of development finance sources will be required.

Domestic resources are the main source of finance for development, not least because they provide the greatest policy space. Private domestic investment and FDI are also important and should be supported. Providers of SSC should be encouraged to further strengthen their contribution since it offers partner countries additional choice and opportunities. Levels of ODA should be maintained and increased, and ODA should be allocated in ways that maximise its impact. To improve the effectiveness and complementarity of different types of development finance, it is important to encourage transparency of all financial flows."

have been affected by periods of major crisis and violence in these two decades, creating fragilities that in some cases still linger just below the surface and at times resurface. The case studies thus demonstrate the wide variation in development trajectories and confirm the central importance of domestic political and economic processes in shaping them. Equally they show the importance of the external environment in providing opportunities and support, but at times also creating difficulties that can exacerbate already fragile situations.

The MDGs have played very different roles in supporting these countries' efforts to realise some of their development objectives. External contributions to and influences on each country's development have varied hugely. The ability to build trade and attract FDI has been key to Côte d'Ivoire and Peru, although both have been vulnerable to a reliance on too few commodities. Nepal and Rwanda have found the difficulty in attracting FDI and new technology as a major impediment to development. In Rwanda and to some extent Nepal ODA has been particularly important, while in Côte d'Ivoire it signalled international support for the new government. The four countries also have very different experiences of labour migration, ranging from Nepal, where migrant remittances are a vital source of national income, to Côte d'Ivoire where immigrants who were welcome in the boom years later became the focus of populist political manoeuvring. In Peru, emigrants who left in more difficult years in the past are returning. The country is now even attracting young Europeans in search of employment. The opportunities created by the growing importance of South–South Cooperation (SSC) are evident in all four cases.

Above all, the case studies illustrate the different development path pursued in each country, which has determined how the MDGs are valued and used, and emphasises the importance of national policy space and the need to avoid 'one-size-fits-all' solutions in a post-2015 agenda:

- **Nepal** has integrated the MDGs into national development plans, but traditional donors have focused on the social sectors rather than supporting the government's own plans to invest in the productive sectors and develop infrastructure. While there is little FDI, over half of Nepal's households receive migrant remittances, which have helped to support progress towards the MDGs.

- The **Rwandan** government has followed a strong developmental agenda in which the MDGs have played a central role. The country has received significant ODA, much of it in the form of budget support, although events in 2012 showed that this aid dependence also creates vulnerability. The government is keen to attract FDI and has made progress in mobilising domestic resources via taxation.

- **Côte d'Ivoire**, one of the most dynamic economies in West Africa in the 1970s and 1980s, illustrates the danger of relying on commodity exports, as was the case then.

Progress towards the MDGs has suffered as a result of subsequent instability, but they remain a government priority and have served to rally donor support, which may signal the international confidence necessary to attract FDI. Interestingly, Côte d'Ivoire succeeded in maintaining high levels of fiscal revenue throughout the crisis period.

- The MDGs have been of limited relevance in **Peru** partly because a national development consensus had already been established before they were adopted, but also because the targets were not particularly challenging. Despite its investment in social protection, Peru remains a highly unequal society, and the extractive industries have been a source of conflict in rural areas. There is scope for greater cooperation with the EU on issues such as trade, regional development and social protection programmes.

Taken together, the case studies illustrate both the diversity of country experiences and the need for flexibility in a new global development framework. Of prime importance is that the consultations in all four countries suggest solid support for a new global framework as long as it is designed to address different needs.

The case studies confirm the fundamental importance of links with the global economy, financial flows, trade, migration and international cooperation, including SSC, in determining national development progress. Equally, they demonstrate that national policy space is shaped by international trends and policies, and that vulnerabilities can persist alongside development achievements. In other words the 'global partnership for development' of MDG8 is crucial to the development process, pointing to the need for it to be strengthened in a post-2015 framework and underlining the emphasis placed on international drivers in the argument of this Report.

Main messages

The first clear message is that it is important to establish a new framework. The MDGs have set a standard for collective global action, which it is essential to improve on, particularly given the increasing urgency of certain global challenges. The overall goal for the new framework also seems clear: inclusive and sustainable development. In particular, this vision underlines the importance that a new framework should incorporate an analysis of poverty that goes beyond income, and the crucial importance of pursuing a transformative agenda. The eradication of poverty should remain at the centre of a new framework, but there should also be a focus on relative poverty and reducing persistent inequalities. It is also vital to tackle environmental sustainability. This vision cannot be achieved without structural transformation at many levels, including most importantly a strong focus on growth that promotes productive employment. At the same time social provisions will continue to have their place, and taxation, social protection and other redistributive mechanisms will be important.

Main message 8

“More extensive global collective action is urgently needed.

Achieving the vision of the Millennium Declaration will require considerably greater international collective action through global public policies. Such collective action is essential to establish an international environment that is conducive to inclusive and sustainable development and to tackle global issues that directly affect the ability of individual countries to achieve development outcomes (e.g. in the areas of development finance, trade and investment and migration).”

EXECUTIVE SUMMARY

Main message 9

“Processes to address global challenges need to be mutually reinforcing.

Several international processes are likely to be required to respond to multiple global challenges and support inclusive and sustainable development. Their effectiveness will also hinge on seeking out complementarities and synergies. It is important that aspects where consensus is harder to achieve do not hold back or jeopardise agreement in other areas. The momentum created by the MDGs is a major asset, which needs to be sustained. Its successor should not attempt to address every global challenge if this might deter continued progress and especially if other existing processes and frameworks are better placed to do so. A post-2015 agreement may best be conceived as a framework that brings together a series of interlocking and mutually reinforcing agendas.”

Global collective action will be vital for a post-2015 global development framework, although at the same time countries need the space to develop their own policies and choose their own development trajectories. A new framework must therefore support national development efforts by creating a conducive international environment that goes well beyond development assistance and recognises the diversity of instruments and mutually reinforcing policies that are required to achieve inclusive and sustainable development. It will be vital to promote policy coherence in the EU and other OECD countries and to step up the mobilisation of development finance beyond ODA. A greater range of sources of development finance needs to be tapped and used more effectively and strategically. At the international level such funds may best be managed as agreed global public goods (GPGs). These various factors underline the importance of promoting better national and international coordination to achieve inclusive and sustainable development. The EU can play an important role in encouraging such joint collective action as well as in contributing knowledge and financial resources.

A post-2015 framework will have to strike several difficult balances, and learn from the experience of the MDGs. It is important to avoid producing a long list of good intentions, so its scope should not compromise its focus and feasibility. Restricting the number of goals and indicators will help to ensure coherence and focus efforts. Yet the vision of the Millennium Declaration and the overall objective inclusive and sustainable development does point to the need for progress on a number of complementary agendas that are often discussed in isolation. The successful achievement of the overall objective will depend on these processes coming together and reinforcing each other at some point. In order to avoid the danger of overload, and because it may not be possible to make progress and achieve agreement on all of these agendas simultaneously, the post-2015 agreement may best be conceived as a framework that brings together a series of interlocking and mutually dependent and supportive agendas.

Specific action points for the EU post-2015

The EU has been an important supporter of the MDGs in terms both of resources and its willingness to work with international partners. The Union, its Member States and institutions, should continue and further strengthen their commitment to this common cause. In responding to current global development challenges there are four key aspects of the EU’s role:

- **ODA levels:** Despite recent efforts, almost no European donors will achieve their pledge, renewed in 2002 at Monterrey, to provide 0.7% of GNI as ODA by 2015. Yet a post-2015 framework will need more development finance and, despite current austerity measures, EU donors should continue to increase ODA levels.

- **Effectiveness:** Even if the volume of ODA remains the same, it is still possible to increase its impact, as recognised in recent EU policy documents such as the Agenda for Change (2011). The aid-effectiveness agenda and its application to EU policies, programmes and instruments can be applied more thoroughly in many areas.

- **Policy Coherence for Development:** It remains crucial to make tangible progress in promoting PCD, which should imply that other policies, such as security or trade, at least do not thwart development, and at best reinforce the aims of EU development cooperation. It is not easy to make progress on PCD and the EU has made more efforts than most, but the impact of these efforts remains limited even in cases where negative impacts for development are most apparent. Having stated its PCD objectives it is important for the EU's credibility to make tangible progress and show results.

- **International negotiations:** The EU's international standing and membership gives it considerable potential to contribute to international regimes in support of global public policy goals. A more effective external policy stance could increase the collective influence of the EU and its Member States in shaping international regimes and securing the reform of the global governance architecture. Notwithstanding the difficulties of pushing for global public policies, the EU is in a relatively strong position to foster debate in favour of a development-friendly review of current and potential international regimes.

In the immediate term the EU should develop a strong yet sufficiently flexible common position to participate in the post-2015 debates at the UN and in other appropriate multilateral and mini-lateral fora (e.g. G20, G8). In particular it should use its considerable influence to advocate for a post-2015 global development framework that builds on the Millennium Declaration and the experience of the MDGs, tackling an updated poverty agenda that also seeks to integrate the SDG concerns in order to pursue all three aspects of the objective of inclusive and sustainable development and better reflect the wider needs of the whole international community.

In this context, demonstrating a willingness to look at goals that would apply to Europe and that could be monitored and measured would greatly strengthen the EU's credibility in the debate. The EU may wish to consider pursuing a framework that is truly global, with a range of different goals so that all nations, not just the poorest, are challenged.

Main message 10

“Over and above its ODA effort, the EU's contribution post 2015 should also be assessed on its ability to promote PCD and promote conducive international regimes.

The EU's most valuable contribution to a new global framework for development will be in a range of policies beyond development cooperation (e.g. in trade, migration, PCD, knowledge sharing, climate change, promoting global collective action, and contributing to the establishment of development-friendly international regimes) while still maintaining and improving its development cooperation. In particular the EU should adopt internal policies that support inclusive and sustainable development at the global level.”

EXECUTIVE SUMMARY

MAIN MESSAGES

A NEW GLOBAL DEVELOPMENT FRAMEWORK IS NEEDED

- For post-2015, world governments should agree on a new development framework that builds on the MDG endeavour and takes further the core objectives of the Millennium Declaration.

THE FRAMEWORK SHOULD PROMOTE INCLUSIVE AND SUSTAINABLE DEVELOPMENT

- The design of a new framework should more clearly incorporate dimensions of inclusiveness (e.g. inequality, productive employment) and sustainability (economic, social and environmental). These dimensions should be clearly reflected in the targets and indicators.

THE FRAMEWORK MUST BUILD ON AN UPDATED UNDERSTANDING OF POVERTY

- The new framework should go beyond the $1.25 a day poverty definition.
- National poverty measures should be taken into consideration.
- Non-income poverty aspects should be better incorporated to capture the multi-dimensional nature of poverty.
- Inequality needs to be addressed.

A TRANSFORMATIONAL DEVELOPMENT AGENDA IS ESSENTIAL FOR THIS VISION

- A new framework should make explicit the need to complement investments in the social sectors (health, education, social protection) with investments in key infrastructure and the productive sectors in order to bring about essential structural changes.

THE GLOBAL DEVELOPMENT FRAMEWORK SHOULD SUPPORT COUNTRY POLICY CHOICES AND DEVELOPMENT PATHS

- All donors, SSC providers and others involved in international cooperation should respect the principles of national ownership and alignment established in the Aid Effectiveness HLF process and most recently confirmed in its Global Partnership for Effective Development Cooperation.

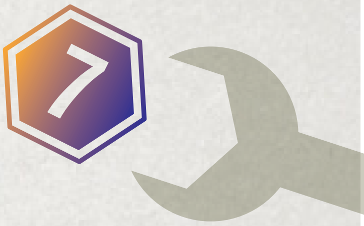
MAIN MESSAGES

THE DEPLOYMENT OF A BROAD RANGE OF POLICIES 'BEYOND AID' IS ESSENTIAL

- The principle of Policy Coherence for Development should be a core working approach of a new framework.
- The importance of instruments other than development cooperation should be recognised and where possible specified with goals and targets.

A RANGE OF DEVELOPMENT FINANCE RESOURCES WILL BE REQUIRED

- International development partners should support governments in their efforts to raise domestic resources.
- Donor countries should improve the level and the effectiveness of their development assistance.
- Mechanisms should be established to enhance the transparency of all international development finance to improve its deployment.

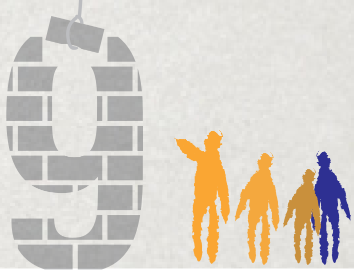


MORE EXTENSIVE INTERNATIONAL COLLECTIVE ACTION IS REQUIRED

- Greater international collective action is needed to realise the vision set out in the Millennium Declaration. Specific areas in which there is an urgent need to establish or improve international regimes include trade, financial regulation, migration and climate change.

PROCESSES TO ADDRESS GLOBAL CHALLENGES NEED TO BE MUTUALLY REINFORCING

- The international community should establish and observe complementary agreements and regimes to tackle interrelated global challenges that affect development.
- It should explore the possibility of a mixed design for the post-2015 framework, which combines both targets (global and national) and principles.



IN ADDITION TO ODA THE EU CONTRIBUTION POST-2015 SHOULD FOCUS ON PROMOTING PCD AND GLOBAL COLLECTIVE ACTION

- Strengthen trade and investment and labour migration policies' development-friendliness and enhance transparency measures.
- Meet EU commitments on levels and effectiveness of ODA, and strengthen other financial contributions.
- Seek an EU position to participate in post-2015 debates.
- Advocate for a framework that builds on the Millennium Declaration and the MDGs toward an inclusive and sustainable development vision.

INTRODUCTION

INTRODUCTION

> "This European Report on Development aims to provide an independent contribution to the debate on a possible post-2015 development framework."

> "The Report focuses on the potential value of a new global framework in generating a concerted movement to promote development and support the efforts of poor countries to this end."

In a commendable effort to increase accountability, the international community set itself a target date of 2015 to achieve the key objectives of the historic United Nations Millennium Declaration, on which the Millennium Development Goals (MDGs) are based. This widely recognised deadline has inevitably attracted considerable debate. As it approaches, there has been much research on whether the targets as set out in the MDGs will be met, along with a parallel discussion on what might succeed them. International development efforts will not simply stop in 2015, as there is still much left to do. But do developing countries and the wider international community need a new global framework beyond the MDGs?

This European Report on Development aims to provide an independent contribution to the debate on a possible post-2015 development framework to succeed the MDGs and what elements it might usefully incorporate.

1. Focus of the Report

The Report focuses on the potential value of a new global framework in generating a concerted movement to promote development and support the efforts of poor countries to this end. Have the MDGs helped or even hindered their development progress, or have they perhaps served mainly to mobilise donors? How might a new global agenda most usefully support national development efforts? The Report sets out to identify ideas for a possible new framework and to provide evidence, analysis and research-based recommendations to support them. At the same time the aim is not to conduct an exhaustive analysis of possible ingredients for a post-2015 framework nor to design a complete new set of goals.

The Report also analyses the role of the European Union (EU) as a global actor in advancing international development, both through its development cooperation policies and through its other policies that also influence development outcomes. While developing countries have the prime responsibility for their own development and increasingly take the lead in setting the parameters of international cooperation, Europe can, and indeed should, continue to make an important contribution to the achievement of any successor to the MDGs.

By focusing on what the EU might contribute to a possible future global framework for development it is also hoped this Report can make a distinctive contribution to the wider global debate. The United Nations (UN) is organising a series of national and thematic consultations on the post-2015 agenda[2], the Secretary-General of the United Nations has established a High-level Panel of Eminent Persons to produce recommendations on a future framework, and a large public consultation effort organised by the UN aims to reach citizens in every country. In January 2013, a 30-member Open Working Group (OWG) of the General Assembly was constituted to prepare a proposal on Sustainable Development Goals (SDGs), a process that many hope will be brought together with the post-2015 agenda at a suitable point. At the same time, civil society organisations (CSOs) across the globe are also developing reports and campaigns on the post-2015 agenda, while academics and researchers are analysing data and policies on a range of possible options. Parliaments are taking an interest and national governments are preparing their positions. Much of this discussion will crystallise around the 68th Session of the UN General Assembly in September 2013, when the Secretary-General of the United Nations will present a report setting out recommendations for the way forward.

2 The UN System Task Team on the Post-2015 development agenda is producing a series of think pieces. Its report to the UN Secretary General in June 2012 'Realizing the Future we Want' is a background document for the consultations.

2. The case for global collective action

The MDGs have been one of the most successful attempts ever to encourage global collective action around a limited set of goals with one core objective: a significant reduction of global poverty. They have come to be central to the way the international community thinks about, mobilises support for, implements and monitors development cooperation. Yet the international collective action they have inspired has limits and the aim to achieve a global partnership for development, as set out in MDG8, has been one of the least successful. Despite this, given the increasingly interconnected nature of the global economy and the scale and urgency of global challenges, strong international collective action in a variety of areas remains fundamental to eradicating global poverty and fulfilling the Millennium Declaration's promise.

As the MDG deadline approaches, there is therefore a need to review how the momentum of this international effort can be sustained and improved in a changing global context. Although countries must retain the policy space to follow national development agendas, and there are many internal factors that encourage or impede their implementation, it is also important that all countries have a conducive international environment in which to pursue their development agendas. Collective action to achieve this enabling environment is required in a wider range of fields than just development cooperation. Encouraging more extensive and reliable international action and support for global development should thus be a core element of a new post-2015 framework.

3. The Approach of the Report

The Report relies on two notions that are used extensively throughout. The first relates to the ultimate purpose of a new framework. For this, the Report adopts the term 'inclusive and sustainable development' (ISD). The second is the question of how to understand going 'Beyond MDGs' and 'Beyond Aid'.

Inclusive and sustainable development

The Millennium Declaration still provides a good consensual starting point for the post-2015 debate. The Declaration outlines a broad vision of development that includes poverty eradication as well as environmental sustainability, human security, vulnerability, rights and good governance (see Sections III-VI). This vision can best be described as inclusive and sustainable development, a term used in this Report to encapsulate what a potential new global framework ought to set out to achieve. Although the Declaration does not explicitly refer to inclusive and sustainable development, the term is now widely used. The World Bank used the term in its 2007 long-term strategic planning exercise, and UNCTAD adopted it in a 2011 report.[3] More immediately, the 2010 European Report on Development was entitled *'Social Protection for Inclusive Development'* and the 2012 Report focused on how to attain *inclusive and sustainable growth* in a context of growing scarcity of natural resources. The European Commission in its *Agenda for Change* (COM, 2011) also uses the term.

> **"The Declaration outlines a broad vision of development. This vision can best be described as inclusive and sustainable development."**

The term can perhaps best be understood through an analysis of its three main components:

- **Inclusive:** Although several countries have achieved significant economic and social progress and reduced poverty levels, the benefits have not always been equitably shared. Economic, social and political exclusion undermine human development and threaten the consolidation of recent gains in poverty reduction. A focus on *inclusiveness* requires

3 http://www.unctad.org/en/docs/tdxiii_report_en.pdf/.

INTRODUCTION

"A defining feature of inclusive and sustainable development is that it explicitly combines concerns to reduce poverty and inequality, in a sustainable manner."

that all members of society – irrespective of their age, sex, ethnicity, culture, nationality, location, income and education – can participate in and share the benefits of development. The intersection of social exclusion and inequality has often impeded progress on reducing poverty (Kabeer, 2010). Reducing inequality is both a question of justice and tends to be associated with stronger growth and lower levels of poverty (UNRISD, 2010).

- **Sustainable:** It is important that development gains can be sustained to ensure that both current and future generations benefit. The concept of sustainable development, based on the three pillars of economic, social and environmental sustainability, was embraced at the 1992 Earth Summit. Thus greater *sustainability* means that development must respect the limits set by the natural environment, including its planetary boundaries.[4] But equally it implies that the solutions to poverty should be socially and economically sustainable. Solutions based on social welfare are of course valuable if they help to save lives (Barder, 2011), but a lasting solution should enable people to sustain a decent living into the future.

- **Development:** Economic growth is a necessary but insufficient condition to raise living standards. Development highlights the need to address issues that go beyond the narrow economic sphere, such as governance, institutions, security and other aspects of wellbeing. In fact, inclusive and sustainable development can be achieved only through economic and social transformation.

Economic structural adjustment – with a strong focus on economic growth and liberalisation – was a prominent feature of the 1980s and 1990s. The MDGs were, in part, a reaction to the resulting neglect of the social and human dimensions of development. Although the MDGs have contributed to achieving some advances in these areas, they made no claim to represent a new path to development. Indeed, the International Monetary Fund (IMF) and the World Bank embraced the MDGs, which they saw as a complement to the prevailing 'Washington Consensus'. It has been argued that the MDGs enabled different stakeholders to agree on desirable outcomes while disagreeing on the means to achieve them (Sakiko Fukuda-Parr, 2012). In addition, at the Rio+20 Conference in June 2012, proposals to adopt 'sustainable development goals'[5] underscored the need to integrate both poverty eradication and issues of environmental sustainability in any post-2015 global framework.

Thus a defining feature of the term inclusive and sustainable development is that it explicitly combines concerns to reduce poverty and inequality, while stressing the need to do so in a sustainable manner. While the concept of inclusive development is in line with the human development approach, the latter tends to be associated with outcomes, while inclusive development tries to bring back a focus on process. This opens the possibility of devising both process (e.g. inclusive growth) and outcome goals (e.g. current MDGs).

The linkages between inclusiveness and sustainability have been tackled before (e.g. UNDP, 2011), but the interaction between them and economic growth (especially the need for structural transformation[6]) needs to be further elaborated

4 As shown in the ERD 2012 on 'Confronting Scarcity', this means changing consumption patterns in Europe (and in other OECD countries) as well as promoting the green economy in poorer countries in ways that do not curtail their right to development.

5 Initially proposed by the governments of Colombia and Guatemala.

6 Working definitions for key terms such as this are provided in a list at the start of the Report.

upon in order to promote a development model that is compatible with and fosters both sustainability and inclusiveness. So, *inclusive and sustainable development* should be at the heart of any new global development framework. Its dimensions underline the importance of its three key features – the quality of development and not just growth, the *spread* of development by reducing inequality and the need to confront scarcities in order to ensure that development has a long-term perspective.

Thinking Beyond MDGs and Beyond Aid

A forward-looking exercise such as this should aim to think beyond existing parameters. In other words, it is important to consider in what areas it might be desirable and possible to develop a future consensus rather than simply being confined to what seems feasible.

The global post-2015 debates may move in many different directions. For instance, they may, or may not, lead to a stronger and broader international consensus, enhanced coordination among donors, better integration between international policies and national policies and with external impacts, and be more specific and results-oriented in a wider range of sectors.

The Report is therefore framed along two main axes, schematically shown in Table 1 below. One axis refers to the types of objectives that may be pursued in a global agenda; the other to the types of instruments that may be used towards achieving those objectives. The schematic matrix in Table 1 is therefore an invitation to consider how to improve the current framework and imagine a successor to the MDGs.

The first, **'Beyond MDGs'**, dimension concerns objectives. As we shall see later (Chapter 1), since their adoption, development cooperation has increasingly focused on achieving the MDGs. In crude terms, much of the effort has been on MDG2 through to MDG6 (relating to the social sectors of education and health) in the expectation that these would lead to the achievement of MDG1 (reducing income poverty and hunger). Moving 'Beyond MDGs' thus means broadening the focus beyond the social sectors to ensure that more comprehensive objectives are introduced in order to re-focus development efforts and guide international collective action. For example, the definition of poverty-related goals would also integrate thinking on wellbeing, social exclusion and multi-dimensional poverty. Other new additional objectives may thus relate to issues such as inequity and inequality, security, climate change and resource scarcity.

The discussion on moving 'Beyond MDGs' should not distract from the continued effort still required to achieve the MDGs by 2015, which can then be included in a new global framework. The MDGs have in many ways been successful, so talking about 'Beyond MDGs' should be seen expressing a willingness to do better.

The second dimension, **'Beyond Aid'**, involves a discussion about instruments. The Millennium Declaration recognises that achieving its objectives depends on a variety of measures, such as good governance, better international regimes for trade and finance, and more and better development assistance. Since the 2002 International Conference on Financing for Development,[7] there has been significant emphasis on raising the level of ODA and on improving its effectiveness and impact. Perhaps as a result of this, and various attempts to calculate the financial cost of achieving the MDGs (Sachs, 2005), ODA has been seen as their main funding source.

Moving 'beyond aid' implies looking at international policies that affect a country's ability

> "A forward-looking exercise such as this should aim to think beyond existing parameters."

7 United Nations International Conference on Financing for Development, Monterrey, 18–22 March 2002.

INTRODUCTION

> “Moving ‘Beyond MDGs’ means broadening the focus beyond the social sectors to ensure that more comprehensive objectives are introduced.”

Table 1. Moving beyond the MDGs and Aid to Global Development Agenda

BROADENING INSTRUMENTS ‘BEYOND AID’		
↑	**II. A GLOBAL ANTI-POVERTY AGENDA** MDGs as we know them, but moving beyond aid as we know it The current anti-poverty agenda continues to shape the global framework on development, catering in a differentiated manner to the expectations and needs of different types of developing country. No consensus on other global challenges such as sustainability issues. Continued focus on broad income poverty, primarily via social investment and expenditure. Coordinated and diversified instruments and sources of finance both domestic and international. Greater Policy Coherence for Development (PCD). Increased use of international regimes to tackle a range of global issues.	**IV. A GLOBAL DEVELOPMENT AGENDA** Moving beyond aid and beyond MDGs: More diversified instruments and objectives Focus broadened to include other development objectives and global challenges: MDG concerns incorporated into wider objectives, e.g. inclusive growth, equity, employment, sustainability, good governance. An agenda for inclusive and sustainable development that meets the expectations and needs of all countries, recognising their social, economic and political differences,development opportunities and vulnerabilities. Coordinated and diversified instruments and sources of finance both domestic and international. Greater Policy Coherence for Development (PCD). Increased use of international regimes to tackle global challenges.
	I. AN MDG-TYPE AGENDA Development cooperation as we know it: Focus on MDGs with aid as the main instrument Poverty reduction is the main objective – with a continued focus on a limited number of areas (e.g. health and education) rather than on or actively promoting inclusive growth, equity, employment, sustainability, good governance, etc. Aid as the main instrument of international cooperation, and reluctance to address policy reforms in the areas of trade, the global financial system, investment, migration, etc. Possible fragmentation of financial and other instruments. Policy Coherence for Development (PCD) efforts are minimal and ineffective in ensuring a poverty focus in non-development policies.	**III. AN INTERNATIONAL COOPERATION AGENDA** Aid as we know it but moving beyond MDGs to more diversified goals Focus broadened to include other development objectives and global challenges, e.g. inclusive growth, equity, employment, sustainability, good governance, in the context of inclusive and sustainable development. Recognition of need to tackle inequality and sustainability issues in developed countries. Aid as the main instrument of international cooperation, and reluctance to address policy reforms in the areas of trade, the global financial system, investment, migration, etc. Possible fragmentation of financial and other instruments. Policy Coherence for Development (PCD) efforts are minimal and ineffective in ensuring a poverty focus in non-development policies.
	BROADENING OBJECTIVES ‘BEYOND MDGs’ →	

to achieve inclusive and sustainable development. These can include the major linkages between developing countries with the EU and other rich nations through trade or migration, or improving the international finance system. Moving 'beyond aid' also means moving the global framework to address development finance in a more comprehensive way, incorporating other relevant (national and international) resources, such as global public finance, climate finance, foreign direct investment (FDI), remittances and domestic resources.

Starting in the bottom left of Table 1 (Quadrant I) and moving up to the top right (Quadrant IV) involves a discussion of both what type of development (objectives) a post-2015 global framework might seek and of how to achieve it (instruments). These discussions can be analysed in two separate movements represented by the horizontal and vertical axes of the matrix. Moving from left to right on the horizontal axis suggests going beyond the MDG objectives towards the broader vision encompassed in the Millennium Declaration, which we refer to as *inclusive and sustainable development*.

Moving up the vertical axis implies using a wider range of instruments than ODA to include other forms of development finance, trade and investment policies, and migration. The concept of Policy Coherence for Development (PCD) is key here as it implies that all policies – and not merely development cooperation as such – should promote (or at least not thwart) development. These other policies and sources of finance thus provide a wider range of instruments that can be deployed in the top two quadrants of Table 1.

International decision-makers and negotiators may have more or less ambition regarding each of the axes shown in Table 1 and negotiations may lead to more modest outcomes than initially envisaged (Table 2).

It is not for this Report to anticipate what compromises might be required to reach a political consensus on a new post-2015 global development framework or on specific goals. The aim is rather to identify elements that would be useful to include in such discussions, which means starting out with a broad view of the possible objectives and instruments.

Whether it would be better to rely on the same instruments while expanding the global development goals or to expand the range of instruments to seek the same goals is subject to debate. What seems clear is that the most desirable is to move towards the ambitious outcomes and that a modest outcome, involving at least some movement in this direction, is probably preferable to other partial outcomes.

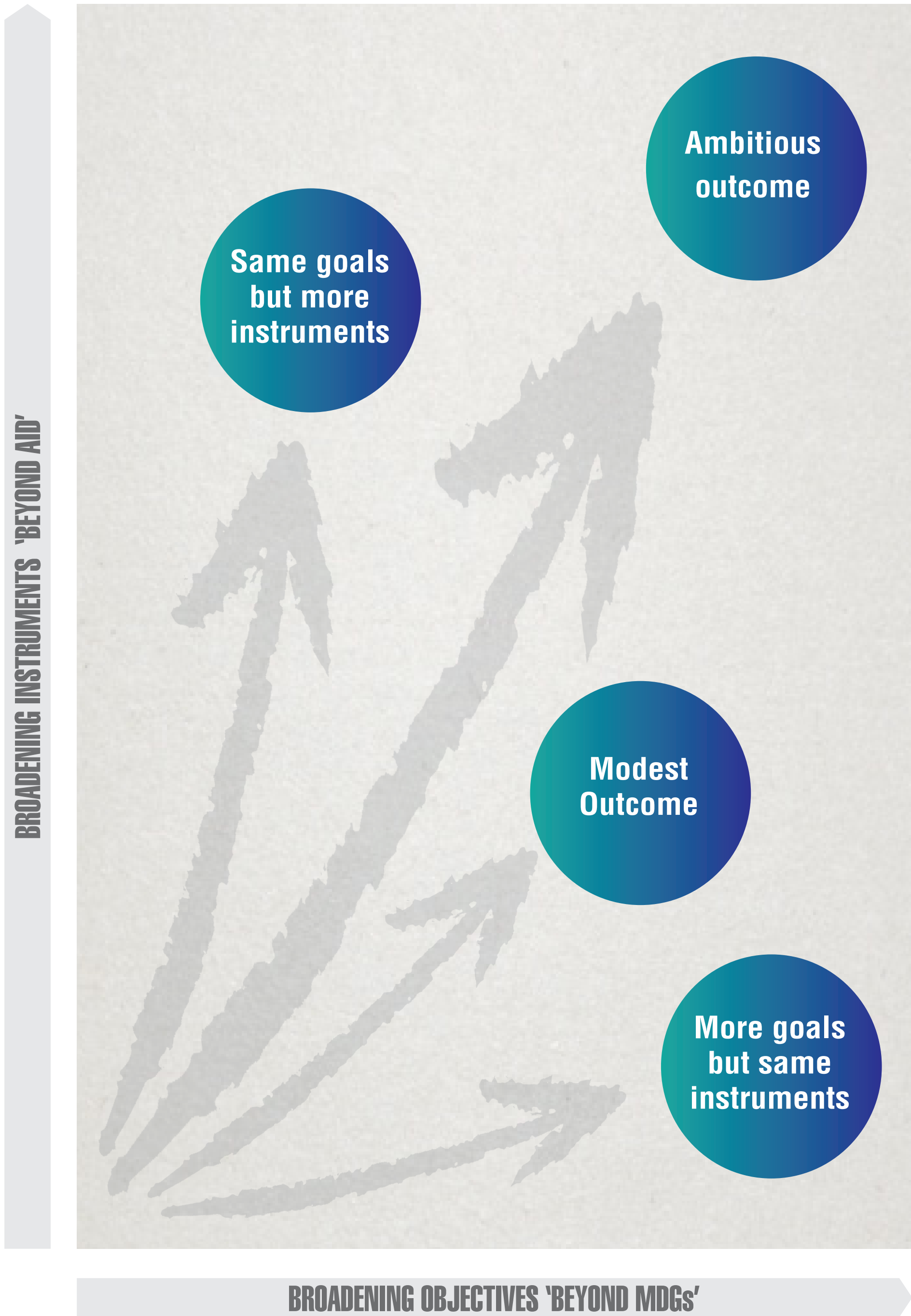
4. The Structure of the Report

The Report builds on this approach of looking Beyond MDGs and Beyond Aid. It does so by examining experience of the MDGs at several levels (globally, in developing countries and in the EU) and then looking at how international challenges are evolving in order to identify issues that a future framework might need to address. It seeks to look Beyond Aid by taking a thematic approach to explore some of the main international drivers of development that characterise relationships between richer and poorer nations: development finance, international trade and investment flows and international labour migration. These are examined both in terms of the environment they create for developing countries and in terms of how policies and international regimes in these areas could help to promote national development. The conclusions are also presented in terms of Beyond MDGs and Beyond Aid.

Throughout the Report, the EU is taken as the example of what richer countries could do to

“Moving ‘beyond aid’ implies looking at international policies that affect a country’s ability to achieve inclusive and sustainable development.”

Table 2. Levels of ambition and differing outcomes



contribute to a global framework for development and four case studies are used to provide evidence from developing countries.[8] Nepal, Rwanda, Côte d'Ivoire and Peru, though not intended as a representative sample, were chosen to present a range of development patterns and experiences with the MDGs, and very different links with the global economy, international cooperation and the EU.

The Report is structured in three parts each with three chapters. A final chapter summarises the conclusions and recommendations.

Part I looks at the experience of the MDGs to date from different angles. First, it examines the global experience of the MDGs and what lessons can be drawn from their use as an overarching framework for the reduction of global poverty. It then focuses on the experience of the MDGs in four developing countries based on the conclusions of the case studies conducted in Nepal, Rwanda, Côte d'Ivoire and Peru. Their experience is looked at in terms of external and domestic drivers of or barriers to change and development. A third chapter explores the responses of developed countries to the MDGs, with, as an example, an analysis of the EU's role in supporting their achievement.

Part II considers how the world has changed since the Millennium Declaration was agreed and the MDGs devised and adopted. A first step is to look at changes in the political economy of international cooperation with Southern actors growing in importance, the part played by developing countries themselves, and the changing role that traditional donors are likely to play given recent trends in their own economies. It also considers changing global patterns of poverty and the role of research in improving the global understanding of poverty and development thinking over the past decade. A third chapter considers future demographic, economic, social and environmental trends and the challenges that a new global framework may therefore need to address.

Part III focuses on the possible basis for a new global partnership for development by looking at three key aspects of global partnership – namely, flows of money, goods and people – and the international environment these create in relation to the ability of developing countries to pursue their own development priorities. These are considered in three thematic chapters on development finance, trade and investment, and labour migration that examine their existing and potential impact on poverty reduction respectively, and look at the international policies that govern them.

The concluding chapter discusses the basis for a potential new global framework in terms of the 'Beyond MDGs' and 'Beyond Aid' dimensions. In other words, what a new post-2015 global development framework might usefully encompass in terms of its objectives and instruments. How, for instance, might the objective be broadened to more adequately promote inclusive and sustainable development (ISD) and what other financial and policy instruments might complement ODA? The conclusions also seek to bring together ideas identified throughout the Report on what the EU might contribute to international cooperation in the future, especially in a context of continued financial austerity. In line with its existing commitment to Policy Coherence for Development, the EU's contribution is considered not just in relation to ODA but also in terms of its policies in other spheres that have an external impact, and in its contributions to global public goods (GPGs).

"Nepal, Rwanda, Côte d'Ivoire and Peru were chosen to present a range of development patterns and experiences with the MDGs."

8 The case studies were commissioned from national research institutes in each county. A short summary of each of the case studies is provided at the end of the Report and the full case studies are published on the ERD website. Rwanda and Nepal are LICs and LDCs, while Côte d'Ivoire is a LMIC. All three are ODA recipients. In contrast, Peru is a UMIC and receives little ODA (see Table 2.2 in Chapter 2 for basic comparative indicators). While the EU has fairly strong links with the two African countries, these are weaker in Nepal and Peru. All four countries are experiencing the growing influence of non-traditional donors such as Brazil, China and India.

PART I. KEEPING THE PROMISE OF THE MILLENNIUM DECLARATION

This first Part looks at the experience of the MDGs to date from different angles. It examines the global experience of the MDGs and the lessons that can be drawn from their use as an overarching framework for the reduction of global poverty (Chapter 1). It then focuses on the experience of the MDGs in four developing countries based on the conclusions of the case studies conducted in Nepal, Rwanda, Côte d'Ivoire and Peru. Their experience is looked at in terms of external and domestic drivers of or barriers to change and development (Chapter 2). Finally, it explores the responses of developed countries to the MDGs, with as an example, an analysis of the EU's role in supporting their achievement (Chapter 3).

CHAPTER ONE

1 LESSONS FROM THE MDG EXPERIENCE

"The vision of inclusive and sustainable development outlined in the Declaration remains highly relevant and should continue to provide a solid basis for international collective action on eradicating poverty."

In 2000, the United Nations Millennium Summit concluded with the adoption of the Millennium Declaration, which sets out a series of principles and priorities for which there is global consensus and a shared sense of urgency. The multi-faceted vision of inclusive and sustainable development (ISD) outlined in the Declaration remains highly relevant and should continue to provide a solid basis for international collective action on eradicating poverty.

Subsequently, the Millennium Development Goals were formulated to facilitate the implementation of the Declaration commitments by 2015. These include goals on income poverty, education, gender, health, environment and global partnerships (see Annex 1). Since then, there have been significant improvements in many areas of human development. These achievements set the context for considering a new framework beyond 2015, both in terms of understanding how the MDGs contributed to this success and how a new agreement could sustain such trends. It is an opportunity to identify the gaps that remain and where new objectives could support progress in areas that are lagging behind. This chapter reviews recent trends in human development, examines the evidence on the influence of the MDGs in driving them, reviews the critiques of the MDGs, and considers the implications for the post-2015 landscape.

1.1 Progress towards achieving the MDGs

1.1.1 Overview

The MDGs were adopted in a context in which extremes of poverty were the norm in many regions. In 1990, the base year from which MDG progress is measured, more than half of the population of Asia and sub-Saharan Africa (SSA) lived in extreme income poverty, defined as living on less than $1.25 a day. Between a quarter and half of all children in the two regions were underweight, and in SSA only half of all children attended school.

Some 20 years later, things are better. Extreme income poverty has declined to well under half of the population in Asia, although it has been slow to decline in other regions, particularly in SSA. Social indicators have improved at a faster rate. The percentage of underweight children has declined significantly in many regions of the world. In SSA, 76% of children now attend school, and well over 90% in most of Asia. Although an unacceptably large number of people still live in extreme poverty, the improvements are remarkable.

Globally, there has been progress in reaching targets in seven of the MDGs – including income poverty, nutrition, universal primary education, gender parity in education, child mortality, maternal mortality, and clean water and sanitation. For three of these (income poverty, gender parity in primary education, and access to safe drinking water), progress at the global level has been sufficient to meet the targets. Three could still be met (nutrition, primary education completion and child mortality), although one (maternal mortality) is lagging very far behind the target (Kenny and Sumner, 2011). At the national level, half of all countries will meet the targets on income poverty, education, gender parity in education and clean water and sanitation, while a quarter to a third will meet the targets for nutrition, child mortality and maternal mortality.

1.1.2 Global and regional progress

Income poverty target

Extreme income poverty has fallen, with the proportion of people living on less than $1.25 per day declining from 43.1% in 1990 to 22.4% in 2008 (Table 1.1). The strongest progress was in East Asia, largely due to China's success in reducing poverty. Despite the SSA average, a few African countries seem to be on track to halve poverty by 2015 – including Ethiopia, Ghana, Senegal and Uganda. In addition, several African countries have achieved considerable absolute progress, although they will not reach the relative target due to their lower starting points (Easterly, 2009). Nonetheless, in SSA the absolute number of people living on less than $1.25 a day increased between 1990 and 2008 (Table 1.1).

While it seems almost certain that the target to halve extreme income poverty by 2015 will be achieved at the global level, projections regarding poverty reduction inevitably depend on assumptions about how fast economies might grow, and how that growth will be distributed. These assumptions make a great deal of difference. The World Bank's projection that 1 billion people will be living on less than $1.25 in 2015 is based on a set of predictions about changes in inequality, demography, employment and the nature of economic growth. Different assumptions produce different predictions, such as the more optimistic 0.6 billion figure projected by Chandy and Gertz (2011). These issues are further discussed in Chapter 6.

Non-income poverty targets

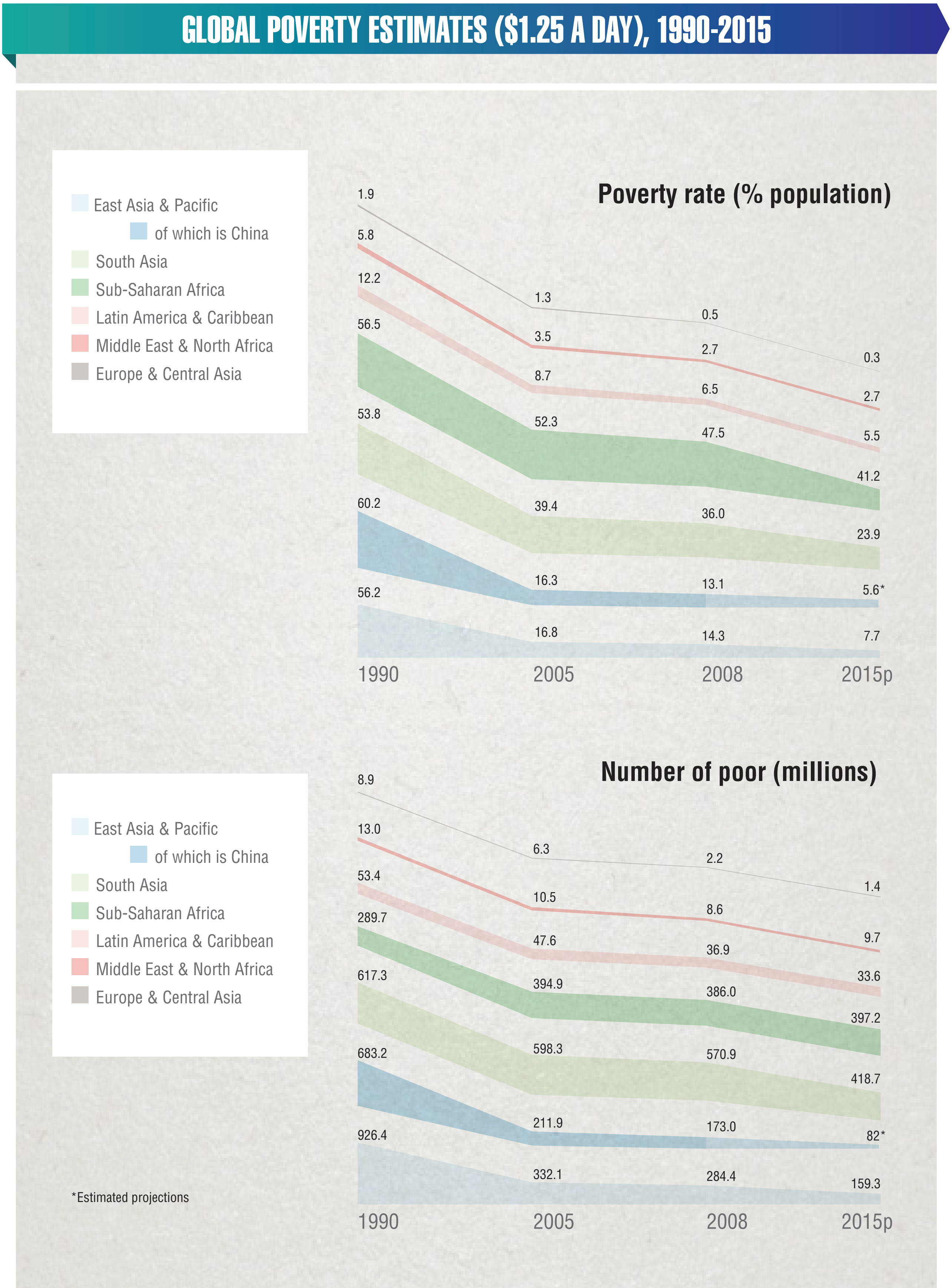
In terms of employment – the second MDG1 target – there have been some positive developments, although not always sufficient to provide adequate jobs for a growing labour force. The proportion of own-account and contributing family workers in total employment, which is often a proxy for vulnerable or precarious work, is declining only slowly. According to UN figures (UN, 2012a) in SSA, Southern Asia and Oceania, about 77% of people in employment fall in this category, compared to 50% in Eastern Asia and 32% in Latin America and the Caribbean (Table 1.2). Women are more likely to be engaged in vulnerable employment (in SSA, the statistics are 85% for women and 69% for men), while young people are often in low-opportunity family-based employment. The gap in labour productivity between developed and developing regions has narrowed over the past 20 years, but it remains substantial – with a ratio of 5 to 1 (UN, 2012a).

The proportion of under-fives who are underweight has decreased across all developing regions since 1990, with a decline from 29% to 18% in 2010. However, progress in SSA has been slower than in other regions – with an average reduction just below 25%, compared to an average decline of 80% for Eastern Asia and more than 60% in Western Asia, the Caucasus and Central Asia, and Latin America and the Caribbean (UN, 2012a).

Many regions have now attained levels of primary education enrolment at between 90% and 95%. In SSA, the average enrolment ratio is only 76%, but it increased by over 22 percentage points between 1999 and 2010. While the target is for every child to complete a full course of primary education, just 65% of enrolled children reached the last grade of primary school in Least Developed Countries (LDCs) (70% in SSA), compared with 89% in developing countries overall.

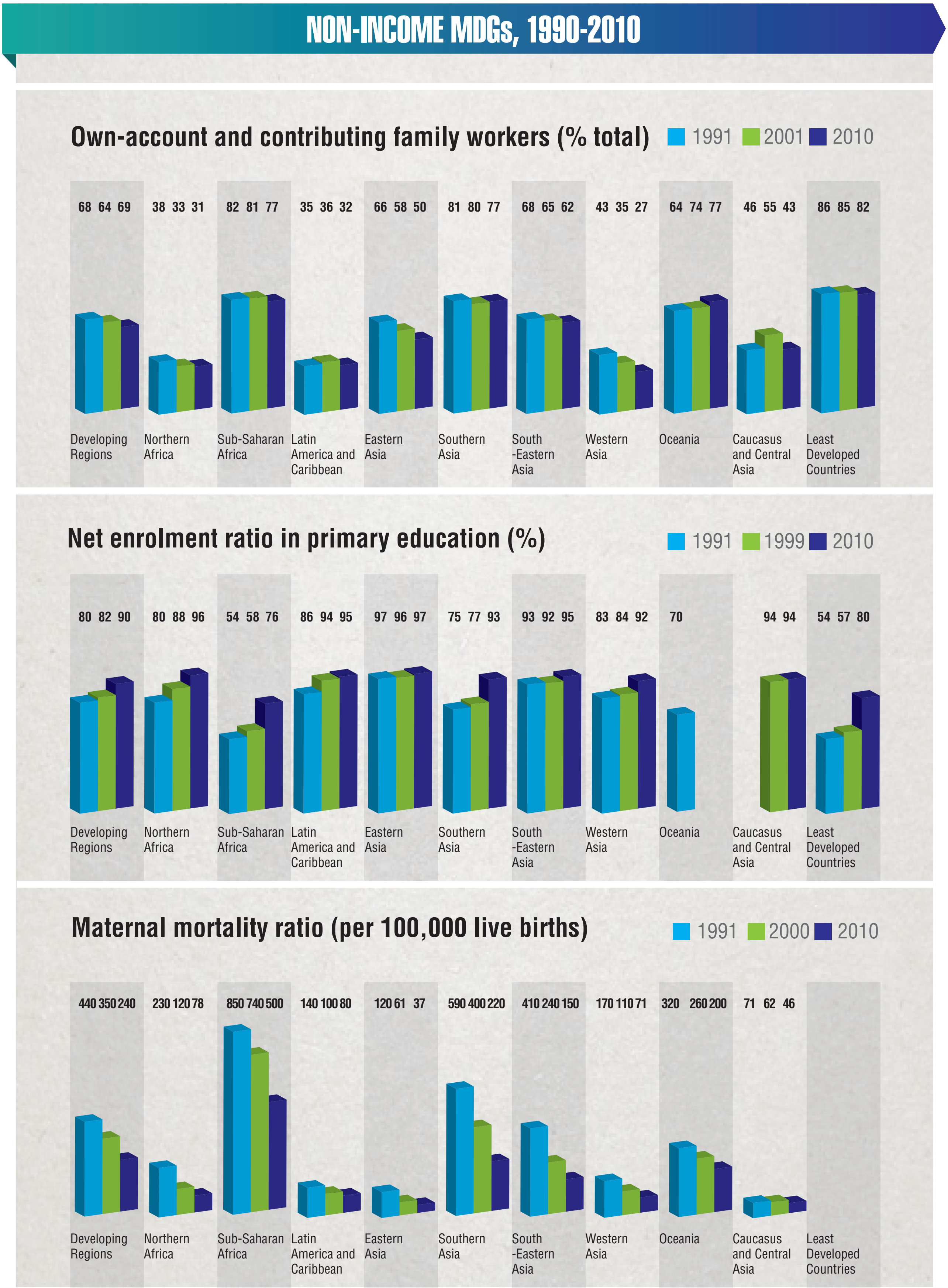
> "Half of all countries will meet the targets on income poverty, education, gender parity in education and clean water and sanitation, while a quarter to a third will meet the targets for nutrition, child mortality and maternal mortality."

Table 1.1 Global Poverty Estimates ($1.25 a day), 1990–2015



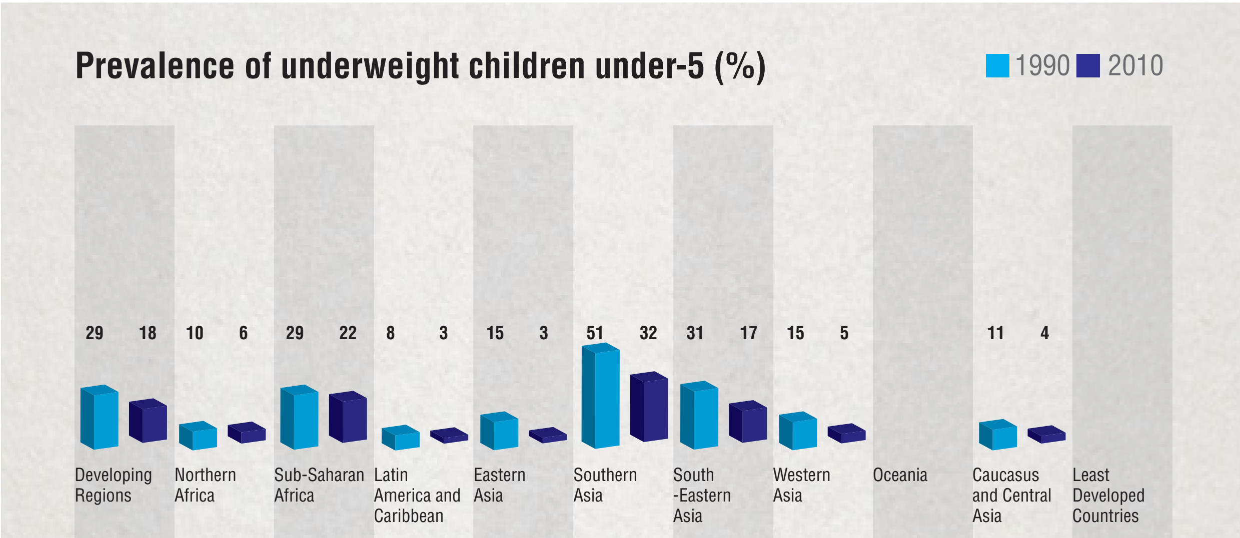
Source: World Bank, 2012

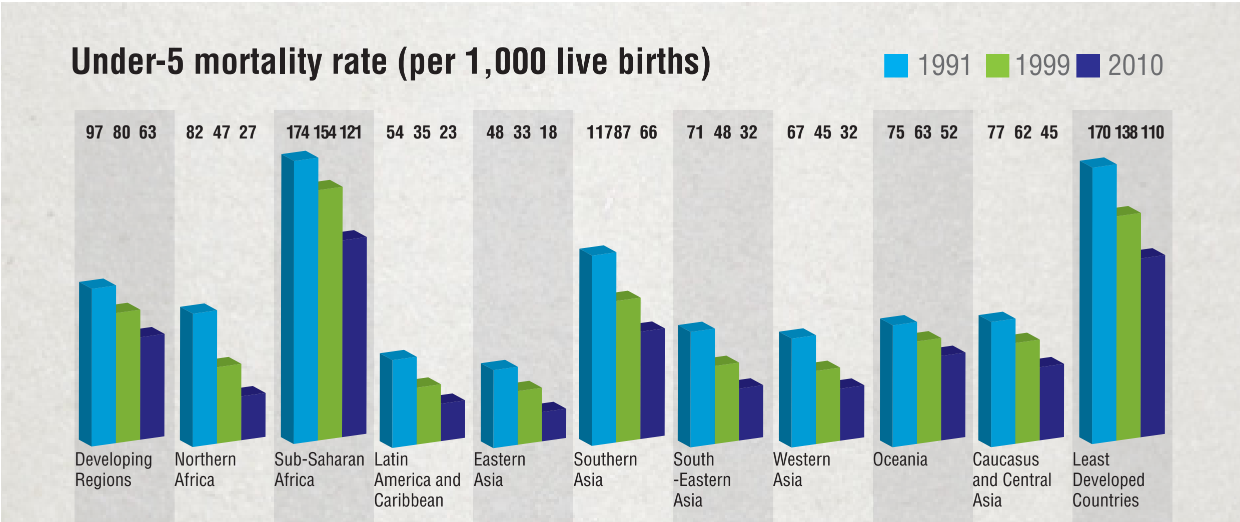
Table 1.2 Non-income MDGs, 1990–2010

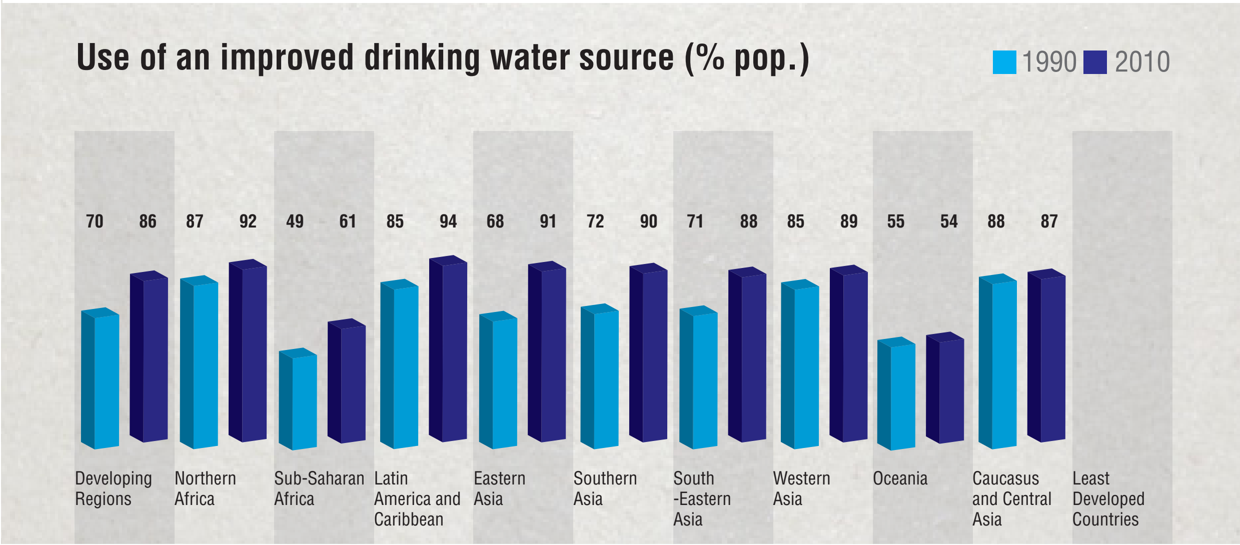


Source: UN, 2012a

NON-INCOME MDGs, 1990-2010







Source: UN, 2012a

Several regions significantly reduced the under-five mortality rate (U5MR) between 1990 and 2010. In SSA, the mortality rate remains above 100 per 1,000 live births, nearly 20 times the average in developed countries. Over the last 20 years, countries in Southern Asia have witnessed a decrease from over 117 to 66 deaths per 1,000 live births. Several regions have more than halved the U5MR, possibly as a result of significant improvements in nutrition and other health indicators in young children (UN, 2012a). The exceptions are SSA (30% reduction), Oceania (31%), the Caucasus and Central Asia (42%) and Southern Asia (44%).

Globally, maternal mortality rates have fallen by nearly half since 1990, but this rate of progress remains far from the target of reducing it by three quarters by 2015. Of the estimated 287,000 maternal deaths worldwide in 2010, 85% occurred in SSA and Southern Asia. In comparison with other developing regions, the latter two score lowest with less than half of pregnant women receiving antenatal care and less than half births attended by skilled health personnel (UN, 2012a).

There has been some progress with regard to MDG6, on combating disease, but most targets have not been, or will not be, met within the timeframe. The target of providing universal access to treatment for HIV and AIDS by 2010 has not been met despite important progress in this area. The spread of HIV infections has slowed and fewer people are becoming infected in all regions except the Caucasus and Central Asia. Two-thirds of the countries experiencing a decline in new infections are in SSA. Nevertheless, the absolute number of people living with HIV is still growing, owing to the continued increase in infections and the greater life expectancy for those infected. There have been significant advances with regard to malaria and tuberculosis (TB). Malaria-specific mortality decreased by 25% since 2000, although this remains far from the target of a 50% reduction by 2010. As for TB, the number of new cases has started to decline slowly and the world is on track to achieve the target of halting the spread and beginning to reverse the incidence of the disease by 2015 (UN, 2012a).

Progress on access to clean water and sanitation is mixed. In most regions, over 85% of the population now has access to clean water – a significant improvement since 1990. In SSA and Oceania, however, between 40% and 46% of the population still use untreated water. The patterns for sanitation are similar. More than half of the population in developing countries now has access to improved sanitation, with the exception of South Asia and SSA, where the figures are 41% and 30%, respectively (UN, 2012a). There are, however, strong disparities between rural and urban areas. Finally, progress is lagging in other areas of MDG7, including the targets to reverse the loss of environmental resources (e.g. forests) and reduce the rate of biodiversity loss.

LDCs have made slow progress on a number of human development indicators, especially when compared to developing countries as a whole. Across the board, LDCs are unlikely to meet the 2015 targets, with the reduction of poverty being particularly weak. At the national level, the most successful achievements relate to net primary enrolment and access to safe drinking water, with about half and a third of LDCs on track to meet the respective targets. Similarly, there has been mixed progress in halving undernourishment, with half of LDCs being on track while a third have made no progress or, in some cases, have regressed (UNCTAD, 2011). As a group, low-income fragile and conflict-affected states are also lagging behind in terms of MDG achievement and none is expected to meet any of the goals (WDR, 2011).

At the sub-national level, progress on the MDGs has been unevenly distributed, with the slowest progress almost invariably among the most disadvantaged groups. In Vietnam, for example, only 7% of households among ethnic minority communities have access to improved sanitation,

“Low-income fragile and conflict-affected states are lagging behind in terms of MDG achievement and none is expected to meet any of the goals.”

> "The latest MDG Gap Task Force report suggests that, for the first time, there are signs of backsliding on progress towards meeting the MDG8 commitments."

while the figure for the majority Kinh and Chinese groups is 43%. In Nigeria, the Southwest region has a child mortality rate of 32 per 1,000 live births, while the Northwest region has 139 deaths per 1,000 live births (Kabeer, 2010). An important critique of the MDG framework in this regard is that it does not encourage a focus on the most disadvantaged and excluded groups (Melamed, 2012).

Global partnership targets

The final MDG, MDG8, was designed to 'develop a global partnership for development'. Unlike the other MDGs, it has no quantitative targets, which renders it difficult to judge the extent to which it has been reached. MDG8 is assessed through indicators on aid, debt and trade – and all three have seen some progress since the 1990s. The level of ODA has risen, though still not to the level of 0.7% of Gross National Income (GNI), the commitment made by 'economically advanced countries' in 1970[9] and reconfirmed in the UN Monterrey Consensus in 2002. Nor does it seem likely this target will be reached soon. Many countries have seen their debts wholly or partly written off, and initiatives such as the EU 'Everything but Arms' (EBA) and the US 'African Growth and Opportunity Act' (AGOA) have increased market access for exports from some of the world's poorest countries.

Two targets relate directly to the private sector – one on access to affordable essential medicines and one on access to new technologies, particularly for information and communications (ICTs). Again, there has been progress on both since the 1990s, though how much this was due to the MDGs remains open to doubt as these targets are not widely known and have not mobilised campaigners in the way that some of the social indicators have done.

The latest MDG Gap Task Force report suggests that, for the first time, there are signs of backsliding on progress towards meeting the MDG8 commitments. The volume of ODA fell in 2011, obstacles to exports from developing countries are rising, and several developing countries are facing debt difficulties (UN, 2012b).

1.2 The impact of the MDGs

The picture of global progress is on the whole a positive one, despite regional, national and in-country variations. What is unclear is how much of this progress can be attributed to the MDG initiative (Bourguignon, et al. 2008). This can never be known for sure, given the absence of a counterfactual, but the available evidence suggests some tentative conclusions.

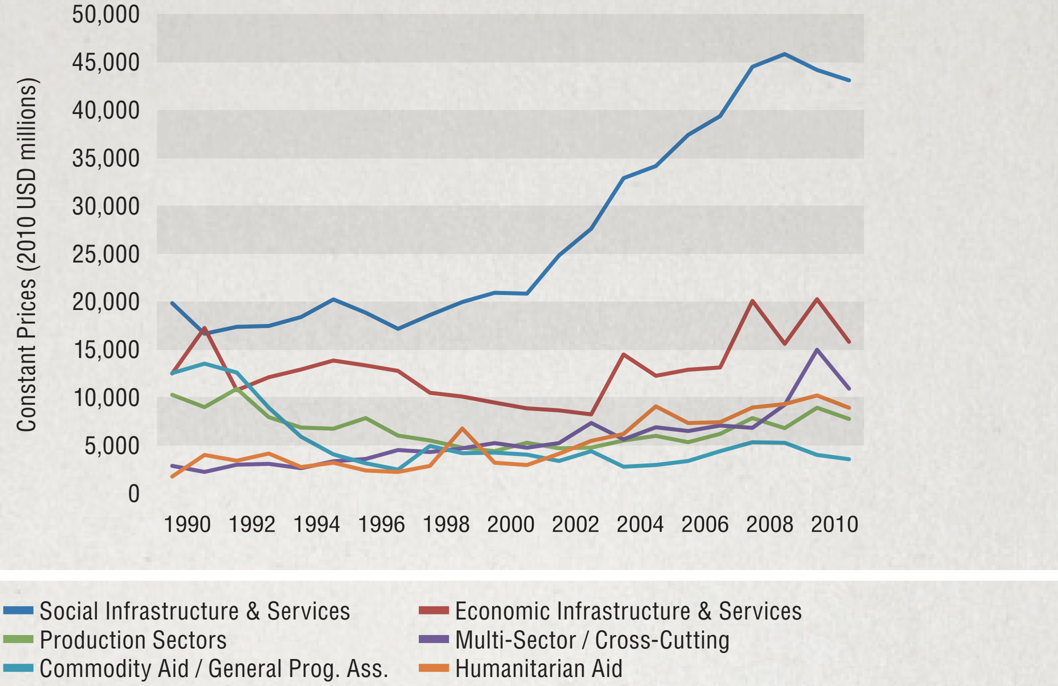
1.2.1 The impact of the MDGs on donors

Data on ODA since 2000 indicate that the MDGs may have influenced its overall volume and sectoral allocation. ODA flows had dipped from the mid-1990s, but began a steep rise soon after the MDGs were formulated in 2001. Most of this increase has been directed towards MDG-priority areas. Bilateral aid spending on the social sectors doubled in the period 2000–2008 from about $20bn/year to over $40bn/year, while spending on productive sectors remained static (Sumner and Tiwari, 2011). At its peak in 2009, spending on the social sectors accounted for 43% of total ODA commitments ($45 billion). Within the social sectors, the share allocated to education remained relatively static at around 10–12% of total ODA, while the proportion allocated to the health sector more than doubled.

Of course, this correlation may simply reflect the changing donor priorities that produced the MDGs, rather than a response to them. But the sharp and prolonged rise of ODA (Figure 1.1) does suggest a new and remarkable degree of consensus among donors, and the slight lag in increased allocations following 2001 may indicate that the MDGs had some independent effect.

The impact of the MDGs is less evident in terms of donor strategies, although arguably analysing

Figure 1.1 Sectoral allocation of bilateral aid from DAC donors (1990–2011) in US$ millions (constant prices 2010)



Source: OECD, 2012 OECDStat Online Database, available at:

> Data on ODA since 2000 indicate that the MDGs may have influenced its overall volume and sectoral allocation.

actual spending provides a more accurate representation of donors' real priorities. A 2010 review of 21 donor strategies indicates that the MDGs were of some relevance in shaping priorities – albeit not exclusively and not to an equal extent across goals (Table 1.3). While education, health and the environment were represented in over two-thirds of all donor strategies reviewed, water and sanitation, HIV and AIDS and income poverty appeared in rather fewer, with water and sanitation being represented in less than half. At the same time, some non-MDG areas received as much if not more attention (e.g. governance, peace and security), indicating that the MDGs were clearly not the only influence on donors.

The MDGs may have also helped donor governments to justify public spending on development and why foreign aid should be increased. There has been a growing focus on public education with the aim of raising awareness and harnessing support for development policies. Such initiatives include, for instance, the French government's *'Huit Fois Oui!'*[10] campaign that aims to familiarise citizens of all ages with the MDGs.

1.2.2 The impact of the MDGs on policy in developing countries

The impact of the MDGs on domestic spending priorities in developing countries is difficult to quantify. There are, however, clear trends towards greater expenditure per capita on MDG priority sectors, such as health and education (Kenny and Sumner, 2011). Regional and global initiatives, linked to the MDGs, have encouraged greater domestic spending on social goals, such as the African Union's Campaign on Accelerated Reduction of Maternal Mortality in Africa (CARMMA). This encouraged African governments to pledge to increase spending on health services in order to achieve MDG targets. Overall spending on social sectors was made easier by the increase in external funding on health, which

10. UN Resolution 2626 (XXV), 24 October 1970.

"MDGs were of some relevance in shaping priorities. At the same time, MDGs were clearly not the only influence on donors."

Table 1.3 MDG priorities in donor programme strategies (2003–2007)

Priority Area	Frequency in Core Objectives
MDG 1 – Income poverty	13/21
MDG 2 – Education	15/21
MDG 3,4,5 – Health	14/21
MDG 6 – HIV/AIDS and global diseases	12/21
MDG 7 – Water and sanitation	10/21
MDG 7 – Environment	19/21
Other priority areas	
Human rights	17/21
Governance	15/21
Peace and Security	15/21
Democracy	14/21

Source: Fukuda-Parr, 2010

may have allowed some recipient governments to apply their own resources to other purposes.

The share of government spending on education in developing countries has also increased significantly – from 2.9% to 3.8% of Gross Domestic Product (GDP) in LICs since 1999. Meanwhile, the share of donor spending on education remained static, although absolute amounts increased considerably (UNESCO, 2011).

Similarly, it is difficult to draw general conclusions regarding the impact of the MDGs on national policy processes. However, there are some examples illustrating how the MDGs may have influenced domestic policies, particularly in the case of Poverty Reduction Strategy Papers (PRSPs). In a review of 22 PRSPs, Fukuda-Parr (2010) found a high commitment to the MDGs, even though these tended to focus on specific areas, such as income poverty and social investments in education, health and water. The study assessed the level of ambition in setting targets, and found that many exceeded the ambition of the MDGs as well as historical trends – albeit with some exceptions. An earlier review of 44 PRSPs (Harrison et al., 2005) reached similar conclusions.

Whether these commitments translate into resource allocation, however, remains unclear. At this point, it could possibly be concluded that the MDGs have influenced the political discourse rather than the actual allocation of domestic resources (Manning, 2010).

While some countries have tailored targets and indicators to their needs and national contexts, others set MDG-plus targets (e.g. Botswana and Thailand) or completed MDG reports at the sub-national level (e.g. Argentina, Ecuador and Nigeria). Some countries even included an additional goal or target for issues of national priority, such as enhancing security in Afghanistan. Transition countries like Albania, Iraq and Mongolia adopted a Goal 9 on good governance, and Cambodia did the same for de-mining, unexploded ordnance and assistance for victims. This sense of ownership also led to a change in some countries' institutional landscape. For instance, both Bangladesh and Mongolia have a Parliamentary MDG Standing Committee, while there is a coordination committee overseeing the implementation of the MDGs in Kyrgyzstan and Sierra Leone (UNDP, 2010). Moreover, a comparison of recent PRSPs with earlier ones reveals an increase in the number of tailored objectives that are inspired by the MDGs, which can be interpreted as a sign that the MDGs could have a significant impact over time (Manning, 2010).

The impact of the MDGs goes beyond national policy documents to influence decision-making processes and the evaluation of policy effectiveness. In some instances, such as in Indonesia, the MDGs have increased government accountability and have been used by civil society organisations as an instrument to hold public officials to account. For example, CSOs played a key role in demonstrating that national-level development progress has often ignored the most vulnerable social groups. Shadow MDG Reports in Ghana, India, Malawi and Mozambique identified such gaps in their country's MDG achievements, pointing to the need for policy-makers to focus the development agenda on disadvantaged regions and communities. In some cases, this led to positive government responses (UNDP, 2010).

Some countries, however, have taken a different view of the MDGs, as one of the ERD case-study countries demonstrated. In Peru, progress towards achieving the targets set out in the MDGs was already underway and the country should meet most of them by 2015. However, there is no clear link between Peru's achievements and the MDG initiative – in fact, the latter seems to have played at most a minor role in shaping domestic policies. Although national priorities are along the lines of the MDGs, these are barely mentioned in official policy statements in Peru and governments do not seem to have been steered by them. In fact, Peru seems to have found its own goals reflected in the MDGs rather than being influenced by them (Barrantes and Berdegué, 2012 - ERD Peru Case Study Report). Nonetheless, the experiences of Côte d'Ivoire, Nepal and Rwanda – the other case studies conducted for this Report – suggest that the MDGs can play a significant role in shaping policy. For instance, they have been an important reference point for attempts to resume development planning in Côte d'Ivoire. In Nepal, the MDGs have contributed to guiding both domestic and international polices, while in Rwanda they were used to shape the government's medium-term development strategies (see Chapter 2).

1.3 Critiques of the MDGs

While the MDGs have been associated with improvements in human welfare, they have also attracted criticism. Some of these critiques are relevant to the development of a post-2015 framework:

- **Lack of participation in process.** The process of agreeing the MDG goals and targets was dominated by a small group of donors, with minimal input from the governments of developing countries. This lack of participation is still a widespread source of resentment. It is uncertain what impact this had on the agreed MDG goals and targets, but it is clearly a far from ideal way to design a global agreement on development.

- **Distorting priorities.** The purpose of the MDGs was to distort priorities and to focus attention on a few key goals and targets as a means to improve development outcomes. Some argue that by focusing on the social sectors, the MDGs effectively reduced the importance that donors previously attached to infrastructure, agriculture and industrial development, with a possibly detrimental effect on growth and job creation, and on poverty reduction in the long term (Chang, 2010; Gore, 2010). It may be countered that the MDGs did not encompass a transformational agenda, in the sense that they did not seek to promote structural transformation in the poorest countries (see Chapter 8). But even within sectors, the distortions have not always been optimal. For example, there is a concern that the focus on school attendance (MDG2)

“Peru seems to have found its own goals reflected in the MDGs rather than being influenced by them. Nonetheless, the experiences of Côte d'Ivoire, Nepal and Rwanda suggest that the MDGs can play a significant role in shaping policy.”

> “A new framework ought to be the result of a participatory process in which all stakeholders are confident their voices have been heard.”

may have diverted attention from the equally important issue of the quality of education.

- **Masking inequalities.** A further critique is that the formulation of targets in terms of global and national averages allows progress to be registered even when inequality is growing and the poorest are being marginalised. For example, the U5MR can be reduced nationally even if the poorest experience no change (Manning, 2009; Save the Children, 2010).

- **Lack of commitments by rich countries.** A common critique of the MDGs is the lack of specific commitments by rich countries. MDG8, which aims to ‘create a global partnership for development’, contains targets on market access (trade), debt relief, and access to new technologies and essential drugs. However, these lack specific quantified targets or dates, and in some cases have not led to any noticeable action on the part of countries or companies responsible for their achievement.

- **Missing issues.** The MDGs have been accused of omitting issues of key importance to development, such as climate change, governance, migration, conflict, security and disability (Melamed and Sumner, 2010) or access to energy and transport services (Manning, 2009). Sectors of specific concern to fragile states such as justice and security are not addressed (WDR, 2011). In part, this reflects the political compromises needed to get the MDGs agreed. It also reflects what was felt to be important at the time, and, more pragmatically, the range of issues on which there were sufficient data to monitor progress towards the goals (or at least the prospect of developing such data).

- **The translation of global trends and goals into national policies.** The MDGs were established as a set of global targets, on the basis of global trends. Some of their architects argue that it was never intended that they should be met in every country, given how different the existing trends were across the globe (Vandemoortele, 2008). However, since policy-making happens at the national level, the targets have inevitably also come to be applied nationally. A target to reduce the infant mortality rate (IMR) by two-thirds might be inappropriate for countries with a very high IMR – for which such a reduction may require improvements far beyond historical trends – as well as for countries with very low IMR – for which a reduction may be simply impossible or not a cost-effective use of health resources. A future agreement may need to find a better way to translate global goals into nationally applicable targets.

Any future development framework should take such critiques into consideration. First, a new framework ought to be the result of a participatory process in which all stakeholders are confident their voices have been heard. Second, a post-2015 agreement would need to address a broader set of issues in order to take account of future trends and challenges – e.g. inequality, employment, and sustainability (see also Chapter 6). Third, such an agreement would need to be founded on a broader definition of poverty in order to ensure that the development outcomes are inclusive and leave no-one aside. Finally, a new consensus should have a means to ensure that all actors honour their commitments.

1.4 Implications for the post-2015 framework

The MDGs have provided a unique common and comprehensive framework to track global progress in several areas of human development. They have become a key reference point in policy debates, which highlights their intrinsic value as a monitoring tool. Moreover, the MDGs have also contributed to mobilising international efforts for development and have significantly influenced the policy discourse. In particular, they have had some impact on international policies and in some cases on national development strategies.

At the same time, however, the criticisms levelled at the MDGs offer important lessons for a post-2015 agreement on global development. The first is that global goals do seem to have some role in focusing attention on specific issues and driving progress – especially if they are limited in number and linked to targets and indicators that can be monitored (Manning, 2009). In addition, a number of specific issues arise from this assessment of the impact of the MDGs.

- **Inclusive growth and the productive sectors.** In order to rectify the distortions noted above, there is a strong call, particularly from African governments, for a future framework to focus more on growth and employment, in order to support the productive sectors and promote structural transformation (UNECA, 2012).

- **Inequality.** Recognising that the MDGs say little about distribution and do not provide incentives for governments to tackle inequality, many countries, some UN agencies and certain non-government organisations (NGOs) are arguing for a future framework to provide more incentives to measure and to address inequalities in outcomes and opportunities (Melamed, 2012).

- **Sustainability.** There is a general consensus that MDG7, which deals with environmental issues, is poorly specified and weak. The discussion process on SDGs launched at the 2012 Rio+20 conference and carrying through into the Open Working Group (OWG) established in January 2013 illustrates a widely shared concern that sustainability considerations should be built more strongly into a future framework, and created a political imperative for that to happen in a manner that relates strongly to development outcomes.

- **National targets.** The problems caused by trying to translate global targets to the national level have led some to argue that any future global goals should be monitored through targets that are set nationally or regionally in order to be better aligned with the specific context. This would greatly contribute to strengthening national ownership.

- **Global partnership.** MDG8 may have been the least successful of the goals, but what it aims to achieve remains essential for a future framework. Promoting a global partnership for development is crucial for creating an international environment that is conducive to eradicating poverty by supporting national development strategies, enhancing human development, and addressing sustainability concerns. This would require using finance, trade, investment, and labour migration policies (coherently) as tools to achieve desired development outcomes.

The implications of these key issues will be addressed throughout this Report. For instance, we argue that in order to eradicate poverty in a lasting manner, development strategies need to transform economic and social structures, have a special focus on disadvantaged groups, and incorporate sustainability considerations (i.e. first three bullet points). This review of the MDGs therefore suggests the need for a more inclusive and sustainable development (ISD) approach. As argued in the Introduction, this is already implicit in the vision of the Millennium Declaration. Although this vision has not always been easy to articulate, we argue that a stronger focus on inclusiveness and sustainability should be crucial guiding principles in the design of any post-2015 framework.[11]

> “To eradicate poverty in a lasting manner, development strategies need to transform economic and social structures, have a special focus on disadvantaged groups, and incorporate sustainability considerations.”

11 Since the ERD 2013 builds on previous editions of the European Report on Development, please refer to these for a detailed treatment of issues related to sustainable development (2012), fragility (2009), and social protection (2010).

CHAPTER TWO

2 WHAT THE MDGS HAVE MEANT FOR POOR COUNTRIES – FOUR CASE STUDIES

"This chapter explores what the MDGs have meant for four very different countries, based on original case studies conducted by national research institutes."

Although the Millennium Declaration was endorsed by 189 UN member states, the MDGs that emerged from it have meant different things to different countries. As described in Chapter 1, they have helped to mobilise international support for development, focusing attention on a limited number of goals and targets. For developing countries, the MDGs can therefore be used both in helping to shape national policy and as a framework for managing external support. An internationally agreed framework may not, however, always sit comfortably with specific national priorities and approaches. It will be interpreted and used differently in each national context. In defining a post-2015 development framework it is important to understand what shapes the commitment to such a framework, how the MDG framework was used in relation to national development policies and whether it helped or in some cases perhaps even hindered their implementation. In what ways have global instruments such as the MDGs contributed and are likely to contribute to country-anchored development processes?

This chapter explores what the MDGs have meant for four very different countries, Nepal, Rwanda, Côte d'Ivoire and Peru, based on original case studies conducted by national research institutes for this Report.[12] The first section of the chapter provides an overview of the findings from these country cases. Some of the main questions the researchers sought to answer include the effects of the MDGs instrument on policy choices and implementation at the country level.[13]

It is also important to consider more generically how national policy processes take place and how international frameworks such as the MDGs can be expected to interact with national policies. The second part of the chapter therefore presents recent academic work on political economy approaches to analysing country-specific decision-making

12 Summaries of the case studies are included as annexes to this Report and the full versions are published on the ERD website. The studies were conducted by:
- SAWTEE and CESLAM in Nepal, led by Pandey, P.R., Adhikari, R., and Sijapati, B. (2012)
- IPAR in Rwanda, led by Abbott, P., Malunda, D. and Ngamije Festo (2012)
- CIRES in Côte d'Ivoire, led by Kouadio, E.K., Ouattara, Y. and Souleymane, S.D. (2013)
- RIMISP and IEP in Peru, led by Barrantes, R. and Berdegué, J.A. (2012)

13 Teams of country-based researchers conducted the case studies. They also organised consultations with national government and civil society constituencies to discuss their data and analyses, and to formulate propositions for the post-2015 development agenda from the perspective of their respective countries. These propositions should thus be understood as views emerging from the researchers' broad-based interviews and consultations, but make no claim to represent the formal positions of any organisation or official entity.

processes and implementation arrangements behind poverty-reduction and broader development-related policies. The final part of the chapter considers what political incentives global economic and international relations may provide and the potential impact of global and regional instruments at the country level. A country's unique characteristics will also shape the ways in which its government interacts with the global economy and international relations and instruments.

2.1 The MDGs at the country level – four country case studies

The four commissioned case studies on Nepal, Rwanda, Côte d'Ivoire and Peru looked at emerging evidence on the likely effects of the MDGs on national decisions regarding poverty-reduction measures. Although they provide less conclusive evidence on the impact of the MDGs in these countries, the studies do identify some of their effects. They also bring out perceptions of the MDGs and the motives of governments to use the MDG instrument (goals, targets, indicators, monitoring mechanisms, etc.) and meet its policy commitments. The four countries are very diverse and present a broad range of different development situations and relations with the EU, as the basic indicators in Table 2.1 demonstrate.

Although these case studies are not intended as a representative sample, they do provide useful illustrations of a range of development situations facing developing countries over the past decade since the agreement of the Millennium Declaration. The four countries are at different levels of development and face a variety of demographic, economic and environmental trends and challenges, as summarised in Table 2.2.

Table 2.1 Country Case Studies: Selected Indicators

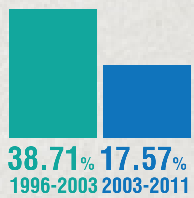
	Nepal	Rwanda	Côte d'Ivoire	Peru
Population in 2011 (millions)	30 mn	11 mn	20 mn	29 mn
GDP in 2011 (current $bn)	18.9 bn	6.4 bn	24.1 bn	176.7 bn
GDP per capita in 2011 ($ constant 2000)	275$	356$	549$	3,364$
World Bank income status	LIC	LIC	LMIC	UMIC
Gini co-efficient index	32.8 (2010)	50.8 (2011)	41.5 (2008)	48.1 (2010)
EU-DAC ODA disbursements in 2010 ($ mn)	210 mn	308 mn	267 mn	211 mn
ODA recvd. as % GNI in 2011	4.70%	20.22%	6.24%	0.36%
Balance of trade with EU27 in 2011 ($ mn)	**- 26 mn**	**- 115 mn**	**+ 2,401 mn**	**+ 4,196 mn**
Migrants in EU as proportion of total emigrants in 2010	4.1%	8.9%	9%	29.1%

Sources: statistical databases of the World Bank, OECD, ITC and UNCTAD

Table 2.2 Case study countries trends and projections

DEMOGRAPHIC	POPULATION GROWTH	AGE STRUCTURE	URBANISATION	INTERNATIONAL MIGRATION
NEPAL	1.9% IN 2010. FERTILITY DECLINING 1950: 6.1 CHILDREN PER WOMAN 2010: 2.9 CHILDREN PER WOMAN	VERY YOUNG aged 0-24: 56.9% aged 25-64: 38.9% aged 65+: 4.2% Median age 21.4	VERY RURAL Urban – 17% Rural – 83% 83% (URBAN / RURAL)	Net migration rate: -0.6 per 1,000 persons for the period 2010-15 INWARD: Minimal OUTWARD: Main destinations: India and the Gulf. Migrants' remittances reach 56% of all households.
RWANDA	2.9% IN 2010. FERTILITY DECLINING 1950: 8 CHILDREN PER WOMAN 2010: 5.4 CHILDREN PER WOMAN	VERY YOUNG aged 0-24: 63.4% aged 25-64: 33.9% aged 65+: 2.7% Median age 18.7	VERY RURAL Urban – 19.1% Rural – 80.9% 80% (URBAN / RURAL)	Net migration rate: 0 per 1,000 persons for the perido 2010-15 INWARD: Slight inward migration from other EAC member states. OUTWARD: Large share of Rwandan migrants are Genocide refugees.
COTE D'IVOIRE	1.8% IN 2010. FERTILITY DECLINING 1950: 6.8 CHILDREN PER WOMAN 2010: 4.7 CHILDREN PER WOMAN	VERY YOUNG aged 0-24: 61.2% aged 25-64: 35% aged 65+: 3.8% Median age 19.2	MIXED Urban – 51.3% Rural – 48.7% 48% (URBAN / RURAL)	New migration: 0.1 per 1,000 persons for the perio 2010-15 INWARD: Large numbers of regional and Lebanese migrants in low-skilled jobs OUTWARD: Many Ivorians migrate to France due to language and cultural similarities.
PERU	1.1% IN 2010. FERTILITY DECLINING 1950: 6.9 CHILDREN PER WOMAN 2010: 2.6 CHILDREN PER WOMAN	YOUNG aged 0-24: 49.1% aged 25-64: 44.8% aged 65+: 6.1% Median age 25.6	VERY URBAN Urban – 77.3% Rural – 22.7% 77% (RURAL / URBAN)	Net migration rate: -2.8 per 1,000 persons for the period 2010-15 INWARD: Recently, Spanish nationals arrived to escape the Euro crisis. OUTWARD: Main destinations: USA, Spain, Italy and other EU countries

ECONOMIC

	ECONOMIC GROWTH	INTERNATIONAL TRADE	EMPLOYMENT	CAPITAL FLOWS
NEPAL	2001 – 2011: Average annual GDP growth rate between 2001 and 2011 was only **3.5%**	Growth in imports is much higher, leading to consistent trade deficits. IMPORTS. **Main trading partner:** India (far ahead), China, EU, Singapore and USA. **DEFICIT**	**LACK OF SKILLED LABOUR.** **46%** unemployed in 2008. Many people choose to work abroad.	Nepal is among the worst performing countries in attracting FDI. **However, FDI approvals have increased since 2006/07.** $ € ₹
RWANDA	2008 – 2012: BETWEEN 2008-2012 GROWTH IN REAL GDP AVERAGED **8%** PER YEAR	Growth in imports is much higher, leading to consistent trade deficits. IMPORTS. **Main trading partner:** China, Switzerland, EU. **DEFICIT**	Majority of population working in subsistence agriculture. Underemployment is the central issue. Skilled labour is scarce.	**Rwanda** is one of the best performers in the World Bank Doing Business Indicators, but continues to struggle to attract FDI. The outlook for 2011/12 was positive. $ ¥ ₹
COTE D'IVOIRE	2008-2010 **6.4%** ANNUAL GDP GROWTH	Côte d'Ivoire had a trade surplus of 15% of GDP in 2011. This is partly driven by its wordwide leading position in cocoa exports. **Main trading partner:** EU. **SURPLUS**	**Unemployment Increase:** 6.4% 2002; 15.7% 2008. **Youth unemployment (25-34 years) was at 17.5% in 2008.** Most employed in the informal sector. **20% WORK IN COCOA PRODUCTION.**	Slow growth in private investment 1996-2011: **FDI growth of 0.47%.** Declining EU share of investment 
PERU	2001 – 2011: Average annual GDP growth rate was **5.8%**. Peru had the region's highest GDP growth and lowest inflation. **Now considered a UMIC.**	Peru has enjoyed a surplus in its balance of trade for most of the past 8 years. IMPORTS. **Main trading partners:** EU, China, USA, Brazil and Chile. **SURPLUS**	**UNEMPLOYMENT RATES** On a downward slope while active population grows. 71% 2001; 54.6% 2010. However, rate of underemployment is high.	Highest investment / GDP ratio of the LA7 countries.  The FDI stock represented 9.8% of total GDP. Spain, UK and USA were the main investors.

CHAPTER TWO

ENVIRONMENT

	CLIMATE	BIODIVERSITY	LAND WATER	POLLUTION
NEPAL	NATURAL HAZARDS INCLUDE: EARTHQUAKES TSUNAMIS FLOODING LANDSLIDES MILD VOLCANIC ACTIVITY	Deforestation (overuse of wood for fuel and lack of alternatives), land degradation; contaminated water.	NEPAL HAS HUGE WATER RESOURCES LARGE POTENTIAL FOR THE GENERATION OF HYDRO-POWER ENERGY	AIR AND WATER POLLUTION
RWANDA	**First signs of climate change are noticeable** through longer wet and dry spells.	**Deforestation, land-degradation and wildlife conservation.**	Due to the high population density land is scarce and overused. Soil erosion is a major problem. Water resources are used for the generation of hydro-power energy.	AIR POLLUTION IS INCREASING IN URBAN ARES
COTE D'IVOIRE	Shorter wet seasons and longer dry seasons potentially affecting cocoa crops.	State forests have been degraded through illegal use with negative effects on biodiversity	The quantity of water resources remains largely sufficient to cover the rising needs, although regional disparities occur.	Pollution and global soil degradation due to human activities threaten water resources
PERU	NATURAL HAZARDS INCLUDE: EARTHQUAKES TSUNAMIS FLOODING LANDSLIDES MILD VOLCANIC ACTIVITY	Deforestation (some the result of illegal logging); overgrazing of the slopes of the coast and sierra.	Desertification, land erosion and water contamination.	Air pollution in Lima; pollution of rivers and coastal waters from municipal and mining wastes

• Nepal

After over 200 years as a kingdom run by hereditary and autocratic rulers, Nepal elected a democratic government in 1990. Political differences quickly emerged and led to a Maoist insurgency from 1996 to 2006, when the insurgents joined with the political parties to oust the ruling monarch. Although work on a new constitution began, it has yet to be completed because of frequent changes in government coalitions. The civil war and subsequent instability have meant that Nepal has not attracted large-scale foreign investment in any productive sector and the economy has remained weak. Donors have also been wary, focusing on the social sectors and often managing their own projects rather than channelling support via the government.

The MDGs and donor preferences for them have contributed to guiding development policy in Nepal. South–South Cooperation (SSC) and migrant remittances have also been important drivers of development. In its mid- to long-term plans over the past decade, the government has focused on two priorities: infrastructure development and poverty reduction. The MDG targets are therefore integrated into these strategies, together with an emphasis on physical infrastructure (hydropower and strategic roads network, including inter-district highways) designed to promote economic growth. The government's prime strategy was first to achieve growth and then tackle distribution.

Since 2000, government policies have been influenced by donors, giving rise to an increased focus on social challenges to the detriment of other sectors. Nepal's reliance on aid and its very low FDI flows help to explain this situation. In fact, foreign aid represents around 25% of Nepal's national budget as significant amounts of aid other than DAC ODA also enter the country. The comparison between recent disbursements with those prior to 2000 makes it clear that donors' preferences shifted toward social sectors in line with the MDGs, thus diverting funding previously focused on productive sectors (e.g. industry and commerce, transport and communication, agriculture). Southern partners, however, particularly China and India, have shown an interest in developing Nepal's hydropower potential.

Nepal's development progress is also driven by remittances. In 2010, these were estimated to have contributed 22.6% of its GDP. The World Bank (2011) found that between 1995 and 2004, up to half of Nepal's overall poverty-reduction rates could be attributed to remittances and that they continue to play an important role. Almost 80% of these remittances are used for consumption and

> "The MDGs and donor preferences for them have contributed to guiding development policy in Nepal. South–South Cooperation (SSC) and migrant remittances have also been important drivers of development."

Box 2.1 Nepal's MDG achievements

Nepal has substantially reduced poverty. According to the World Bank, the proportion of people living on $1.25 a day (PPP) was down to 24.8% in 2010, from 53.1% in 2003 and 68% in 1995.

The 2010 MDG progress report (National Planning Commission, 2010) indicated that Nepal is likely to achieve some of the targets. In addition to the decline in poverty, the net school enrolment rate has increased to 93.7% and gender parity in enrolment for primary education has already been achieved. Under-five mortality and maternal mortality rates have been reduced to 50 per 1,000 and 229 per 100,000 live births, respectively. It is doubtful that the MDG targets on environmental sustainability will be reached. (Nepal case study and World Bank online databank)

> "In Rwanda the government has used the MDGs to shape its medium-term development strategies."

only a small proportion goes to the productive sector. While these large inflows have fuelled some progress on the MDGs (especially MDG1 and MDG2) there are concerns migration may reduce the incentives for the government to create productive employment. The case study also points to the social and financial costs associated with migration, in particular the burden on women. Overall, Nepal is likely to achieve quite a number of the MDG targets (Box 2.1 below), though there are doubts about the others, particularly the environmental targets.

- **Rwanda**

Rwanda has made remarkable development progress over the past 12 years. The government embarked on a developmental path that involves a combination of security, growth and poverty-reduction policies. These include measures to ensure stability, social organisation and policies to reduce dependency on aid through diversification of the predominantly rural economy.

Rwanda is heavily dependent on external assistance with ODA contributing over 40% of the national budget. Aid has also risen markedly over the past decade and some donors, such as the EU, have been happy to provide substantial proportions of it in the form of budget support. The government has used the MDGs to shape its medium-term development strategies. The first *Economic Development and Poverty Reduction Strategy (EDPRS)* (2008–2013) incorporated the MDG indicators and targets in its policy framework. The second EDPRS (2013–2018) was being drafted at the time of writing, but continuity is expected, with some adaptation of the MDG targets. Rwanda seems on course to achieve most MDGs by 2015, with a growth rate of 8% over the past 12 years and a reduction in poverty, so that in terms of poverty Rwanda is now back where it was at before the 1994 genocide. The two priorities in the new medium-term strategy include accelerating sustainable economic growth (to a target of 11.5% per annum (p.a.), widely regarded as overambitious) and accelerating poverty reduction to below 30%. Three of the four thematic strategic priorities include economic transformation, rural development and productivity and youth employment. Other frameworks the government has integrated into its development partnerships include the principles of aid effectiveness as set out in the 2005 Paris Declaration.

- **Côte d'Ivoire**

The two decades following Côte d'Ivoire's independence in 1960 are sometimes described as a 'miracle' period. The country was seen as the 'locomotive' of the West African region, with high

Box 2.2 Rwanda's MDG achievements

Poverty in Rwanda has been declining in both absolute and relative terms since 2000. There have been major improvements, particularly over the past five years, with the proportion of people living below the national poverty line falling from 56.7% in 2005/6 to 44.9% in 2010/11. The proportion of people living below $1.25 (PPP) dropped from 72.1% in 2000 to 63.2% in 2010. The global indicators for education and health have also shown dramatic progress: over the same period, the net primary attendance rate in rose from 72.6% to 91.7%, infant mortality rates more than halved (from 117.4 per 1,000 births to 50), as did maternal mortality rates. Rwanda has put a lot of effort into women's empowerment, and women constitute just over half of its members in parliament. Despite this progress, Rwanda is unlikely to meet all MDG targets by 2015. (Rwanda case study)

Box 2.3 Côte d'Ivoire's MDG achievements

Consistently high growth rates of 7% p.a. on average between 1960 and 1978 pushed Côte d'Ivoire into the MIC bracket. With the economic and political crises of the mid-1980s, the incidence of poverty increased from 10% (1985), to 35.8% in 1995, and to 48.9% in 2008. Throughout this period, according to a 2010 Country Update report on the MDGs, the scores on most of the other MDG targets worsened, except for a few, including reducing the under-five mortality rate (from 181 to 125 per 1,000 live births) between 1998 and 2005, and a slight reduction in the maternal mortality rate. These improvements reflect the increase of vaccination campaigns and the higher percentage of births attended by skilled health workers. Following its acceptance of the MDG Acceleration Framework in 2010, the government has agreed to focus on achieving the MDG on maternal health. (Côte d'Ivoire case study)

economic growth rates, a booming cocoa and coffee sector and large public investment. However, the terminal decline of cocoa prices and increasing debt burdens in the late 1970s and early 1980s led to an economic crisis which, allied with the death of President Houphouët-Boigny in 1993, have led to political instability ever since.

The relevance of the MDGs has to be seen in this context of political instability and violent upheavals. Following the devaluation of the Franc de la Communauté financière africaine (Franc CFA) in 1994, ODA gradually began to decline, and was dramatically interrupted by the International Financial Institutions (IFIs) and the EU in 1998 because of poor governance. The 1999 coup and an attempted coup in 2002 resulted in the partitioning of the country along North–South lines, peace accords and relative stability in 2007, and more post-electoral strife in 2011. These events form the backdrop against which the donors, including the EU, have shifted their ODA to humanitarian and peace-building efforts.

During the intervals of relative stability – in 2002, 2006 and finally in 2010 – the MDGs were the reference points for attempts to resume development planning, with technocrats in key government departments managing to ensure some degree of continuity. In April 2006, the United Nations Development Programme (UNDP) and the government developed a programme to enhance efforts to achieve the MDGs, and a consultative process was put in place to ensure participation, sensitisation and the mobilisation of extra financial resources. But the resumption of violent conflict stalled these efforts. From 2010 a new accelerated programme focusing on the key MDG target on maternal health has been agreed with donors.

Developmental objectives have always existed on paper, as the different generations of poverty-reduction strategy documents that explicitly incorporate the MDGs, testify. But implementation has been behind schedule. This suggests that government used these plans to regain access to aid, and to obtain the Heavily Indebted Poor Countries' (HIPC) completion point (reached in June 2012), which led to cancellation of 60% of the country's debt, thereby also establishing a basis for renewed credibility among donors and foreign investors. The importance of the MDGs as a means to help secure external funding is underlined in the Case Study report: '*The MDGs remain the reference point in the development strategy, most certainly because of their capacity to mobilise international funding.*'

"In Côte d'Ivoire, the relevance of the MDGs has to be seen in this context of political instability and violent upheavals."

> “Peru, like other MICs, still faces important development challenges. So while Peru ‘may not be poor on average it is still far from being developed’.”

Yet although the MDGs have been underlying the government strategies and technocratic policies, the politico-military crisis and reconstruction have dominated public spending.

- **Peru**

As the case study report highlights: *‘Peru exemplifies very well the new developing world, one which is changing fast, growing economically even in the midst of the global crisis while very rapidly reducing poverty and overcoming many of the challenges highlighted in the MDGs’*. But the report goes on to emphasise that Peru, like other MICs, still faces important development challenges. Some of these are persistent structural problems. So while Peru ‘may not be poor on average it is still far from being developed’.

In 1990 Peru was classified as a LIC, exhibiting high levels of poverty and inequality. After a period of turmoil and internal armed conflict that lasted from the late 1980s to the early 1990s, order was restored. This provided the basis from 1994, and particularly since 2001 after the Asian financial crisis, for Peru to achieve sustained growth led by a mining boom, in turn fuelled by China’s spectacular growth, and framed by strong continuity in macroeconomic policy. While poverty has decreased significantly over this period, despite some improvements, major structural inequalities persist with the poor particularly concentrated in rural areas and among indigenous populations.

The case study argues that the MDG framework was not particularly important as a source of inspiration, guidance or reference in building a national development consensus or for mobilising internal or external support. If anything, Peru recognised its existing objectives in some of the MDGs. For instance, economic reforms began in 1990, well before the MDGs were agreed. Over the past decade, each successive government has formulated its own goals and objectives. The MDGs have had at most only a minor influence on those plans and do not feature in public policy or debate.

Likewise, none of the major social policies, poverty-reduction measures or pro-equality initiatives has been inspired by or even refers to the MDGs. Not surprisingly, a junior government office was given responsibility for monitoring and coordinating Peru’s MDG progress. There are several reasons for this. Many of the country’s social-protection objectives and measures precede the Millennium

Box 2.4 Peru’s MDG achievements

Peru has made considerable progress in MDG-related areas. For example, from 2001, the Peruvian economy began to grow, which permitted a sharp and sustained drop in poverty rates to almost half of 2001 national levels by 2011. Peru outperformed the MDG targets on reducing hunger, on universal primary education, on gender equality, on child mortality and on HIV and AIDS. It was slightly behind the required performance on maternal health and on safe drinking water.

Chronic child malnourishment dropped from around 40% in 1990 to 25.4% in 2000 to around 18-20% in 2010. Levels of malnourishment are twice as high in rural areas (currently 37%), but urban and rural areas have experienced similar rates of reduction. A further indication of serious and persistent inequalities is the incidence of income poverty, which is twice as high among the indigenous as among the non-indigenous population (45.7% and 24.1% respectively). (Peru case study)

Declaration and the MDGs, and were taken partly to soften the impact of the structural adjustment measures adopted to fight rampant inflation and restore macroeconomic stability.

Aid accounts for only a minor portion of government revenue. The most important sources of policy inspiration for poverty-reduction measures (for example, through social development policies such as targeted cash-transfer programmes) were other Latin American countries such as Brazil and Mexico, rather than donors. Finally, many of the MDG targets were not particularly challenging for a country that already had a per capita GNI of $4,790 in 2000, and that has subsequently experienced rapid economic and social progress.

More recently, some of the aims and targets of MDG7 were integrated into Peru's environmental policy, including in the National Environmental Policy (2009), the Environmental Action Plan (2010), and the Bicentennial Plan (2011). Even then, the international agreement played no role in the design of the policy and the government's action plans.

Summary of four countries' experiences with the MDGs

The four cases clearly show the major differences in the ways different countries and governments respond to the challenges of the MDG commitments and make use of the external support they bring. A first clear conclusion is that one size does not fit all and an international framework such as the MDGs must be able to respond flexibly to very different contexts if it is to gain wide credibility. Each country has had a very different path to development and experienced different problems in its growth pattern and poverty-reduction efforts. The fact that, in the past 20 years, all four countries have experienced periods of conflict and fragility is a strong reminder that this is frequently a major obstacle to development and that even when countries do make good progress, many

“One size does not fit all and an international framework such as the MDGs must be able to respond flexibly to very different contexts.”

Box 2.5 Trade-offs and dilemmas in complex and fragile environments

National governments often have to confront trade-offs and dilemmas, such as between MDG-related objectives and security issues, or between democracy and stability.

In Rwanda, for example, the broader agenda of security has long been an issue in relation to promoting inclusive and sustainable development (ISD). In the 1990s, donors were criticised for their complicity in the 'structural violence' in the build-up to the genocide (Uvin, 1998). With the victory of the Rwanda Patriotic Front (RPF), donors sought to assist the new political settlement. Since then there has been strong support for the government's development agenda, which has been very receptive to donors' technical conditionalities and advice. Some donors harboured concerns about authoritarian governance, violations of political rights and the risks associated with political exclusion.

In the course of 2012, more donors raised concerns about the human suffering allegedly caused by Rwanda's national security policies in the region, especially in Eastern DRC. This has placed the EU and other donors in a dilemma. The EU and some of its Member States have reduced the predictability of funding for Rwanda's development agenda in an attempt to influence the government to negotiate a security settlement with its principal neighbour.

> All four case studies voiced a concern about the MDGs' lack of attention to the productive sectors, to infrastructural investment and to economic growth.

remain dangerously vulnerable to shocks that can set things back by decades.

In Rwanda and Nepal, the MDGs have been integrated into development planning and provided benchmarks against which to measure progress in particular policy areas. In Rwanda, the MDGs align well with the government's own strong developmental discourse and policies. For two decades, Nepal experienced political instability and conflict. The MDGs have contributed to informing policies during a transition period and feature in the government's mid-to long-term development plans. Peru, on the other hand, has hardly referred to or used the MDG framework in designing its poverty-reduction or development policies. Côte d'Ivoire has witnessed various bouts of instability and violent conflict since 1999. Throughout this period the public authorities continued to refer to the MDG framework, which has helped the country to restore relations with the donor community on poverty-oriented cooperation and to mobilise aid. Considerable obstacles to implementation remain, and after a decade the country is likely to reach only a few MDG targets.

There was some criticism of the MDGs, which were seen as biasing donor support towards the social sectors, while national governments may have different preferences and priorities. The relevance of public expenditure on social service provision is certainly recognised in the studies. Yet, at the same time, all four case studies voiced a concern about the MDGs' lack of attention to the productive sectors, to the need for infrastructural investment and more generally to the dimension of economic growth. In three of the four there was also concern about donors' failure to honour their commitments on the volume and effectiveness of aid.

2.2 Explaining policy choices: a political economy perspective

Since the 1990s there has been a considerable effort to better understand what drives the differences in development policy choices and trajectories in developing countries. This was partly triggered by donor dissatisfaction with 'best-practice development models' and the idea that formal institutions could be successfully 'transferred' from rich to poor countries (Centre for the Future of the State, 2010). Evaluations and studies pointed to the limited success of donor support for wholesale institutional and governance reforms. Often these well-intentioned efforts were inappropriate in the country context because they were largely based on idealised templates based on institutions and governance systems in OECD countries. In the words of Dani Rodrik, 'institutional innovations do not travel well' (Rodrik, 2003: 17).

This section draws on a new generation of largely donor-sponsored diagnostic tools[14] and political economy analytical research. These seek to examine the social and political environments in which development processes take place, and look 'behind the façade' of formal institutions and policies. The section also refers to findings and evidence from research[15] on power and politics in Africa, on leadership/agency and development, relations between elites and productive sectors, politics and agricultural development, the investment climate and fragile states.

Structures, institutions and political processes

Some donors have begun to make more use of political economy frameworks and analyses to understand the country-level actors and factors that

14 Such political economy tools include: DFID, 2008; World Bank, 2010; Netherlands MFA, 2009; DEVCO Concept Note, 2011 (Unsworth and Williams, 2011).

15 Research programmes include: the Africa Power and Politics Programme (www.institutions-africa.org); the Development Leadership Programme (www.dlprog.org); the Improving Institutions Pro-poor Growth Programme (www.ippg.org.uk); Future Agricultures (www.future-agricultures.org); Elites, Production and Poverty Programme (www.diis.dk/epp); and the Tracking Development Programme (http://www.institutions-africa.org/trackingdevelopment_archived/home.html).

drive or obstruct poverty-reduction or development policy choices and implementation measures. Political economy refers to a broad set of intellectual traditions. Typically, there are three tiers of analytical tools developed for country and sector levels:

- **Structures:** The first level deals with structural, 'hard to change' or intransigent features such as natural resource endowments, the broad structure of the economy, regional relations, the main sources of (potential) government revenues, etc. The structure of the economy and the resource endowment, for example, may influence the nature of government revenues. Such revenues may be *earned* (through taxation) or *unearned* (such as derived from mineral rents, ODA, etc.). The nature of these revenues often shapes the political incentives facing particular groups – most often ruling elites[16] (see also Box 2.6). Other important features may include the history of state formation, the exclusion of regions and population groups, which may cause social, ethnic and economic cleavages, threats to state legitimacy, internal conflict and fragility. Such features were clearly at the heart of the deep-rooted conflicts in all four case-study countries.

- **Institutions:** At a second level, political economy analysis is interested in how institutions function and shape the behaviour of political and economic actors. In all countries, formal institutions (anchored in the constitution, codified in laws, etc.) interact with informal *rules of the game* (based on social, cultural, ethnic, religious norms and beliefs) and these interactions shape the distribution of power, the nature of political competition, the functioning of markets, etc. It is often difficult for outsiders, such as donors, to understand or even 'see' informal institutions, because the conceptual toolkit has been largely designed to focus on the tip of the iceberg, i.e. formal institutions. The consequence is that external development agents undermine 'their ability to identify change opportunities and constraints and explains why reforms face recurring limits' (Andrews, 2013: 42).

- **Actors:** The structural and institutional levels shape political processes and influence the behaviour and choices of key actors. In a stylised way, one can distinguish three groups of actors (see Figure 2.1): the ruling political elite, state bureaucrats and sector actors (civil society, and firms, farms and households). In an ideal state of affairs, these groups would effectively work together in mutual, cooperative and synergistic ways and generate positive development outcomes (A Joint Statement, 2012). This is not what tends to happen in developing countries. The pattern of relations is often one in which ruling elites or governments do not make credible commitments to sector actors relating to the safety of and the gains from their investments. Usually, such ruling elites do not prioritise the provision of public or collective goods that may stimulate private investment, or they do not give priority to constructive engagement between the state bureaucracy and sector actors.

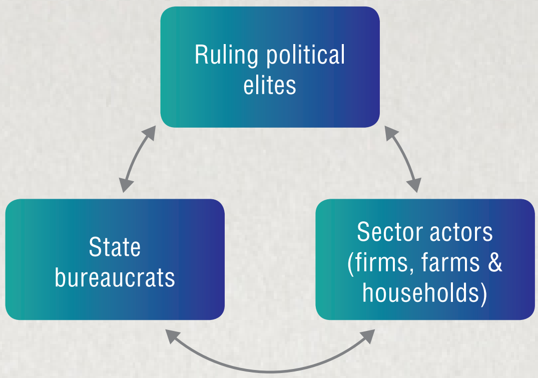
One might ask why donors and recipient countries have managed to engage in the logic of development narratives for so long, with so little evidence that aid does much to contribute to the latters' administrative capability. One answer is the so-called 'isomorphic mimicry', whereby bureaucrats and elites in aid-recipient countries adopt the appropriate institutional appearances and structures (or forms) in order to hide or camouflage the fact that they have not adopted the institutional *functions*. This results in empty policy gestures and (often costly and time-consuming) reforms that are never implemented. Reforms are adopted as mere 'signals'. By overlooking important features of the context, external backers risk betting

> **"There has been a considerable effort to better understand what drives the differences in development policy choices and trajectories in developing countries."**

16 The term 'elite' in this Report refers to individuals who command high levels of political, military, financial and/or economic power.

> "One helpful model for understanding divergences of policy choices is focused on why and when political elites support the productive sector. The answers help explain divergences in development trajectories between developing countries and differences in commitment to MDGs in the four case-study countries."

Figure 2.1 Key actors in political processes



Source: A Joint Statement, 2012

on an inexistent horse (Andrews et al., 2012). There are many examples of governments committing to the MDGs without taking the measures or making the necessary institutional arrangements to meet their stated commitments. Rwanda differs from this pattern in that the government is acting on its poverty-reduction commitments. Rwanda also illustrates a government that can effectively combine formal policy measures with informal institutions of the imihigo (a performance contract with strong traditional underpinnings) to create incentives for state actors to attain poverty-related service-delivery targets (Booth and Golooba-Mutebi, 2012).

Ruling elites and clientelism

While there is still a lively debate about how development happens, there are a few clues to help unravel the decision-making logics and variables that are at work in development processes. There has been comparative and other research on the relations between political elites, state bureaucrats, and private and civil-society actors. One helpful model for understanding divergences of policy choices that affect poverty, growth, transformation or development processes is more broadly focused on why and when political elites support the productive sector. The answers to such questions also help to explain the divergences in development trajectories between developing countries, and proved to be relevant for explaining differences in commitment to MDGs in the four case-study countries ('Elites, Production and Poverty programme', DISS, 2012).

Rather than talk about government, this framework invites users to target and specify the roles and behaviour of the ruling elites and ruling coalitions (groups and individuals that help ruling elites obtain or retain power). The model proposes that in both authoritarian and democratic countries, political survival is the principal motivation for ruling elites. In order to survive, ruling elites are likely to face two types of pressure – competition or opposition. The first is that the ruling elite may be vulnerable and exposed to pressure from excluded groups. The greater their vulnerability the more ruling elites are likely to concentrate on quick results or on immediate rewards to win over constituencies or voters (in a democracy). This leads to short-termism. The second is that ruling coalitions can be fragmented due to internal competition. Usually this involves a combination of horizontal power games among the higher-level elite factions and vertical power struggles between higher-level and lower-level factions or supporters.

Driven by political survival and confronted with these pressures, ruling elites will try to cement internal relationships, win over or buy the support of crucial constituencies. The nature and combinations of these power struggles and games is such that, in combination with formal and informal political institutions, they influence policy preferences and implementation in areas such as the provision of public goods, regulation and economic interventions (Moore and Schmitz 2008; Leftwich, 2011; Kahn, 2010; Whitfield and Therkildsen, 2011). Ruling elites require access to funding, jobs or other favours in return for support they need for the ruling coalition. Such patron–client relationships tend to dominate politics in developing countries (Kahn, 2010; Whitfield and Therkildsen, 2011).

Competitive clientelism is one form of patron–client relationship in which the political elite faces strong opposition both from excluded groups and from internal factions. This is the most prevalent political settlement or equilibrium in many developing countries (Kahn, 2010; Kahn, 2012). Combined with a system of electoral competition, these pressures seldom create the types of political incentive to support public goods, productive capacities, or sustained growth. Typically, under competitive clientelism ruling elites lack the time horizon, the ability to shift resources and the enforcement capabilities to follow sustained growth or development paths.

Rents, economic growth and transformation

Ruling elites need different sources of financing for maintaining coalitions and winning elections (in democracies). They need state revenues to implement their policies and maintain macroeconomic stability. They need private investments to keep up with requirements of the formal economy, security and larger state apparatus, etc. They also require revenues that can be used for the organisation of the ruling coalition. These revenues may be legal (donations, membership fees, etc.) or illegal. The size and type of financing to which the ruling elites have access also create political incentives that shape policy choices and measures.

The nature of these incentives, and the question of whether policies truly reflect the leadership's commitment or are merely designed as empty *signals*, can be better assessed by looking at the sources of revenues and rents. *Rents* can be understood as income flows that are additional to market-based profits and wages. They may include profits from monopoly trading and income from subsidies, from owning scare resources, from corruption and from aid. Some of these rents are economically efficient, while others are not. Moore prefers to refer to 'political revenues' or the incomes that governments and political elites obtain through the exercise of political power (Moore, 2011:7). He further distinguishes between two categories of such political revenues: *state revenues* (from taxes, non-tax revenues and grants from other states or international organisations) and *political elite revenues* (incomes that corrupt politicians, military, public servants, etc. obtain from the abuse of authority, or control of parts of the economy). The boundaries between these categories are often unclear.[17]

Public authorities with access to revenue that does not have to be politically 'earned' are more likely to abuse their power (Moore, 1998). Put differently: 'Access to high levels of rents and unearned income can reduce elite incentives to bargain with citizens and encourage elite predation' (OECD, 2011:26). Such easy access to rents can be contrasted with the reality of a more diversified economy. Diversification may provide a broader tax base, with prospects for effective bargaining between public authorities and groups in society that provide these state revenues. Yet, all less developed regions have formal capitalist sectors that are not sufficiently large to provide enough state revenue. So in the

"Typically, under competitive clientelism ruling elites lack the time horizon, the ability to shift resources and the enforcement capabilities to follow sustained growth or development paths."

17 Another distinction is between 'earned' and 'unearned' income, the first referring to broad taxation and the second to income from aid, natural resources export, etc. (Moore, 1998).

"A re-examination of seven African countries pointed to some striking features of strongly performing regimes. Such features included strong (personalised) leadership, centralised rent processes, and long-term horizons within which policies could be conceived, tested and altered."

Box 2.6 Rents and development in Côte d'Ivoire and Rwanda

In Côte d'Ivoire, over the period 1960–1978, the economy grew at an average of 7% a year, stimulating migration towards the capital Abidjan. A strong presidential system within a one-party state redistributed rents based on the plantation economy of mainly cocoa and some coffee. It organised a skilful system of quotas to balance the interests of various ethnic groups and to distribute public investment in underserviced regions. Political patronage within a context of high commodity prices resulted in economic growth and stability. Migration policy was an integral part of this political economy. Moreover, the Houphouët-Boigny government was able to extract cocoa rents through the marketing system. It used these resources, along with external borrowing, for productive investments but also for redistribution around the country to pay for the military and garner political support, thus providing a degree of social stability. The first 15 years of independence are associated with what has been called 'developmental patrimonialism'. Due to external shocks (oil crisis, debt crisis and declining terms of trade in the 1980s), lack of innovation (with exhaustion of virgin land for production and reduced productivity of cocoa trees at the end of a 30-year planting cycle), and outside pressure for multi-party elections, Houphouët-Boigny's 'grand coalition' broke down just prior to his death in 1993, and ultimately set the scene for the divisive ethnic politics of later years. Centralised distribution of cocoa rent had enabled political stability while commodity prices were high. But market decline undermined both the economy and the political stability. Liberalisation policies applied from the mid-1980s further decentralised rents (McGovern, 2011).

The importance of this rent system for the political survival of the ruling elite was dramatically illustrated by the post-electoral crisis in 2010. At the height of this crisis, regional bodies such as the Economic Community of West Africa (ECOWAS) and the EU imposed restrictive measures on President Gbagbo because of his refusal to respect the election results. These measures aimed to cut off the incumbent's access to rents from cocoa exports and the financing of the army under Gbagbo's command.

The post-genocide political settlement was marked by an initial military victory of the Rwanda Patriotic Front (RPF), and characterised by a centralised control of the economic rents, a political system with clear limits to competitive politics and a prioritisation of public goods provision (including in-country security), arrangements to reduce poverty, and a commitment to economic transformation. The control of sources of economic rents seems to be effectively centralised and deployed in ways that correspond to a long-term development vision that prioritises the provision of public goods and services. Over the last decade, the ruling political elite has sought to broaden its support base by demonstrating an ability to reduce poverty and by engaging in economic transformation. It has increased domestic revenues, fought corruption, improved aid coordination, engaged with a widening group of Southern partners and actively pursued regional economic integration in the East African Community (EAC). Similar to some East and South-East Asian developmental governments (see Box 2.7), Rwandan policy has been driven by the view that social and economic development and transformation are essential to avoid 'recently remembered national disaster' (Booth and Golooba-Mutebi, 2011; 2012). The genocide and its immediate aftermath also help to explain the unique political economy of making and implementing policy in Rwanda. The highly restricted nature of political competition (fear of renewed politicisation of ethnicity) and the tight control over the military and security apparatus (as guarantors of power) have to be understood in conjunction with political arrangements that aim to share power with non-majority party (RPF) groups, as well as implementation incentives for social and economic policies.

broader political processes in which elite groups seek to retain or regain government control, they will rely on various forms of *political elite revenues*.

Donor orthodoxy generally assumes that rents from corruption and clientelism are harmful for economic development. Research, however, suggests that the success in growth and transformation has been, and still can be, associated with heterodox policies concerning the productive use of rents (Kahn, 2007; Booth, 2012). A re-examination of seven African countries, including Rwanda and Côte d'Ivoire (see also Box 2.6), pointed to some striking features of strongly performing regimes (Kelsall, 2011; Kelsall et al., 2010). Such features included strong (personalised) leadership, centralised rent processes, and long-term horizons within which policies could be conceived, tested and altered. Centralisation, for example, enables the leadership to steer rent-creation into areas of economic potential, to finance key public goods, and to use it to ensure political stability. In other words, countries that are characterised by clientelism and face corruption and substantial rent-seeking may succeed in overcoming certain coordination failures, in centralising rents, and investing in public goods, in moving beyond short-termism and engaging in experimentation and learning.

The four case studies, with their different development paths, and particularly the three examples of Cote d'Ivoire, Rwanda and Peru that have made most progress this past decade, demonstrate the importance of economic growth and transformation for future sustainability. Generally, successful economic transformation can be explained by a combination of institutions, actors and factors such as a coherent central state with a developmental vision, committed leadership, and linkages between the state and groups in society. It comes about through dynamic interactions and bargaining processes between ruling elites, state bureaucrats and multiple groups in civil society that interact at sector level. For this to happen, governments must credibly guarantee that the gains from investments will not be undone, provide essential public goods, invest in learning and experimenting, and tackle multiple coordination challenges.

Public authorities in developing countries face daunting challenges in seeking to promote the type of economic transformation that is essential for sustainable poverty reduction and development, climate-change adaptation and mitigation etc. These challenges are essentially about overcoming collective action and coordination problems to building competitive productive sectors. In practice, ruling elites will generally opt for the line of least resistance. Rather than developing new or upgrading old productive sectors they will fall back on alternatives if these are available and avoid engaging '*in the hard task of helping domestic entrepreneurs build technology capabilities and creating new institutions for implementing industrial policies. Such alternatives include extractive natural resources (e.g. minerals and oil), official foreign aid to the government, and agricultural commodity exports*' (Whitfield and Therkildsen, 2011: 25).

This section has sought to provide a set of theoretical models that can help to explain why different countries adopt particular development trajectories and development policies. As we shall see in the next section, external factors – be they policy frameworks such as the MDGs or global economic and financial systems – play a role in these national policy processes. Their impact can be important. A better understanding of the interactions between both spheres – global and regional drivers with the domestic political economy – will help assess the 'margins for manoeuvre' in a particular country context.

Clearly, this summary overview cannot aim to be exhaustive and it has not dealt with a number of other important, and often neglected or less visible, actors and dimensions that drive reform and change processes, including agency, leadership, organised

"The four case studies demonstrate the importance of economic growth and transformation for future sustainability. Generally, successful economic transformation can be explained by a combination of institutions, actors and factors such as a coherent central state with a developmental vision, committed leadership, and linkages between the state and groups in society."

Box 2.7 Explaining policy differences – South-East Asia and sub-Saharan Africa

The research programme *Tracking Development* has traced the factors that help to explain the divergences in development trajectories in South-East Asia and sub-Saharan Africa over the past 50 years. Pervasive clientelism in sub-Saharan Africa cannot in itself explain the relative lack of economic progress and transformation, since corruption and clientelism also characterised South-East Asian countries at the time of their economic take-off.

Through paired country comparisons (Kenya with Malaysia, Nigeria with Indonesia, Tanzania with Vietnam, and Uganda with Cambodia) *Tracking Development* proposes three essential policy preconditions for sustained growth and poverty reduction. All three can reach a 'developmental turning point': (a) sound macroeconomic management; (b) improved standards of living in the rural sector combined with higher agricultural productivity and food security; and (c) and economic liberalisation and the creation of conditions for economic freedom, in particular for peasant farmers and small entrepreneurs. While the four African countries demonstrated solid levels of aggregate economic growth, there was no breakthrough in the productivity of smallholder agriculture. 'As a result, the impact of African economic growth on poverty remains weak, and its future uncertain, amid rising inequality, limited domestic market growth, and continued food insecurity. Nor is there any sign in Africa of the industrial transformation that followed on the heels of the agricultural revolution in South-East Asia' (Development Regimes in Africa, 2012).

Motives and incentives varied. In some countries in South-East Asia ruling elites feared radical or communist opposition, or the threat of mass rural insurgency. To ensure elite survival, they set out a development trajectory with a strong push to ensure that as many people as possible obtained direct material benefit. This in turn heightened the impact of the policies without much recourse to compliance with legal principles, administrative procedures, or political rights and liberties (van Donge et al., 2012). These strong pressures – non-replicable and in many ways exceptional – provided strong incentives for governments to consolidate their legitimacy by providing public goods rather than running the risks associated with merely pretending to embark on reforms.

Tracking Development Programme (http://www.institutions-africa.org/trackingdevelopment_archived/home.html)

poor people and the multiple forms of action taken by civil society action to overcome problems of collective action and improve governance and accountability relations. In fact, when moving from the field of context analysis to development praxis, this also represents a shift in that reformers and external actors are invited to leave behind the 'best practice' models and to 'work with the grain' (Booth, 2011), building on an appropriate knowledge of local problem-solving.

2.3 International drivers, MDGs and the domestic political economy

Factors in the global economy and international relations affect governance, institutions and political processes at country level. These 'international drivers', or global and regional factors that have an impact on the domestic political economy, may change the power and incentive structures within which economic and political elites operate. This section does not seek to present all the international drivers that interact with the domestic political economy and the possible or likely economic and political incentives they create. It draws attention primarily to the importance of bringing this dimension into the reflection on a post-2015 development agenda, as the effectiveness of the debates will depend not only on the content of a new agenda, but equally on the process through which numerous old and emerging or new stakeholders may seek to co-determine the nature of the outcomes.

There are considerable complexities in analysing the effects of international factors on domestic economic and political processes since there may be many acting simultaneously. Their relative importance differs, and it may be particularly difficult to attribute observed outcomes to particular drivers. These influences play out over long periods of time and the processes usually are non-linear, with some having immediate as well as knock-on effects at different levels. The OECD has developed an analytical methodology that presents seven categories of international drivers, tracing some of their likely effects on power relations and on political processes of contestation and bargaining between interest groups at the country level (OECD, 2011).

The seven most relevant categories include: (a) sources of rents and unearned income (which includes aid); (b) opportunities for and constraints upon concealing and moving illicit assets; (c) foreign investments; (d) global and regional security threats and responses; (e) international legal measures and sanctions against domestic elites; (f) reputational pressures on political elites from regional and international actors; and (g) external ideas and skills, including the effects of diasporas. These categories[18] can potentially push in directions that lead to positive development outcomes. Examples include consumer and media pressure in developed countries for legally produced and certified goods or that can damage the reputation of certain spoilers. Civil society organisations and NGOs can mobilise and create pressures and incentives for better economic and political governance. But such international drivers can also reinforce bad governance, and even prolong or create fragility (see also Box 2.8).

Sources of rents are a particularly revealing category. The sources of rents and of state revenues have substantially altered as a result of the changing nature of the global economy (Moore et al., 2009; Moore 2011). Recent globalisation has increased the proportion of states' non-tax revenues, and has also resulted in the rise of (illegal) political elite revenues compared to (legal) state revenues. The substantial increase in the demand for (scarce) natural resources has created unprecedented opportunities and possibilities for political elites to access rents from their export. So public authorities may end up with less political incentive to seek more reliable income through bargaining with groups in society that may insist on investment in research, innovation, or more broadly on accountable and effective public institutions. Combined with the opportunities that elites have to conceal, launder and transfer financial assets (the second category), these natural resource rents may turn into a curse as they can feed violent conflicts, civil war and prolong fragility (OECD, 2011; OECD, 2012; Centre for the Future of the State, 2010).

“Recent globalisation has increased the proportion of states' non-tax revenues, and has also resulted in the rise of (illegal) political elite revenues compared to (legal) state revenues. The substantial increase in the demand for (scarce) natural resources has created unprecedented opportunities and possibilities for political elites to access rents from their export.”

2.4 Lessons from the country level

This chapter has offered a triple 'reality check' from a country perspective. The first was about addressing

18 The MDGs should be viewed as a global instrument, rather than a global driver, along with other global or regional instruments and regulatory measures such as the Extractive Industries Transparency Initiative, the Africa Peer Review Mechanism, the Forest Law Enforcement, Governance and Trade initiative, the OECD Convention on Combating Bribery, etc. The OECD tool assesses the relevance of these global and regional instruments in terms of their likely effects on the seven international drivers.

"This chapter has offered a triple 'reality check' from a country perspective. First, on the extent to which the MDGs have been helpful. Second, on the importance of domestic political economy. Third, on understanding the linkages between the global drivers and instruments (such as the MDGs) and the domestic political economy and development outcomes."

Box 2.8 Rents, tax havens and fragility

As Moore (2011) has observed, the recent phase of globalisation has resulted in 'increases in state non-tax revenues relative to tax revenues and in political elite revenues relative to state revenues'. These increases of rents through globalisation can partly explain the 'contemporary phenomenon of weak, fragile or failed states. In polities in which elite political revenues are relatively abundant, power lies in the hands of people who often lack incentives to do state-building: to construct or nurture the institutions that might mobilise large numbers of citizens into politics (political parties), encourage political bargaining between different interest groups (legislatures), collect revenue for public purposes (tax agencies), make informed policy decisions and implement them consistently (civil services), protect citizens against crime and illegal force (police, judiciaries, prison services) or provide the technical support needed to hold government to account for the use of public money (public audit offices). Late twentieth century globalisation has not only shifted the financing of some peripheral states away from general tax revenues towards what Schumpeter might have termed domain revenues, but it has also created many opportunities and temptations for political elites to invest in the harvesting of illicit elite revenues – by engaging in or facilitating drug production and trafficking, money laundering, tax evasion, the sale of government contracts to the giver of the highest bribe – or even simply smoothing the way of aid donors and their projects through the public service in return for lucrative consultancy assignments. Because of globalisation, sources of such revenues are more abundant. Liberal international finance, most strikingly in the shape of tax havens, has made it easier and cheaper to hide illicit incomes, and thus has increased incentives to earn them' (Moore 2011: 12).

the extent to which the MDGs have been helpful in Nepal, Côte d'Ivoire, Rwanda and Peru in reaching its targets and contributing to its objectives. While all four countries had *signalled* a commitment to the MDGs and their realisation, implementation ranged from rather low to high. The prime determinants of the *degree and direction* of implementation are located in the domestic political economy, i.e. in the interplay between structural features, formal and informal institutions, and the actors and factors of day-to-day political processes. This political economy lens constitutes the second check. All four developing countries have also become more integrated into the global economy through linkages ranging from trade, aid, international labour mobility, to financial integration, among others. The third check is about understanding the quality and consequences of the linkages between the global drivers and instruments (such as the MDGs) and the domestic political economy and development outcomes.

In considering a new post-2015 framework, these three reality checks may help reflect on both its content and the process leading up to such global agreement. Development challenges are likely to become more complex, the aid landscape will further change with new roles taken up by powerful or influential 'newcomers', while there are opportunities since 'we are now in a far better position to understand these processes and to avoid the blind spots of the past' (Rodrik and Rosenzweig, 2009: 5).

Nevertheless, some blind spots persist. One aspect that this chapter has not elaborated on, for example, is the political economy of international partners: their capacities as donors,[19] as trading and economic partners, the obstacles they face and the incentives that influence their policy choices and actions in regional and international settings, and that shape their preferences in implementing agreed principles and commitments such as support for Policy Coherence for Development. Such analysis could provide greater insight into the margins of manoeuvre of international partners to meet their commitments, which could then further help inform and prioritise the process of developing partnerships in any post-2015 development agenda, its substance and its institutional architecture.

Keeping these challenges in mind, a number of preliminary pointers for the post-2015 agenda and process can be drawn from this chapter and from the country case studies:

- Diversity is the name of the game. Three of the four case studies confirm that the MDG instrument has contributed in some way or other to improving policy design, mobilising external resources, facilitating policy dialogue and may have affected policy choices and implementation in some of the MDG areas. But the country case studies also confirm the central importance of domestic political and economic processes in determining the course of action or inaction, as well as the central roles of ruling elites or coalitions.

- The stated 'political will' behind development goals and 'state capability' at the country level cannot be assumed. The 'best-practice orthodoxy' inherent in most OECD development models may point to what is *desirable*, but must contend with the realities and limits of what is *enforceable*.

- The efforts – among others by some donors – to diagnose context from a diverse range of angles (including political economy) can be built on. The new generation of more fine-grained diagnostics, including conflict analyses and political economy analytical tools, need to be systemically used to create development knowledge about (a) how political and economic institutions interact and function in developing countries; (b) how to use external instruments to create a good fit with reform or peace-building coalitions; (c) how the effects of international drivers on the domestic political economy may help to inform context-specific and conflict-sensitive strategies for development or other responses; and (d) incentives and political economy dimensions at work within international partners, which may help bring out untapped potential for good fit engagement strategies that combine targeted entry points with credible and effective multi-stakeholder partnerships at global, regional and national levels.

- A striking feature in the four cases is the role that violent conflicts have played in recent histories. In each country, different elite strategies to quell or use violence have shaped the nature of political settlements, and have influenced – and continue to influence in differing degrees – stability or fragility. It is estimated that half of the world's poor do or will live in fragile states (OECD, 2012). So a deepened understanding of the impact and incentives of international drivers on poor governance, rent-seeking of economic and ruling elites, etc. can help to prioritise those areas where external development partners, such as the EU, have most impact.

"The country case studies confirm the central importance of domestic political and economic processes in determining the course of action or inaction."

19 There has been growing research on the ways in which politics and institutions of donor governments and aid agencies affect aid delivery (e.g. Martens et al., 2002; Gibson et al., 2005; Knack and Rahman, 2007; Faust, 2011). Such research on formal and informal rules of the game of donors, the incentives their interactions generate and their influence on political behaviour and the preferences of key actors provide insights into policy incoherencies and implementation challenges at the national, regional and global level. The insights into the logics of decision-making and implementation challenges could contribute to more effective engagement strategies in the future.

> "While a post-2015 framework can provide the setting for developing partnerships in support of national development, it cannot determine how these will be used in each case."

- Since aid channels multiply and transaction costs for aid-recipient countries tend to increase, donors must facilitate and cooperate with the most important partners on interpreting and translating the internationally agreed principles of aid effectiveness in relation to the specific requirements and potential of the country in question.

- This is the more urgent as innovative sources of financing and funds for new global challenges (climate change, etc.) will need to be anchored in stronger institutional capabilities – including strengthened accountability – in developing countries.

More specifically for the EU, its unique characteristics and its access to multiple stakeholders at a range of governance levels (from the global to the local) and in various policy domains, mean that, in addition to the above, it is well placed to:

- Support, facilitate and show leadership in donor coordination and harmonisation at the country level in collaboration with country partners.

- Help, especially in fragile environments, design conflict-sensitive donor responses that involve ODA combined with other areas for intervention such as trade, targeted sanctions against elite representatives, seizure of assets, global and regional action against tax evasion, etc.

- Promote among external actors enhanced knowledge management on specific country situations, by using improved diagnostic tools, integrating ideas and lessons learnt, and formulating more case specific approaches to promote aid effectiveness.

- Be a key actor at the international level in promoting global collective action in support of global public goods. Given the proliferation of sources of (development) finance – but also rents – as well as fragmentation, two priority areas for EU action are likely to be in strengthening transparency and improving global financial governance.

Above all, however, this chapter has demonstrated the vital importance for the post-2015 framework to be sufficiently flexible to cope with the huge diversity of country situations and development trajectories that it will need to contend with, if it is to be a useful guiding tool for a range of development partners. The case studies demonstrate that an international framework such as the MDGs can be useful in a variety of ways to developing country actors and international partners alike. Yet ultimately, who will take up development challenges and how, will depend on the domestic political economy and how such domestic actors and factors interact with regional and global ones. So, while a post-2015 framework can provide the setting for developing global and other partnerships in support of national development, it cannot determine how these will be used in each case. At the country level the framework will in effect become integrated into the domestic political economy as one of the instruments that local actors may use to advance their objectives and as a platform for negotiation and agreements between them and external actors.

Domestic political will, good governance and adequate capabilities are clearly key and cannot be taken for granted. Yet, as this chapter has also shown, external actors, international regimes and flows of financial resources, trade and labour migration do have important impacts on local processes and can be built on in different ways by local actors. Therefore, the design of a post-2015 framework should not merely focus on development cooperation as a conduit to support domestic development processes, but also include these other factors.

Thus, while the impact of a global framework on the domestic political economy should not be exaggerated, it is often important, and helping to

Box 2.9 Fragility – Country case examples of EU responses

At least three countries – Côte d'Ivoire, Nepal and Rwanda – can still be labelled 'fragile', although only the first has taken the step of becoming a member of the g7+, a group of 17 developing countries that call themselves 'fragile'.[20]

The EU responses to violent conflict and fragility were initially reactive rather than proactive. Changes in strategies in Côte d'Ivoire, Nepal and Rwanda suggest that these were in response to dramatic events in these countries: the refusal of President Gbagbo to accept electoral defeat (with the danger of a descent into civil war), the genocide and subsequent RPF victory in Rwanda, and the increasingly repressive monarchy in Nepal in the early 2000s.

The donor response to the situation in Nepal illustrates the value of a robust, independent diagnosis that focuses less on the formal outlook of political and economic institutions, but rather at how they function. A DFID-sponsored study investigated how external factors such as aid contributed to the dynamics of conflict and development. Putzel and Di John (2012) point to the importance for external actors to identify and support non-elite social groups that can articulate inclusive reforms and engage in political contests to achieve them.

Nepal and Côte d'Ivoire also highlight the EU potential to contribute to peace-building in fragile or in conflict-affected environments through a judicious combination of its policy instruments. In fact, both countries provide good examples of the ways in which donors can help nudge a more inclusive political settlement. In the case of Nepal, it was through enabling more space to be opened for the inclusion and legitimation of previously excluded groups in the peace process. In Côte d'Ivoire, it was through financial sanctions, which in combination with measures from other regional players such as the Economic Community of West African States (ECOWAS), reduced the holding power of President Gbagbo and weakened his aim to resolve the conflict through military means.

Source: Case study reports

> "While national actors need the policy space to formulate their own priorities and development path, how this space is used will be constrained by both domestic and international actors and factors."

establish a conducive international environment is thus a key task for a new post-2015 framework. This is all the more so in more fragile situations where the role of external actors and factors can become crucial in isolating and tackling some of the channels through which elites perpetuate (often violent) political settlements and in creating (or otherwise) enabling conditions in which local actors can act effectively and promote development progress.

In sum, while national actors need the policy space to formulate their own priorities and development path, how this space is used will be constrained in a wide variety of ways by both domestic and international actors and factors. The post-2015 framework thus needs to be sufficiently flexible to respect this need for country diversity and policy space and, at the same time, sufficiently wide ranging across a spectrum of external drivers and yet specific enough in each case, so as to ensure that it guides international action effectively, in support of local action for inclusive and sustainable development.

20 The members of the g7+ have grouped around demands for appropriate or conflict-sensitive responses from the international community, and were active in advocating for the New Deal at the Busan HLF in November 2011.

CHAPTER THREE

3 THE EUROPEAN UNION AND THE MDGs

"The MDGs became a central reference point for the development policies of the EU and its Member States soon after their adoption."

The size, geographical reach and partnership dimension of the European Union's aid programme makes it a formidable player in global development. The EU institutions are unique in that they provide direct support to developing countries and play a 'federating role' vis-à-vis the 27 Member States [...]. The EU Institutions manage a large volume of ODA. Based on its USD 12.7 billion grant programme alone, in 2010 the EU was the third largest DAC member. (OECD, 2012, p.13)[21]

As a major actor in the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD), the European Union's support for the MDGs is particularly important for their success. This chapter looks at the EU's contribution to the MDGs, both of its institutions and of the EU as a group of 27 of the world's richer nations.

As is apparent from the *European Consensus on Development* (EU, 2005) and the more recent *Agenda for Change* (Foreign Affairs Council, 2012), the MDGs became a central reference point for the development policies of the EU and its Member States soon after their adoption. Since 2000 the EU has consistently provided around 50–60% of global ODA and has helped to advance the international development agenda as well as encouraging others to contribute resources and political will. The EU and several Member States have played an important role in the Paris–Accra–Busan process on aid and development effectiveness[22].The EU increased ODA each year and by 2008 it looked likely to meet the target of providing 0.7% of Gross National Income (GNI) by 2015. Since then however, progress has been more disappointing with the EU as a whole reaching a peak of only 0.44% of GNI by 2010, well below its own interim target of 0.51% for that year. While a few individual countries still expect to reach the 0.7% target, the EU overall now seems unlikely to meet its pledge despite continued commitments to do so (European Council, October 2012)[23].

The EU has also played a leading role in the international debate on strengthening the contribution of policies beyond development cooperation

21 This quote refers to the aid programme managed by the European Commission on behalf of the EU Member States. Most Member States also have their own bilateral aid programmes.

22 The 2005 Paris Declaration on Aid Effectiveness and the follow up discussion in Accra (2008) and Busan (2011 are discussed in more depth in Chapter 7 (7.3.2 (i)).

23 The case study reports for this ERD express a general concern about aid effectiveness and aid levels highlighting lack of harmonization among donors and the failure to meet the 0.7% ODA/GNI target. The Rwanda case study is critical about unpredictability of aid flows.

towards the achievement of the MDGs and has itself made some progress in this area. Since 2007, Policy Coherence for Development, for instance, is reported on biennially, and PCD became a legal obligation in the 2009 Lisbon Treaty. Achieving PCD remains a challenge for the EU, as does the need to improve coordination between the EU and Member States' development policies and operations, an area that is also difficult for non-EU donors (COM, 2012a; OECD, 2012).

3.1 The place of the MDGs in EU development cooperation

Efforts to make the MDGs a focal point for development policy across Europe are reflected in several high-profile EU policy statements and publications. In addition to the 2005 *European Consensus*, which applies both to the Member States and to the EU institutions, its approach to the MDGs is detailed in the 2007 *Code of Conduct on Division of Labour*, the 2008 *Communication on progress towards the MDGs*, the Commission's brochure published before the 2010 MDG Summit, and its 2010 12-point plan for getting the MDGs on track. In placing an emphasis on the MDGs, these documents also stress that Member States should adhere to their international development commitments, particularly regarding the Monterrey and MDG8 commitments to increase ODA. The European Commissioner for Development has observed that progress towards meeting the MDGs remains unsatisfactory and that the EU overall must do more (Piebalgs, 2012).

Despite the importance attached to the MDGs, they have not been the sole focus of EU development cooperation since 2000. For example, the EU is also committed to other wider aspects of development, including issues that are not covered in the MDGs, as well as to supporting countries whose priorities may not necessarily focus on the MDGs. This is well reflected in the broad objectives outlined in the Cotonou Partnership Agreement (CPA), which stresses its openness to engaging in a wide dialogue with partners (Articles 1 and 8). It is also evident from the relatively high proportion of ODA the EU spends in middle-income countries (MICs), particularly in its neighbouring states (e.g. Georgia or Ukraine). A recent internal study conducted for the European Commission (forthcoming) confirms the importance of the MDGs to the EU in terms of development policy at a global level. However, it also notes that policy is formulated in a holistic fashion to allow for partner country priorities and more variations are visible at the regional.

On the financial side, the consensus on international development priorities encapsulated in the Millennium Declaration seems to have encouraged European governments to increase ODA. Total European ODA grew every year (Figure 3.1) following the Millennium Declaration dipping as the global financial crisis of 2008–2009 hit European economies. Thus while the EU had made a major effort to meet the 0.7% target, the crisis has seriously affected the ability and willingness of most European governments to continue increasing ODA, making it very unlikely that the EU as a whole will reach the target by 2015.

It is impossible to identify how much of the ODA increase since 2000 was focused on achieving the MDGs. The Commission's figures show (Figure 3.2) that the total amount of ODA from the European Development Fund (EDF) and the EU budget spent on MDG-related sectors has risen steadily from 2001 to 2011, with important variations in relative levels between 2004 and 2008. But this finding indicates a trend rather than revealing the amount dedicated to achieving the MDGs.

A more substantive indication is given in the internal study (forthcoming) undertaken for the Commission, which estimates that between

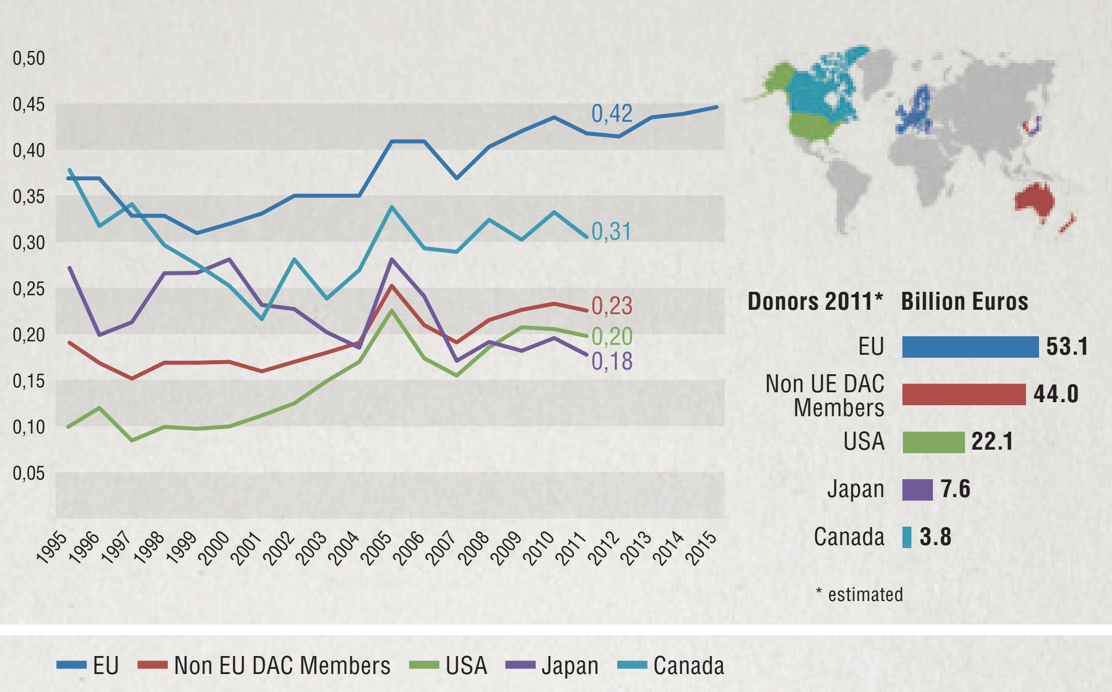
"Total European ODA grew every year following the Millennium Declaration, but the crisis has seriously affected the ability and willingness of most European governments to continue increasing ODA."

> "The MDGs have been valuable in raising awareness of development issues among European citizens, which in turn has helped to make development more of a priority."

2001 and 2010, the ODA contribution (direct and indirect) to the MDGs is around 38% of the total for that period, or roughly $43 billion. This estimate, based on a more thorough analysis of DAC and EU aid statistics, suggests a rather higher proportion than do the simple sectoral figures.

Outside the official realm, the MDGs have also been valuable in raising awareness of development issues among European citizens, which in turn has helped to make development more of a priority for policy-makers. European development NGOs have played a significant role in influencing debates at both levels (van Reisen, 2010). The European Parliament has taken an active interest in the MDGs, recently voting to designate 2015 as a European Year of Development (Goerens, 2012). A 2010 Eurobarometer survey revealed that despite the economic crisis Europeans staunchly supported meeting pledges to increase ODA. The MDGs are prominent in the public consciousness: 42% of Europeans cited poverty as the single biggest challenge facing developing countries, and around 20% cited food and health issues (COM, 2010b). The 2012 Eurobarometer survey concluded that Europeans still strongly support EU development cooperation (85% were in favour compared to 88% in 2009), although they most frequently mentioned trade and finance as having an impact on developing countries (COM, 2012b). Paradoxically, therefore, while many of their governments are cutting aid, it appears that European citizens continue to support ODA.

Figure 3.1 ODA as a percentage of GNI – EU27 compared to non-EU DAC members



Sources: OECD/DAC database; 2012 EU Accountability Report of Financing for Development.

3.2 The EU's role in advancing the MDGs: resources and effectiveness

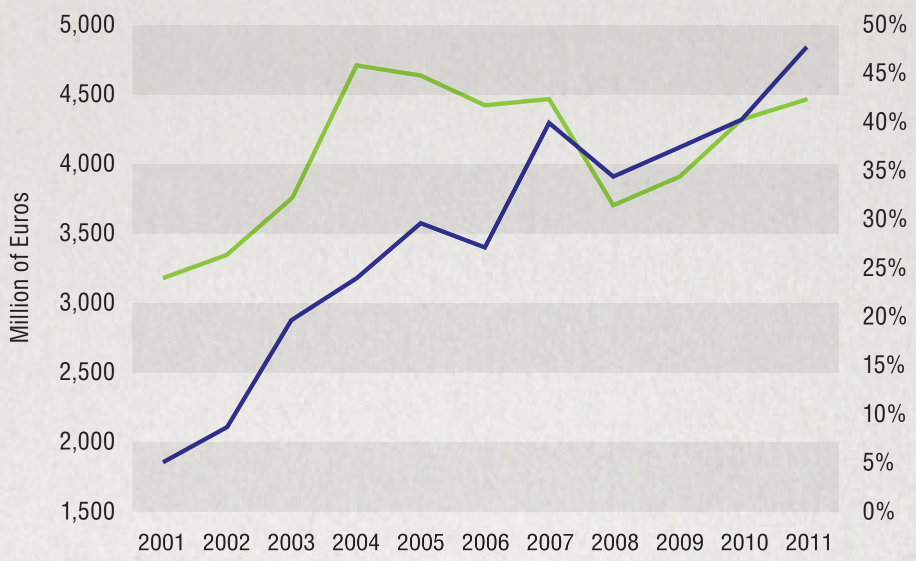
It is impossible to establish the direct contribution made by ODA from the EU to progress in meeting the MDGs. While there are associations between the MDGs and EU aid, these do not constitute a causal link in advancing the MDGs. The literature on aid effectiveness has dealt with this issue in some detail, and studies have shown the difficulty of establishing a direct connection between 'aid' and 'MDG progress' in view of the large number of potential causal factors (Bourguignon et al., 2008).

One part of the problem in assessing the impact of ODA from the EU is that many donors and other actors are contributing to the MDG effort, which means that advances can be attributed to EU contributions only to a limited extent. Moreover there is no clear relationship between the amount of ODA disbursed to a particular country (even on a per capita basis) and MDG success. The overall size of a country's ODA inflows and even expenditure per capita are only two factors among many that affect its likelihood of achieving the MDGs.[24]

The internal study undertaken for the Commission (forthcoming) found it difficult to establish a direct causal link between the Commission's actions and MDG performance. It did, however, gather sufficient evidence to conclude that the Commission's ODA and non-financial interventions have generally

> "There is no clear relationship between the amount of ODA disbursed to a particular country (even on a per capita basis) and MDG success."

Figure 3.2 EU ODA on social infrastructure, 2001–2011 (million Euros)



EC ODA for social infrastructures in Mio. Euros)
% funds managed by Commission

Source: EuropeAid annual reports 2004–2011

24 A study by DG Development on budget support and MDG performance revealed similar findings, although suggesting a stronger correlation between budget support and MDG performance (Benyon and Dusu, 2010).

“Improving aid effectiveness has been another important part of the international effort to achieve the MDGs. The EU as a whole has actively engaged in this effort.”

been aligned with the MDGs. It concluded that development programmes, including those financed by the European Commission and other donors, had contributed overall to achieving progress towards the MDGs.

Rather than trying to suggest a direct causal link, the Commission's brochure 'EU contribution to the Millennium Development Goals', published before the 2010 MDG Summit, relied on anecdotal evidence to highlight EU support for the MDGs. Citing global progress on each of the MDGs, it gave examples of where the Commission was providing ODA, such as for building schools in Egypt and for the Afghan government's efforts to train midwives (COM, 2010a). In other words it is more realistic to look at the overall contribution of European ODA to achieving progress in meeting the MDGs rather than seeking to attribute any part of such progress to the EU contribution.

Improving aid effectiveness has been another important part of the international effort to achieve the MDGs. The EU as a whole has actively engaged in this effort and since the 2005 Paris Declaration has taken steps to improve the effectiveness of its overall (multilateral and bilateral) aid by setting its own (tougher) targets and establishing internal agreements such as the 2007 *Code of Conduct on Division of Labour*. The potential importance of such efforts is illustrated in a study published by the Commission (Carlsson et al., 2009), which argued that the lack of coordination among European donors was costing between €3 billion and €6 billion a year due to the volatility of aid flows, the proliferation of donors and implementing organisations and the fragmentation of programmes into tens of thousands of sometimes competing projects.[25] Efforts to coordinate through joint programming among EU donors have been piloted in Haiti and South Sudan and country strategies are planned for Ethiopia, Ghana, Guatemala, Laos and Rwanda in the next EU budget, the 'Multiannual Financial Framework: 2014–2020'. There have also been efforts to improve results through better monitoring and evaluation and through more effective management of aid policy, actions and programmes. The Commission has been more ambitious than most individual Member States in using budget support to improve public financial management in aid-recipient countries and to reduce transaction costs (Faust et al., 2012)[26]. The Commission sees its comparative advantage as helping partner countries to establish the framework conditions for making progress towards the MDGs by strengthening political institutions, public financial management, transparency and accountability (COM, 2011).[27]

3.3 The EU's role in advancing the MDGs: improving Policy Coherence for Development

3.3.1 Global ambitions and concrete challenges

In the spirit of paragraph 5 of the Millennium Declaration, which calls on UN member states to *'ensure that globalization becomes a positive force for all the world's people'*, MDG8 describes the ambition to give shape to a 'global partnership for development'. This captures the realisation that achieving the MDGs could not rely only on ODA. The first ERD research paper commissioned by the European Commission and several Member States in 2008, confirmed the central importance of MDG8 for the success of the MDGs and stressed that 'policy coherence was key to the achievement of the MDGs' and *'policy coherence at the global level was more important than ever'* (Bourguignon et al., 2008).

25 This was confirmed by a follow-up study (Bigsten et al., 2011).

26 A preference for budget support comes out in both the Nepal and Rwanda case studies with Rwanda in particular seeing the EU's willingness to use budget support as helping to increase aid predictability and ownership.

27 Many of these efforts are covered in more detail in Chapter 7 on Development Finance.

At the 2010 MDG Summit, UN member states acknowledged that the *'achievement of the Millennium Development Goals requires mutually supportive and integrated policies across a wide range of economic, social and environmental issues for sustainable development'* (UNGA, 2010). The Outcome Document of this meeting referred to this objective as 'Policy Coherence for Development'. The June 2012 UN System Task Team Report on post-2015 also refers to the need for mutually supportive and integrated policies: *'To realize the future we want for all, a high degree of policy coherence at the global, regional, national and sub-national levels will be required'* (UN, 2012a).

Although MDG8 is the least measurable (and measured) of the MDGs, it has been acknowledged that the international community as a whole is not doing enough to live up to this commitment to ensure that policies beyond those that are labelled 'development policy' also support the achievement of the MDGs (UN, 2012b; UNGA, 2010). This is not to suggest that there has been no progress in relation to MDG8 – for instance, global ODA has risen and debt sustainability has improved through the Heavily Indebted Poor Countries (HIPC) initiative – but further steps are required and the international community needs to improve its performance. In 2012 a Task Force of 20 UN agencies reported finding it hard to identify areas of significant new progress and even observed signs of backsliding, a sign of waning support for the global partnership for development (UN, 2012b).

Three examples illustrate the wide range of areas where further international collective action 'beyond aid' could support the efforts of developing countries by enhancing the global partnership envisaged in MDG8, and creating an international environment more conducive to development. Europe could make a major contribution to each of these:

- **A net loss of funding in developing countries via financial intermediaries in developed countries:** A frequently cited estimate of illicit financial flows from developing countries suggests these amount to $1,000bn a year, far exceeding what these countries receive in ODA and foreign direct investment (FDI) (GFI, 2011). A recent World Bank publication concludes that *'whatever the problems with existing [Illicit Financial Flows] estimates, the phenomenon is large enough to command serious attention'* (Reuter, 2012)[28]. In Europe, a growing move among banks to comply with regulations should improve the situation regarding illicit flows to Europe, but the overall problem can be effectively tackled only by collective global action.

- **Unsustainable consumption aggravating environmental and food security challenges:** World population growth, widespread food insecurity and the aspirations of a rapidly expanding global middle class to adopt the protein-rich diets of the rich countries pose serious threats to inclusive and sustainable development. These pressures have led to increased consumption of a wide range of natural resources, including those derived from biomass and minerals, such as metals, fossil fuels and construction materials. While the growing middle classes in emerging economies are contributing to rising consumption, promoting sustainable consumption in Europe could improve global development in addition to furthering the EU's own 'Europe 2020' development strategy (ERD, 2012).[29]

"Although MDG8 is the least measurable of the MDGs, it has been acknowledged that the international community as a whole is not doing enough to live up to this commitment."

28 The problems of illicit capital flight and tax evasion emerge as concerns in both the Nepal and Rwanda case studies. The Nepal report highlighted UNDP (2011) estimates that illicit capital flight represented a significant leakage in development finance of up to $20bn in 2008.

29 About 12 million hectares outside Europe are needed to produce feedstock for European agriculture, and two thirds of the fish that is processed or consumed in Europe is caught outside its territorial waters (ERD, 2012).

> "The EU is recognised among members of the OECD/DAC as a driving force for promoting development-friendly policies and PCD."

- **A patenting system that does not benefit the poor:** The current international system of patenting and intellectual property rights (IPR) negatively affects developing countries in important areas such as access to affordable medicines, patenting of seeds and genetic material as well as protecting genetic resources and benefit sharing. An overall issue is that the system does not promote innovation unless there is a clear market demand and expected return on investment, which is frequently not guaranteed in developing countries.[30] There is increasing recognition of the need to make the patenting and IPR system more development-friendly.

Although various UN policy processes over the past decade have presented important opportunities to make global policies more development-friendly, there has been only progress. For example, the annual Conference of Parties (COP) meetings on climate change, the 2010 biodiversity meeting in Nagoya, the continuing Doha Development Round (DDR) and the 2012 Rio+20 conference all failed to result in binding decisions on reversing global environmental change or promoting trade in a manner that would make a real positive difference to poor countries.

3.3.2 EU steps to promote PCD

For several decades, there has been often intense debate on the effects of wider EU policies on developing countries. The need to discuss these policies and where possible improve their contribution to development has now become an accepted and politically prominent feature of European development policy.

The Lisbon Treaty, which entered into force in December 2009, builds on earlier EU Treaties in stating (Art. 208) that the Union *'shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries'*. The primary objective of this cooperation is defined as *'the reduction and, in the long term, the eradication of poverty'*. The European Consensus on Development clarifies this Treaty requirement by defining the process of promoting PCD as *'ensuring that the EU takes account of the objectives of development cooperation in all policies that it implements which are likely to affect developing countries, and that these policies support development objectives'* (EU, 2005). The Consensus also identified specific areas in which to monitor progress towards PCD. In 2009 the European Council focused on five global PCD challenges in which the EU wanted to engage more proactively: trade and finance, food security, climate change, migration and security (GAERC, 2009).

The EU is recognised among the members of the OECD/DAC as a driving force for promoting development-friendly policies and that, compared to most other members, it has made stronger and more frequent statements on the need to promote PCD. This standpoint has gained increasing support as was evident at the Busan High-Level Forum (HLF) in 2011 or more recently at the OECD in the central importance given to PCD in its new Strategy for Development (OECD, 2012).[31] EU and OECD policy debates and evaluations of efforts to promote PCD have also contributed to the understanding that it can be furthered at various interconnected levels: inside development policy, between the policies

30 A particular example is medical innovation. An analysis published by officials from two ministries in the Netherlands concluded that *'pharmaceutical companies were not inclined to develop new medicines for diseases in resource-poor countries without a clear market demand that promised a reasonable return on investment'* (Wijnberg and Monster, 2009). Current signs of increasing drug-resistance among HIV, Tuberculosis and Malaria patients in different parts of the world (Kendall, 2012) indicate that discussions in the World Health Assembly to explore alternatives to promoting medical innovation for diseases in resource-poor countries have not been translated into practice (Wijnberg and Monster, 2009).

31 In 2011 there was increased attention paid to this issue in the discussions towards the Busan HLF, with the outcome document acknowledging that *'it is essential to examine the interdependence and coherence of all public policies'*. Various discussions during the Busan meeting and preparatory debates pointed to the need to 'move from aid to development effectiveness', although then and even now there are many interpretations of what this means in practice. However, post-Busan, the discussions on setting up a Global Partnership for Effective Development Cooperation, no longer refer to this: www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/EFF(2012)7/REV1&docLanguage=En

adopted by individual governments, between policies adopted by different states (and at intergovernmental levels), and at the multilateral level (ECDPM and ICEI, 2005).

Despite the solid legal basis and supportive political statements made over the last 20 years, there has been only tentative progress towards making EU policies more development-friendly. In May 2012, EU Ministers responsible for development cooperation acknowledged that *'PCD is essential for the credibility of the EU as a global actor, and hence, a strong EU leadership on PCD issues at high levels of all parts of the EU and in Member States is important'* (FAC, 2012).

The difficulties involved in making the required political trade-offs in order to transform EU policies to make them coherent with development objectives can be seen, for instance, in the revision of the EU's Common Fisheries Policy (CFP) and Common Agriculture Policy (CAP). Both are highly relevant to developing countries. In the case of the CFP, the legislative proposals aimed at promoting EU fishing outside EU territorial waters seem more ambitious than the proposed measures to enforce and further these PCD objectives (Keijzer, 2011). In the case of the CAP, although there have been important reforms, such as the reduction of export subsidies, the recent proposals largely keep the current structure of the CAP intact and could have been more ambitious in reducing its distorting effects on world markets (Matthews, 2011; Klavert et al., 2011; te Velde et al., 2012).[32]

Although concerted global action is required in order to make effective progress in promoting MDG8, as in the case for ending overfishing, the EU should seek to be a first mover in view of its strong political commitment to PCD. This does not mean that the EU should be motivated purely by charitable or altruistic motives, but that the Union should always seek to go beyond short-term gains and instead aim to further long-term objectives that benefit global development as well its own interests.

3.3.3 The challenge to be accountable on promoting PCD

As one of the main proponents of promoting PCD worldwide, the EU is all too aware of the difficulties involved. Extensive policy discussions, often concerning concrete cases of policy incoherence,[33] have led to a strong conviction among EU policymakers of the general importance of PCD. In contrast, however, there is rather little rigorous evidence on the effects of specific EU policies in specific developing countries, particularly in comparison to the investment in research on the effects and effectiveness of development cooperation policies and operations. Even in cases where policy 'incoherence' is clearly established, there is often a lack of rigorous analysis of how to achieve a change in policy that would result in a more positive outcome. Once again, the problem is essentially one of attributing causality to specific features of EU policy in complex development processes that are subject to many other forces. Although the argument for better PCD makes intuitive sense, it is very difficult to be certain that a particular EU policy change (in development cooperation or in any other area) will necessarily result in positive development outcomes.[34]

Recent discussions on PCD in the EU, as well as in OECD/DAC peer reviews covering EU Member States (OECD/DAC, 2012), have concentrated on inputs and processes rather than on the more

> **"But despite the solid legal basis and supportive political statements made over the last 20 years, there has been only tentative progress towards making EU policies more development-friendly."**

32 At the time that this Report was drafted it was expected that further changes and revisions to the legal text proposed by the Commission in July 2011 (CFP) and October 2011 (CAP) will be concluded in 2013.

33 For a good overview of issues that were discussed during the 1990s, see Koulaïmah-Gabriel and Oomen (1997).

34 See section 4.2 as far as development cooperation is concerned. For other EU policies, a general methodological problem is that EU policies have differentiated effects on different social groups in different developing countries (e.g. predominantly urban or rural, physical distance from Europe).

> "Recent discussions on PCD have concentrated on inputs and processes rather than on the more difficult areas of outputs in terms of concrete policies and their outcomes in developing countries."

difficult areas of outputs in terms of concrete policies and their outcomes in developing countries. Discussions have, for instance, focused on so-called 'institutional mechanisms' – that is, specific means for supporting governments at the technical and/or political level to make policies more coherent with development objectives. Such mechanisms may include (a) the adoption and clarification of overall ambitions and objectives; (b) the facilitation of the exchange of information and decision-making; and (c) research, monitoring and evaluation (Mackie et al., 2007).

Since 2007 the efforts of the EU and its Member States to promote PCD have been monitored in the biennial EU PCD Report. The three reports published to date were based on a questionnaire sent to EU Member States' ministries responsible for development as well as consultations with EU institutions and CSOs (and, in 2009, supplemented with field studies).[35] All three reports focus on describing the various actions (inputs and outputs) in which the EU has invested. The reports also point to important 'outstanding issues' for the EU's efforts to promote PCD that could guide the continuing dialogue among its stakeholders.

Beyond this institutional reporting process, the existing literature on PCD that examines the effects of EU policies in developing countries can be divided into two major categories:

1. Studies that investigate a specific theme or policy area, such as agricultural subsidies, trade policy, fisheries agreements, tax policies, or other areas where EU policy has potential repercussions on developing countries. The number of studies in this category has expanded rapidly in the last 20 years, with research projects either officially commissioned or conducted by CSOs, think tanks and academic institutions. The assumed links between potential EU policy actions in relation to EU development policies and objectives are well established. Such studies routinely provide evidence of how certain policy actions can have negative effects on development and then suggest policy alternatives. Exceptions notwithstanding, most of this research relies on secondary data (e.g. WTO trade statistics).

2. Studies that involve the collection of primary (empirical) data, and examine the impacts of selected EU policies in a particular developing country, generally involving some degree of primary data-collection, most often by means of interviews. The literature review conducted for this Report identified only seven such studies carried out since 2000.[36] These provide more information on context-specific 'supply-side constraints' in developing countries and more general feedback on how policy actions that are perceived as developmental (or the reverse) actually affect developing countries. This approach has several potential advantages. First, developing countries are highly heterogeneous and the same EU policy may have very different impacts depending on the context. Second, given the complexity of the development process, it is often challenging to relate outcomes observed 'on the ground' to a specific EU policy, or vice versa. To single out the effect of EU policies would mean disentangling this complex interaction at the country level.

Studies in the two categories can be complementary: the first type seeks to produce generalisable findings on the effects of policies in developing countries, while the second examines the main assumptions and logic of these general studies. The risk of failing to invest sufficiently in primary data-collection is that research and

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35 All reports are available on DG DEVCO's website: http://ec.europa.eu/europeaid/what/development-policies/policy-coherence/index_en.htm/.

36 ActionAid, 2003; Hoebink et al., 2005; Olivié, 2009; ECDPM in COM 2009; FairPolitics, 2010 and 2011; ActionAid, 2012. These studies were selected for covering the term 'coherence' in relation to the EU policies in a particular developing country (or group of countries).

discussions on PCD are not based on empirical evidence and are potentially too much driven by ideological considerations or lack analytical validity due to their over-reliance on basic assumptions.

The need to improve the balance and complementarity between the two categories is illustrated by the European Commission's Impact Assessment (IA) system. This was introduced in 2003 and is designed to permit an ex-ante assessment of the potential economic, social and environmental consequences of all new legislative initiatives under its consideration. The Guidelines on Impact Assessments were revised in 2005 and 2009. Although the most recent version now pays more attention to assessing the impacts on developing countries, some critics feel that in practice the analysis tends to lack depth (CONCORD, 2011).[37]

The wider adoption of such an IA approach will depend largely on producing more solid empirical evidence on the extent to which policy outputs that are deemed coherent actually make a positive contribution to development outcomes in developing countries. This would call for much greater investment in empirical research on the effects of EU policies[38], although even this would still lead only to incremental progress. There is still a long road ahead in learning more about how external and global policies influence the achievement of development outcomes in developing countries (Keijzer and Oppewal, 2012). Given the record of Council commitments on PCD it would be logical for EU Member States to contribute to the necessary investment, although the EU should take the leading role.[39]

3.3.4 The political economy of PCD and the challenge of delivery

The Millennium Declaration helped to increase global awareness of the importance of policies other than development cooperation and ODA to achieve development outcomes. The task is fraught with difficulties, however, as the uncertain implementation of MDG8 has shown. Enhancing policy coherence is an essentially political undertaking that involves putting different interests against each other. To add to the inherent difficulties, there is limited evidence that any actions taken to improve PCD do in fact produce measurable improvements in encouraging development.

In Europe, as elsewhere, policy in areas such as trade, finance, fisheries and agriculture evidently serves the interests of the primary stakeholders (e.g. the European private sector, farmers) and the political trade-offs required to enhance PCD are never easy. Moreover, in periods of declining economic growth or recession there is a greater risk that short-term interests will dominate European policies in ways that will be detrimental both to the long-term development of Europe and that of developing countries. Similar difficult choices are involved in the EU's own development in the implementation of such policies as the EU '2020 Strategy'.[40] In both cases the EU must address the political challenge to meet its commitments by incurring short-term costs in order to achieve

“There is still a long road ahead in learning more about how external and global policies influence the achievement of development outcomes in developing countries.”

37 In addition to some other parts of the guidelines, pages 40 and 41 state that every impact assessment should establish whether the policy options affect relations with non-EU countries. Among the aspects examined should be: 'impacts on developing countries – initiatives that may affect developing countries should be analysed for their coherence with the objectives of the EU development policy. This includes an analysis of consequences (or spill-overs) in the longer run in areas such as economic, environmental, social or security policy'. The guidelines are available at: http://ec.europa.eu/governance/impact/commission_guidelines/.

38 The European Commission, as standard practice, also includes a question on policy coherence in all the evaluations of its development programmes.

39 The EU Member States are supportive of this and on 14 May 2012 invited the Commission to put forward proposals on how to give shape to a more evidence-based approach to promoting PCD (FAC 2012).

40 For a detailed discussion of the Europe 2020 Strategy, see ERD, 2012, Chapter 11.

> Promoting PCD should be a major component of the new framework and given at least as much importance as, if not more than, traditional development assistance among the contributions that developed nations can make to global collective action post-2015.

long-term ISD gains. The formulation of concrete sectoral policies such as those discussed in this section shows the challenges the EU must overcome in order to achieve its overall ambition.[41]

Despite these difficulties, EU Ministers for Development Cooperation remain committed and, as indicated above, have once again adopted Council Conclusions that reiterate European ambitions to strengthen PCD (FAC, 14 May 2012). Thus, the political efforts to secure greater PCD in European policy are advancing, albeit slowly. Since policy coherence is a political compromise between different interests and policy objectives, it will always be possible to take PCD still further. Efforts to date to increase PCD have been worthwhile, but in an ever-changing world it needs to be recognised that achieving effective and coherent policy-making is an on-going commitment. In this regard, European Development Ministers are to be commended for their persistence.

3.4 Lessons learnt for the future

Using the example of the EU, this chapter has illustrated that a global framework such as the MDGs can have a real impact on the behaviour of a group of richer countries in terms of encouraging them to contribute to international collective action on development. This is already a good reason to seek their replacement with a new framework post-2015. Of course the chapter has also highlighted that despite these valuable contributions, the commitments made were not fully met. This means the efforts to increase the volume and effectiveness of ODA in particular, must go on under a new framework post-2015.

But perhaps the potentially most vital lesson from this experience is the importance of PCD. The EU has made real efforts to promote PCD both within its own policy circles and among its peers in the OECD/DAC. It has done a lot to institutionalise PCD as an obligation, taking it up to the level of the EU Treaty itself but also establishing monitoring tools, and it recognises the on-going nature and difficulties of the task. As we have seen the potential value of better PCD in terms of development is huge. This suggests that promoting PCD should be a major component of the new framework and given at least as much importance as, if not more than, traditional development assistance among the contributions that developed nations can make to global collective action post-2015.

41 Another important example is the 'general approach' for the revision of the CFP adopted by the European ministers responsible for fisheries in June 2012, which reflects their desire to lower the Commission's proposed revision in terms of fleet overcapacity and overfishing – objectives that in general are in the interests both of developing countries and the EU.

PART II. THE CHANGING CONTEXT FOR A NEW GLOBAL DEVELOPMENT FRAMEWORK

This second Part considers how the world has changed since the Millennium Declaration was agreed and the MDGs devised and adopted. It starts by taking a look at changes in the political economy of international cooperation with Southern actors growing in importance, the part played by developing countries themselves, and the changing role that traditional donors are likely to play given recent trends in their own economies (Chapter 4). The analysis then goes on to consider changing global patterns of poverty and the role of research in improving the global understanding of poverty and development thinking over the past decade (Chapter 5). Finally, it brings together a review of future demographic, economic, social and environmental trends and the challenges that a new global framework may therefore need to address (Chapter 6).

CHAPTER FOUR

4 THE CHANGING GLOBAL COMMUNITY

> "The rise of Brazil, China and India as global powers has been a key feature of the last decade. This trend is set to continue and, barring catastrophic events, it is likely to be the defining geopolitical dynamic of the current century."

Any post-2015 development consensus will have to be agreed in a rapidly evolving global political and economic context. The period since 2000 has witnessed several major changes in the global political economy. This chapter discusses some of the most significant transformations in the constellation of actors, their interests, and the institutional setting(s) within which they manage their interactions, and draws some tentative conclusions about what these processes may mean for global development cooperation and for the EU's role in particular.

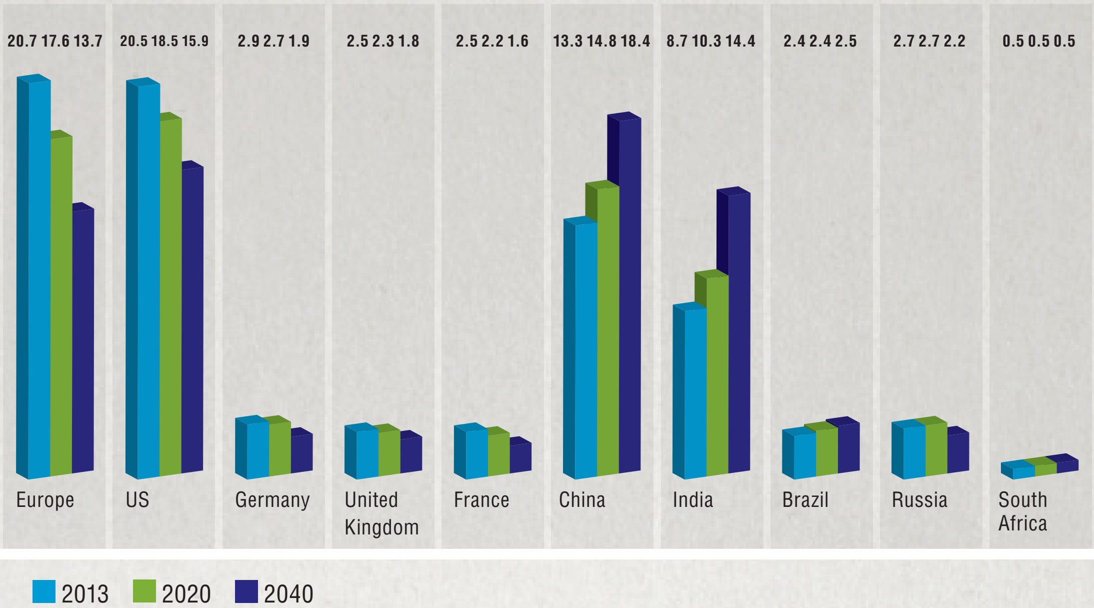
4.1 Changing global patterns of power

The balance of global economic and political order, which has for the last two centuries centred on Western Europe and the USA, is becoming more complex. Figure 4.1 shows how relative shares of global power may evolve over the next 50 years. China and India are likely to enjoy a much greater share of power in the international system, the USA and Europe much less. Such predictions need to be treated with caution, since they are based on contested ideas about what constitutes 'power' and assumptions about that cannot be tested. Nevertheless, whether or not the scenario depicted in Figure 4.1 proves realistic, it is clear that the balance of global power is shifting.

The rise of Brazil, China and India as global powers has been a key feature of the last decade. This trend is set to continue and, barring catastrophic events such as a global war and/or environmental collapse, it is likely to be the defining geopolitical dynamic of the current century. Other countries such as Indonesia, Mexico, Nigeria, Saudi Arabia, South Africa and Turkey are also building up significant international influence, especially in their own regions where their size and economic importance have enhanced their role as 'anchors' in relation to their neighbours and also their central role in international partnerships (Stamm, 2004).

The 'new' prominence of these actors is a topic of much debate among scholars, policy-makers, pundits and in wider public discourse. Are we seeing the terminal 'decline of the West', or are USA and European military and economic power still so dominant that it is too soon to speak of a 'multipolar world'? Whatever the answer, it is clear that major changes are taking place in the growing number of countries that can exert global influence or veto. The USA, the countries of Western Europe, Australia, Canada and Japan are still by some distance the world's wealthiest countries and they form its strongest network of political, economic and military alliances. However, their ability to use hard or soft power to get others to do their bidding is diminishing.

Figure 4.1 Changing global power 2013–2040: Europe, the USA and the BRICS



Source: Authors' representation, data from The International Futures (IFs) model.[42] National power is represented as a percentage of the total power available in the global system.

> "Non-state actors are becoming more prominent. At the same time, the rise of the BRICS suggests that the state is likely to remain firmly in charge for the foreseeable future."

Non-state actors are also becoming more prominent. The power of transnational corporations (TNCs) and banks is well known, even if the precise dimensions of their influence over governments in many countries are sometimes unclear to the outside observer. Energy, finance, mining, pharmaceuticals, chemicals, shipping and mechanised agriculture have all been dominated for decades by large TNCs, many of which have increased their size and influence during the current global economic crisis. Since the 1990s, the global civil society movement has increased its profile and has been a prominent critic of large international business. In the development field, big business and civil society overlap in the charitable activities of contemporary philanthropists such as Bill Gates and Mo Ibrahim. At the same time, it is important not to overstate the influence of non-state actors. The rise of the BRICS suggests that the state is likely to remain firmly in charge for the foreseeable future. Indeed, many of the major emerging powers in international development are state-owned enterprises (SOEs), whose independence from political influence is far from clear.

Changes are also occurring in the field of development policy. Many developing countries have been growing faster than the mature industrialised countries for several decades. This is not just an Asian or Latin American phenomenon: since the turn of the century, six of the world's ten fastest-growing countries have been African. Some observers are already starting to compare the fastest-growing 'African lions' with the 'Asian tigers' (The Economist, 2011). This does not necessarily mean that most people's incomes will rise or that developing countries will 'catch up' with the West,

42 The IFs modelling system (these data are from version 6.54) was initially developed by Barry B. Hughes and aggregates demographic, economic, energy, agricultural, socio-political, and environmental power for 183 countries interacting in the global system. It is based at the Frederick S. Pardee Center for International Futures, Josef Korbel School of International Studies, University of Denver, www.ifs.du.edu.

> State preferences are complex. They are driven by competing interest groups, they are moral as well as material, and they are often characterised by contradictions.

even as their emerging middle classes become more important economically, politically and culturally (Kharas, 2010). Moreover, many conflict-affected and fragile countries are being left behind. It does, however, make traditional distinctions between developed and developing countries, North and South, donors and recipients increasingly obsolete, thus linking the diplomatic questions of international cooperation with development challenges.

Many developing countries are not (or are no longer) choosing the paths to development prescribed by the major Western powers and the multilateral institutions they dominate. This should not come as a surprise in the wake of the more than 30-year experiment with the Washington Consensus, which many observers believe has failed to deliver what it promised (e.g. Stiglitz, 2003; Rodrik, 2011). Nancy Birdsall (2012) has argued that the global financial crisis marks the beginning of the end of the 'development agenda' as the asymmetry of power between 'developed' and 'developing' countries becomes less pronounced. As most Western countries struggle to meet their long-standing ODA commitments, Brazil, China and India now have their own international development aid agencies. In many developing countries, as is evident in the Nepal case study undertaken for this Report, non-ODA sources of finance such as remittances outstrip aid in terms of absolute volume, although ODA remains important.[43] As developing countries experience economic growth and become less dependent on aid they also become more influential. These changes have major implications for how governments, international organisations and other actors approach international development cooperation, both in terms of their reactions to material shifts in wealth and power, and in terms of the mindset that will govern discussions on a post-2015 global development framework.

4.2 A more complex tapestry of interests

State preferences are complex. They are driven by competing interest groups, they are moral as well as material, and they are often characterised by contradictions. Furthermore, as discussed in Chapter 3, the international and domestic domains cannot easily be separated: politics do not stop 'at the water's edge'. Nevertheless, at the level of global interests, it is safe to assume that the USA and the EU have strong interests in maintaining their global power and influence, while Brazil, China, and India want to increase theirs. Rising middle powers such as Egypt, Indonesia, Iran, Mexico, Pakistan, Saudi Arabia, Nigeria, Turkey and South Africa want to consolidate their regional influence as well as their sway in global decision-making. Most developing countries want to break free from the 'donor–recipient' relationship and deal with Western countries as equals, rather than as weaker players who have to accept charity. These basic observations regarding interests are, however, merely a starting point.

There are numerous potential conflicts of interest over resources, global influence and governance issues. This can be seen in positions taken in global fora on trade or climate change, where developing countries can be unwilling to commit to implementing policies that may hinder their development. Conflicts of interest are also reflected in the reluctance of some countries to sign up to initiatives such as the Extractive Industries Transparency Initiative (EITI) and other international efforts to manage natural resources, most of which are voluntary (Chemnitz and Fuhr, 2012). Oil companies and governments are rushing to drill the Arctic Ocean floor as the ice cap melts. Biofuels that help European countries to achieve their targets on sustainable energy use land and water around the world that could be growing food

43 The financing of development, including role ODA levels and the influence of emerging powers, is covered in more detail in Chapter 7. The role of remittances is discussed in Chapter 9.

crops (ERD, 2012). At the same time, there is much potential for channelling common interests and seizing opportunities to work on specific global public goods issues such as disease eradication, renewable energy, food security or maritime governance, where both international cooperation and finance are needed. The experience and trust built up by working together in areas where cooperation is easier might help in resolving more difficult conflicts in other areas.

There is a long-standing and important dilemma in the political economy of development cooperation regarding donor preferences. How can trade-offs between different legitimate but contradictory interests be reconciled, such as that between aid effectiveness and tied aid? How can economic and development interests be channelled through policy in order to achieve mutual benefits? This question is particularly pertinent to the private sector: as developing countries and regions have become wealthier and more integrated into the global economy, they have increasingly been seen as lands of economic opportunity. This is manifest in the growing interest of Western companies in engaging with developing countries, particularly in Africa, beyond their traditional interest in natural resources (Wonacott, 2011). The USA retailer Walmart, for example, has established a presence in South Africa and is looking to consolidate its long-term grocery business in several other African countries (Reuters, 2012). German infrastructure and technology giant Siemens has increased its presence in Africa in the last decade, focusing on urban infrastructure, green energy and healthcare. It is to be expected that business interests influence government policy. In July 2011 the former UK Secretary of State for Development, Andrew Mitchell, announced that 'Africa is open for business' (Mitchell, 2011). Germany's mid-2011 Afrika Konzept stated that economic cooperation would be a top priority in the future relationship, and envisaged increased trade ties with Africa and new markets for German exports (Bundesregierung, 2011). However, as discussed in Chapter 8, the interests of foreign investors need to be carefully balanced with those of developing countries and their development priorities.

Among developing countries, there are major questions regarding what kind of policy reforms they wish to implement. As discussed in Chapter 2 the policies governments pursue are the product of a complex interaction between structures, institutions and actors. The preferences of organised social groups range across a wide spectrum from building more transparent, accountable systems capable of delivering public goods and reducing socioeconomic inequality to interests in maintaining elite-dominated political processes where the privileged few seek an even bigger slice of the pie. Questions of who gets what and how this is organised are particularly salient in conflict-affected and fragile countries. In most developing (as in most industrialised) countries, domestic politics is about reconciling these preferences. International cooperation also involves domestic trade-offs, such as between meeting the costs of providing public goods with diffuse benefits and compensating the clientelist interests of specific social groups.

4.3 What institutional outcomes are likely?

The international system is characterised by sometimes fractious relations between interest-driven and competitive politics, on the one hand, and interdependence and the need for cooperation on global issues and public policies on the other. As 'new' actors gain the power to pursue their preferences in global bargaining processes, the task of designing institutions capable of balancing these heterogeneous goals becomes more uncertain, difficult and complex (Page, 2008).

Changes in actors' ability to pursue their preferences are starting to result in changes in the institutional settings through which they cooperate.

"There is a long-standing and important dilemma in the political economy of development cooperation regarding donor preferences. How can trade-offs between different legitimate but contradictory interests be reconciled?"

“A just and stable international order, under which GPGs can be provided and development can flourish, will not happen by accident. Europeans, North Americans, Chinese, Indians, Africans, Latin Americans and everyone else will have to work hard to create and maintain it.”

The last 20 years has seen a rising number of regional bodies such as the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), the Mercado Común del Sur (Mercosur) and the African Union (AU). In addition, the G8 has lost relevance to the G20, and the legitimacy of the UN Security Council, as the highest arbiter of international conflicts, has declined. There have been calls to improve the legitimacy and effectiveness of existing institutional structures. Countries like Brazil, India and South Africa have called for reform of the Security Council and argued for permanent membership (if not for the power of veto). At the Bretton Woods Institutions, the recent appointments of new heads of the International Monetary Fund and the World Bank provoked more debate and discussion than ever before. Broadly formalised institutional settings have been established for debating certain public goods issues, and new coalitions, such as the BRICS and the g7+ group of fragile states, have emerged. Given that global consensus-building will become more difficult as more participants can push for what they want, coalitions are likely to try to resolve problems on which global consensus cannot be reached. It is not yet clear what their mandates will be, how robust they will prove with regard to internal tensions, or how they will be governed.

At the level of global governance there remain many open questions about what kinds of institution will take shape. Will the rising prominence of the G20 lead to a similar pattern of change at the World Bank and the IMF? Or will USA and European resistance to change encourage the emerging powers to create new financial institutions, such as a BRICS bank, which they would seek to dominate? Will negotiations on global environmental regimes such as climate change, biodiversity and fisheries management result in mutually beneficial outcomes, or will they stall? Will the initial enthusiasm for the Doha Development Round mark the high point of negotiations on a global trading regime, or will new impetus be found to achieve a universally beneficial system? Does the fact that there are clear common interests in resolving global issues, combined with the notion that all of these issues appear urgent, presage a move towards a period of just and sustainable cooperation? Or is the world heading for unavoidable, albeit predictable, disaster?[44]

As Robert Kagan (2012) has pointed out, there are no guarantees. Historically, periods of multipolarity, such as the second half of the 19th Century, have been marked by tension and conflict as well as catastrophic miscalculation. The mixed record of efforts to coordinate responses to the global financial crisis does not inspire confidence that the G20 will facilitate multipolar economic cooperation (Frieden et al., 2012). Some have taken the difficult Rio+20 negotiations in 2012 as a warning sign that ‘lowest common denominator’ outcomes may be the best that can be expected for any post-2015 development framework. There are still no workable international institutions governing a range of global commons issues. A just and stable international order, under which GPGs can be provided and development can flourish, will not happen by accident. Europeans, North Americans, Chinese, Indians, Africans, Latin Americans and everyone else will have to work hard to create and maintain it.

4.4 Implications for international development cooperation and the EU

Throughout the post-colonial era the field of development policy has been understood as encompassing a combination of aid from ‘rich’ to ‘poor’ countries, Western-led efforts to shape ‘development-friendly’ global economic

44 Some of these questions are also posed by Birdsall (2012).

regimes, and donor-driven aid conditionality to encourage domestic economic and governance reforms in developing countries. This post-colonial development model, with its Cold War origins, its attendant good intentions and its inherent contradictions, is becoming a thing of the past. Incentives for new forms of development cooperation are being driven partly by the marked increase in 'South–South' Cooperation (SSC) as emerging powers look for markets and resources, and as poorer countries look for options other than traditional ODA for supporting their development goals. The case of Côte d'Ivoire illustrates that emerging South–South partnerships, such as those with China, that include various grants and cooperation agreements, as well as the building of hospitals, agricultural projects, a conference centre and support to build the Grand-Bassam highway and the Soubré hydro-electric dam, were widely welcomed as these were seen to represent cooperation among 'equals'.

It is increasingly apparent that global development challenges require new forms of institutionalised international cooperation in a variety of sectors. Developing countries expect to be fully involved in decisions about such institutions and the commitments that participation entails. Any global post-2015 institutional framework for development will need to reflect the agreement of traditional donor countries and organisations, emerging SSC providers and also recipient countries (Fues et al., 2012: 243). South–South Cooperation is starting to affect formal institutions, as is evident from the SSC providers engagement with the international process on aid and development effectiveness at the Busan High-Level Forum (HLF) in late 2011. The fractious post-Busan discussions on a set of indicators for monitoring the Busan Partnership for Effective Development Co-operation suggest that disagreements about transparency and the untying of aid will be hard to resolve, even though less-developed countries want new donors to improve in these areas (Tran, 2012). The Rwanda case study (Abbott et al., 2012), for example, makes the case for enhanced transparency for all donors, including providers of SSC, as well as for greater integration of the principles of aid effectiveness by these new donors. Nevertheless, although the commitment of Brazil, China and India to the Busan Partnership is voluntary, non-binding, and yet to be tested in practice, the fact that they are engaging indicates a degree of willingness and interest.

At the same time, the growing importance of fragile and conflict-affected states as one focus of global poverty also demands changes in the approaches used in international development cooperation. First, conflict prevention will need to become more actively mainstreamed through development cooperation and beyond, ensuring that external action will at minimum not exacerbate the potential for violent conflict and ideally contribute to reducing the likelihood of such conflict. Second, the objectives and instruments applied in fragile states need to differ from those used in non-fragile contexts. Recent work by the OECD/INCAF, the ERD 2009, and the 2011 *World Development Report on Conflict, Security and Development* (World Bank, 2011) have led to new insights on the unique approaches required to help countries to overcome fragility. This new consensus has translated into a New Deal for Engagement in Fragile States, also adopted at the Busan HLF. In turn this is feeding into the formulation of the Peacebuilding and Statebuilding Goals (International Dialogue on Peacebuilding and Statebuilding, 2011). It is not yet clear how these may be linked to global targets.

There are major barriers to negotiating a consensus on a new global framework to succeed the MDGs. An obvious stumbling block is the experience with similar international agreements based on consensus decision-making. Despite high points like the Millennium Summit and the Paris–Accra–Busan process on aid and development effectiveness, global cooperation on development has not been as effective as many of its advocates

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> "The main challenge will not be in reaching consensus on the need for a new framework, but in including all the different priorities of each actor and of getting an agreement that is sufficiently detailed to produce concrete results."

hoped. The fate of MDG8 and the difficult Rio+20 process do not inspire confidence that there will automatically be a new global agreement just because the 2015 deadline is approaching. Indeed, the very success of the MDGs is inspiring some to want the new framework to cover a broader range of issues including the SDGs first publicly mooted at the Rio+20 conference, thus complicating the process. Furthermore, a strong disincentive for the governments of developing countries to engage in global cooperation is that many national development goals have been achieved without such agreement. China, India, Brazil and other MICs, such as Peru, largely achieved the MDGs for themselves, and may have less of a stake in global solidarity than countries in a weaker position. The remarkable transformations of South Korea and Taiwan resulted from bilateral support, favourable terms of trade and strong national leadership rather than multilateral cooperation (Rodrik, 2011). South–South Cooperation has grown outside global development frameworks, and will probably continue to do so. The example of international trade suggests that effective 'minilateral' cooperation is more attractive to many countries than complex global engagements, even if the potential gains from a global agreement are much higher. This kind of 'variable geometry' is to the detriment of the UN system especially.

While it will not be easy to overcome these obstacles, there are reasons to believe it can be done. The main challenge will not be in reaching consensus on the need for a new framework, but in including all the different priorities of each actor and of getting an agreement that is sufficiently detailed to produce concrete results. The MDGs have a high public profile and much of this momentum is likely to carry through. Few governments will want to be seen as responsible for scuppering such a high profile process. There are strong constituencies that will push for a new agreement, including the UN and its High-level Panel on the Post-2015 Development Agenda. Bilateral development agencies and 'Northern' NGOs will want to continue to rally support for international development among citizens in OECD countries. Least Developed Countries are likely to want a credible successor to the MDGs because they see value in the international attention these have provided, as well as the increased ODA it has prompted. This is evident from the views expressed in the three case studies of LDCs produced for this Report. A further 'push factor' is the political value of a universal framework and goals that can be referred to, even if not everyone adheres to them. The MDGs and the related international agenda on aid effectiveness have provided a basis for building coordination and complementarity among donors, encouraging transparency and fostering predictability.

The EU has already recognised the need for a new global development framework: one of the themes of this Report is how the EU might support a new global consensus to succeed the MDGs. The 2011 the European Commission policy statement on the future of EU development policy, *Agenda for Change*, noted that continued focus on MDGs was necessary but not sufficient for global development (COM, 2011). In mid-2012 the Commission conducted a public consultation on the feasibility, potential shape and scope of a post-MDGs framework. The purpose of the consultation was to facilitate the emergence of a common European position and provide input for the Commission's communication. The consultation found that European stakeholders broadly agree that a new global framework is necessary and that it should include obligations and responsibilities for all countries. Moreover, while support for poor and fragile countries is crucial the focus needs to be on people living in poverty rather than on governments. Responses underlined that the early engagement of private sector and especially emerging donors was essential for the long-term success of any future global development framework (COM, 2012). The recent Commission communication (COM, 2013) makes proposals for an EU position to be agreed ahead of the UN General Assembly. It recognises the benefits of the MDG framework, but also acknowledges that more needs to be achieved. In particular it stresses the importance of bringing the development and the environmental agendas together in a post-2015 framework.

There will be a need for a new European understanding about the role of ODA in reducing and eventually eradicating global poverty. More developing countries are becoming sufficiently wealthy to address their own poverty in financial terms, and yet may still require other kinds of support for tackling development challenges such as setting up taxation systems, promoting domestic accountability and resolving internal conflicts and forms of social exclusion. The Peru case study prepared for this Report (Barrantes and Berdegué, 2012) highlights the value of the EU sharing its knowledge on social protection. The recent economic growth experienced by many developing countries may indicate that only a few poor and fragile countries will remain the focus of national poverty-reduction programmes. Nevertheless, the more complex geographies of power, wealth, poverty and the increasing range of global challenges mean that national wealth alone does not determine a country's ability to address development challenges (Koch, 2012). As the Peru case study (Barrantes and Berdegué, 2012) also underlines, MICs are still not developed countries and often exhibit persistent patterns of severe inequality. While there are strong arguments for ending or reducing bilateral aid to MICs, there are also strong arguments for using ODA to help underwrite the provision of public goods and address in-country pockets of poverty (Howes, 2011). Thinking about the role of aid beyond the reduction of extreme poverty will entail grappling with difficult issues, such as strategies for cooperation on key GPG issues and assisting partners in confronting socioeconomic inequality (Furness and Makhan, 2011). In order to succeed, the EU will need to be selective about what issues it can realistically tackle, set clear priorities and commit the necessary resources to implement emerging strategies. Its Agenda for Change has already initiated this discussion with its call for 'differentiation' in development cooperation. This reflection needs to be taken further and integrated into a new global development framework (see Part III).

The changes taking place in the global community outlined in this chapter point both to the need for a new post-2015 framework for development and the greater complexity involved in negotiating one. As more actors with more influence become involved in this discussion the need for a transparent and participative process becomes paramount. This is all the more important as the scale of global collective action required for implementing an agenda that is in any way ambitious will be substantial and it is only with ownership that these diverse actors will be willing to support a framework materially as well as politically.

“More developing countries are becoming sufficiently wealthy to address their own poverty in financial terms, and yet may still require other kinds of support for tackling development challenges such as setting up taxation systems, promoting domestic accountability and resolving internal conflicts and forms of social exclusion.”

5

CHANGES IN THE UNDERSTANDING OF GLOBAL POVERTY

5.1 Introduction

Over the past two decades, processes associated with economic globalisation and political integration have had marked impacts on growth, poverty and inequality. Such processes have major implications for how global cooperation could promote the wellbeing of those who are living in poverty or who experience other kinds of deprivation. At the same time, an evolution in the understanding of poverty makes the question of how to tackle it more complex, but also increases the range of policy tools.

> "An evolution in the understanding of poverty makes the question of how to tackle it more complex, but also increases the range of policy tools."

This chapter discusses this changing poverty landscape. The first section focuses on income poverty, which features prominently in the MDG framework. It describes trends in the number, proportion and location of people who are living in poverty, and considers where poverty is likely to be concentrated in the coming years. It examines movement around the income poverty line, trends in relative poverty and patterns of inequality. The second section examines shifts in the understanding of what constitutes poverty, drawing on research on the multiple dimensions and subjective experience of poverty. The final section elaborates on the potential implications of this changing poverty landscape for a post-2015 successor to the MDGs.

5.2 The evolution of income poverty

Since 1990, the MDG baseline year, there has been a major reduction of income poverty in most parts of the world, and a change in its distribution: while in 1990 most of the poor lived in low-income countries (LICs), many of these countries are now classified as middle-income countries (MICs). This shift has generated debate about what types of policy would best tackle persisting deprivation in different contexts.

Traditional measures of poverty focus on the income needed to purchase a minimum basket of goods to satisfy basic needs. To compare poverty across countries and over time, the World Bank uses several international income poverty lines. Most attention focuses on low poverty lines – namely the $2 a day measure, which represents the median of poverty lines in all developing countries, and a more extreme $1.25 a day measure, which is the average poverty line in the world's 15 poorest countries and the focus of MDG1.[45]

5.2.1 A comparable poverty profile

Global poverty trends are based on national survey data.[46] The most recent figures trace poverty up to 2008 and suggest a sharp fall in the number

45 Prices are at 2005 purchasing power parity (PPP), which aims to account for differences in the cost of living across countries (see Deaton, forthcoming). The method underlying the construction of these poverty lines has been criticised (e.g. Klasen, forthcoming) but they remain the most widely accepted comparable measures of income poverty and are used in MDG reporting. In addition to the $1.25 a day and $2.00 poverty lines, policy-makers have also adopted $4 and $5 a day poverty lines for use particularly in emerging and transition economies. This chapter focuses on the two lower measures.

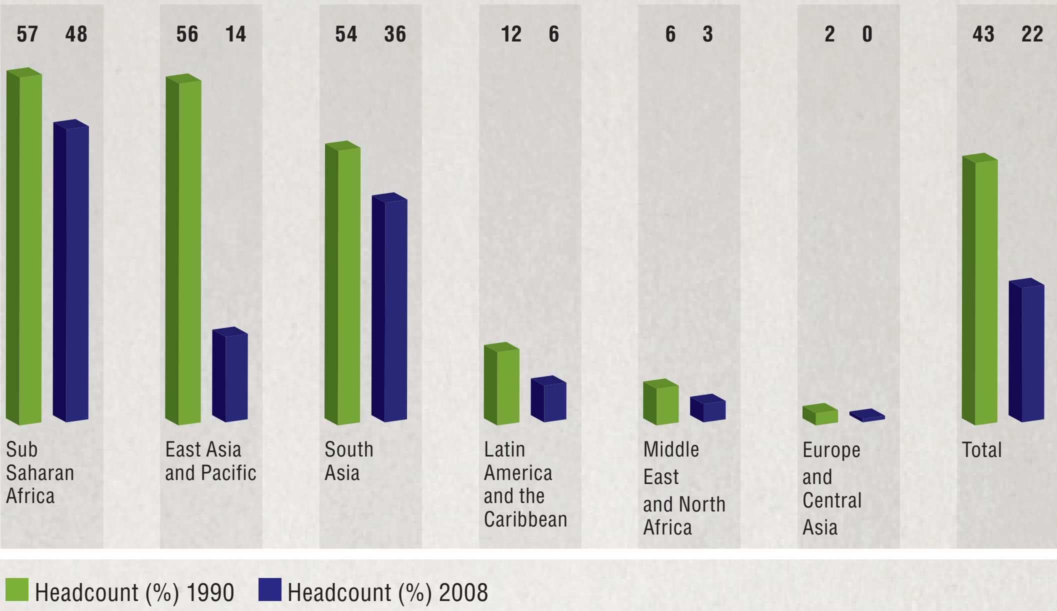
46 These data are derived from over 850 household surveys in nearly 130 developing countries, representing 90% of their population. The original data are available at: http://go.worldbank.org/4K0EJIDFA0 (accessed 7 July 2012).

of people living in extreme income poverty and their proportion of the total population in recent decades.[47] It is estimated that in 1990, 43% of the population of developing countries was living on less than $1.25 a day, and that this proportion had very nearly halved by 2008. In other words, 620 million people moved out of extreme poverty in less than 20 years. The most dramatic progress was in China, where 60% of the population lived in extreme poverty in 1990, a figure which dropped to 13% by 2008. Indeed, China accounted for more than 80% of the reduction in global poverty over this period (Loewe and Rippin, 2012).

As shown in Figure 5.1, not all regions reduced poverty to the same extent. In 1990, the percentage of the population living in poverty in East Asia and the Pacific (EAP), sub-Saharan Africa (SSA) and South Asia ranged between 54% and 56%. The decline in poverty was most dramatic in EAP, where it fell from 56% to 14% of the population. In South Asia poverty fell by 18 percentage points in 18 years, while in SSA it fell from 56% to 47% of the population. In the Least Developed Countries overall, it fell from 65% (1990) to 47% (2008), roughly 18 percentage points.[48]

> **“It is estimated that in 1990, 43% of the population of developing countries was living on less than $1.25 a day, and that this proportion had very nearly halved by 2008.”**

Figure 5.1 Poverty headcount by region against $1.25 a day poverty line, 1990–2008



Source: PovcalNet, 2012

47 The latest data are for 2008, before the global economic crisis that may have raised poverty – although a lack of high-frequency real-time information makes this difficult to gauge (Poverty Analysis Discussion Group: 8, 2012).

48 This sharp drop is not corroborated by other sources, however. For example, UNCTAD (2011), drawing on data assembled by Karshenas (2010) for 33 LDCS on the basis of national accounts and household survey data (covering 86% of the 2007 LDC population), suggests a decline from 58% to 52% between 1990 and 2007. More generally a lack of data impedes reliable analysis. For the two LDC case studies in this ERD, the Karshenas data indicates falls of only 5 percentage points for Nepal, but 15 for Rwanda.

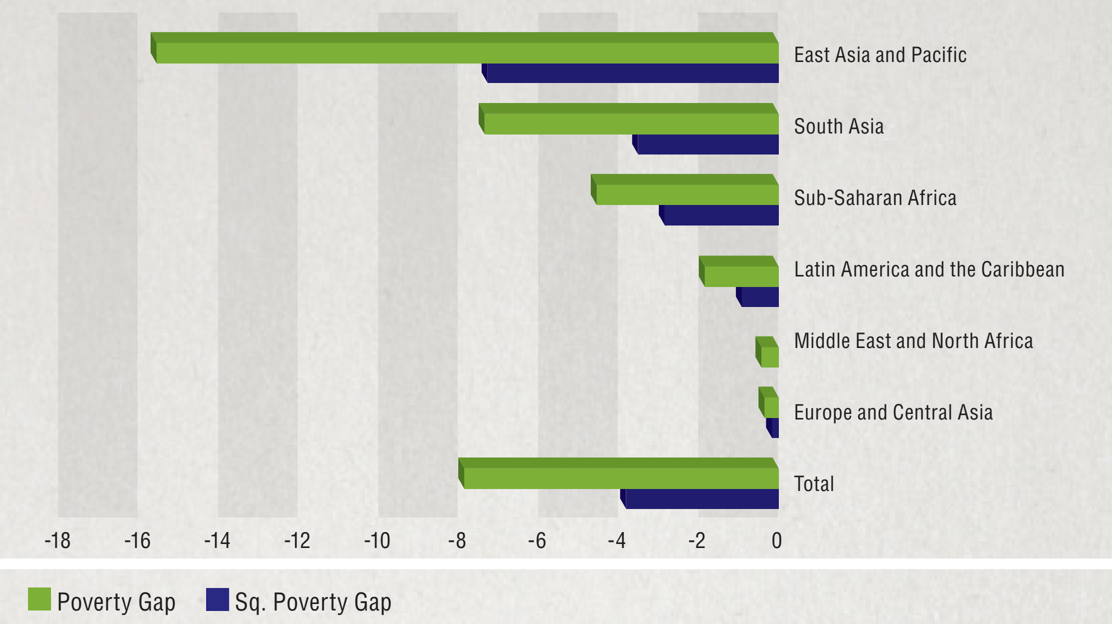
> "According to these data, the MDG1 target to halve the proportion of people living in extreme poverty by 2015 will be met at the global level. But if China's extraordinary success is factored out, it is unlikely that developing countries will achieve this target."

According to these data, the MDG1 target to halve the proportion of people living in extreme poverty by 2015 will be met at the global level. But if China's extraordinary success is factored out, it is unlikely that developing countries will achieve this target (Ravallion, 2012). Indeed, only four of the 33 LDCs for which data are available are likely to do so (UNCTAD, 2011: 3).[49]

If the $2 a day poverty line is used, however, the fall in poverty is much less striking. Indeed, there is considerable 'bunching' of incomes between the two poverty lines: the number of people living between them almost doubled from 648 million to 1.18 billion between 1981 and 2008. This suggests that these people remain vulnerable to becoming extremely poor.[50]

In 2008, 96% of the 1.3 billion people who remained extremely poor lived in East Asia, South Asia and SSA (Chen and Ravallion, 2012). Owing to the size of the populations of China and India, almost half of all global poverty is concentrated in those two countries according to 2008 data. In that year, there were more people living in extreme poverty in India than in the whole of SSA (Loewe and Rippin, 2012). According to the $2 a day measure, 2.5 billion people remain poor, or over 40% of the population of developing countries. The pace of poverty reduction has been dramatic, but further efforts are clearly needed. Particular groups of countries such as the LDCs need continuing attention. The gap between fragile and conflict-affected states and other developing countries is also widening (World Bank, 2011). Any successor to

Figure 5.2 Evolution of depth of poverty, $1.25 a day poverty line, 1990–2008



Source: PovcalNet, 2012

49 UNCTAD (2011), on the basis of data from Karshenas (2010), predicts that 439 million people in LDCs will be extremely poor in 2015, as opposed to 255 million if MDG1 were met. For an analysis of how MDG targets are 'unfair' to poorer countries, see Easterly (2009) and Klasen (forthcoming). The 4 LDCs that are on track to meet MDG1 are Cambodia, Laos, Lesotho and Yemen (UNCTAD, 2010: 38)

50 http://siteresources.worldbank.org/INTPOVCALNET/Resources/Global_Poverty_Update_2012_02-29-12.pdf.

the MDGs needs to concentrate on the eradication of poverty in a variety of different contexts and to consider what forms of international action could make the most effective contribution to achieving this at the country and regional level.

The poverty headcount measure does not reveal the depth of poverty since it makes no distinction between those who are just below or far below the poverty line. Complementary measures account for the distribution of incomes of the poor – the most popular being the poverty-gap measure, which incorporates the distance of incomes below the poverty line, and the squared-poverty gap, which incorporates this distance but also gives more 'weight' to the circumstances of those who are furthest from the poverty line. Both of these measures fell by more than half between 1990 and 2008 for the $1.25 a day line, suggesting that not only has poverty dropped sharply but also that it is less acute among those who remain poor. The measures fell in all regions but particularly in EAP, followed by South Asia (Figure 5.2).

While it is clear that according to the $1.25 and $2.00 a day measures, poverty fell markedly between 1990 and 2010, the projected pace and distribution of future poverty reduction is contested. For instance, the World Bank (2012) forecasts that global poverty will fall from 25% in 2005 to 16% in 2015, while Chandy and Gertz (2011) project a decline to 10% by 2015. These trends have implications for the distribution of poverty. The World Bank (2012) estimates that the share of the world's poor living in SSA will increase from 28% in 2005 to 39% in 2015, while Chandy and Gertz (2011) suggest that the figure may reach 60% by 2015. These discrepancies notwithstanding, Kharas and Rogerson (2012:3) argue that by 2025, 'the locus of global poverty will overwhelmingly be in fragile, mainly low-income and African states'. These trends are discussed in more detail in Chapter 6.

5.2.2 National perspectives on poverty

The measurement of poverty in an internationally comparable fashion affords obvious advantages in terms of mapping poverty. However, considerable doubts have been cast over how these poverty lines are constructed – namely the way in which they account for different consumption patterns across countries and over time (Klasen, forthcoming). Data on trends are much more reliable than on levels, but there is a concern that the international lines may not be identifying the absolute poor consistently. The implications of revisions to the PPP figures are significant: the 2008 revision of China's PPP figures placed its 1990 poverty figure at 60.2%, far more than the 33% figure in the 2005 revision (Klasen, forthcoming, p. 6).

Beyond this, the $1.25 and $2.00 measures capture only the most abject poverty and so become meaningless in richer countries. A recent study to compare poverty figures derived from international and national poverty lines (Gentilini and Sumner, 2012) echoes some international figures – the study reports that 1.5 billion people are currently poor as measured by national poverty lines (22.5% of the world's population), only slightly above the 1.3 billion poor identified by the $1.25 international measure. However, the two measures lead to similar estimates of poverty only in certain countries and often the differences are considerable – for India, international poverty estimates identified 45 million more poor people than national estimates. And using national poverty lines, 10% of poor people worldwide live in high-income countries (HICs).

The inherent problems in constructing international poverty lines and the argument that deprivation should also be considered in relation to national standards suggests that national poverty lines could be used in setting targets and monitoring poverty-reduction efforts in any post-2015 global agreement. One recent proposal is to focus on setting national poverty lines using a procedure

“While it is clear that according to the $1.25 and $2.00 a day measures, poverty fell markedly between 1990 and 2010, the projected pace and distribution of future poverty reduction is contested.”

> **“Poverty is not a static phenomenon. In general, people and households move into and out of income poverty.”**

that is internationally consistent (Klasen, 2013 forthcoming, based on work by Reddy, S., Visaria, S. and Asali, M. (2009)).

5.2.3 The dynamics of poverty

Poverty is not a static phenomenon. In general, people and households move into and out of income poverty, although those who are poor for extended periods, or are chronically poor, may become caught in ‘poverty traps’, whether spatial, economic or social in nature. Various studies have sought to analyse what share of people are chronically poor, the average period of poverty and what makes people move into and out of poverty in particular contexts (Shepherd, 2011). Across studies in rich and poor economies alike, two common findings are that transitions into and out of poverty are frequent and that ‘descents and escapes recur concurrently’ (Krishna, 2007:1). For instance, in Uganda, one in three of the households studied between 1979 and 1994 moved out of poverty in the following decade while 11% became poor (Krishna et al., 2006). In Bangladesh between 1987 and 2000, 26% of households studied moved out of poverty while 18% became poor (Sen, 2003). On the basis of such studies, Krishna (2007: 3) concludes:

> **“While the eradication of extreme deprivation is clearly fundamental to human wellbeing, people also attach value to their consumption relative to prevailing standards and to their ability to participate fully in their society.”**

> *It is useful for all of these reasons to examine poverty not as it is often visualised – that is, a somewhat homogeneous mass – but as it really is: an inconstant, internally differentiated, and fluid collection of individuals who are moving in different directions at the same point of time.*

Current research is seeking to identify and distinguish between chronic and transient poverty, and to devise policies to address both. This understanding of the dynamic nature of poverty underscores the inadequacy of static and incomplete ‘snapshot’ attempts to measure ‘the poor’ at any point in time. It also highlights the need to address vulnerability – the susceptibility of those near the poverty line to becoming poor – and to mitigate risk, particularly in view of an increasing array of threats to which poor people are exposed (Poverty Analysis Discussion Group, 2012: 4), including climate change and environmental degradation.

5.2.4 Absolute poverty or relative exclusion

Inherent in the concept of inclusive growth is the reduction of relative as well as extreme poverty. This means addressing the situation of those who are deprived relative to the social norm. While the eradication of extreme deprivation is clearly fundamental to human wellbeing, people also attach value to their consumption relative to prevailing standards and to their ability to participate fully in their society (Chen and Ravallion, 2012). This harkens back to the importance Adam Smith placed on having the fundamental means ‘to appear in public without shame’; in other words, that social context and custom shape welfare and wellbeing.

In Europe, where there is far less extreme poverty than in developing countries and regions, the concept of relative poverty has been widely adopted – below half of the mean or median income is a common delimiter. In developing countries, the concept of relative poverty is not so widely used and how poor people regard extreme poverty versus relative consumption is the subject of debate. Chen and Ravallion (2012) argue for a concept of ‘weakly relative poverty’ – that absolute needs are more important at low levels of consumption but as countries become richer, people attach higher value to their relative position in society. Using measures that are bounded below by the extreme poverty line and above by a relative poverty line, they apply this concept to 116 countries. Their analysis finds a fall in the incidence of relative poverty (from 65% in 1990 to 47% in 2008), but an increase in the number of relatively poor (by some 210 million people), despite the progress in reducing extreme income poverty (Chen and Ravallion, 2012). The implication is that if relative considerations become more important with the decline in the incidence of extreme poverty, it may be relevant to include these in any international agreement that seeks to tackle deprivation, whether directly or through a broader focus on inequality.

5.2.5 A rise in income inequality

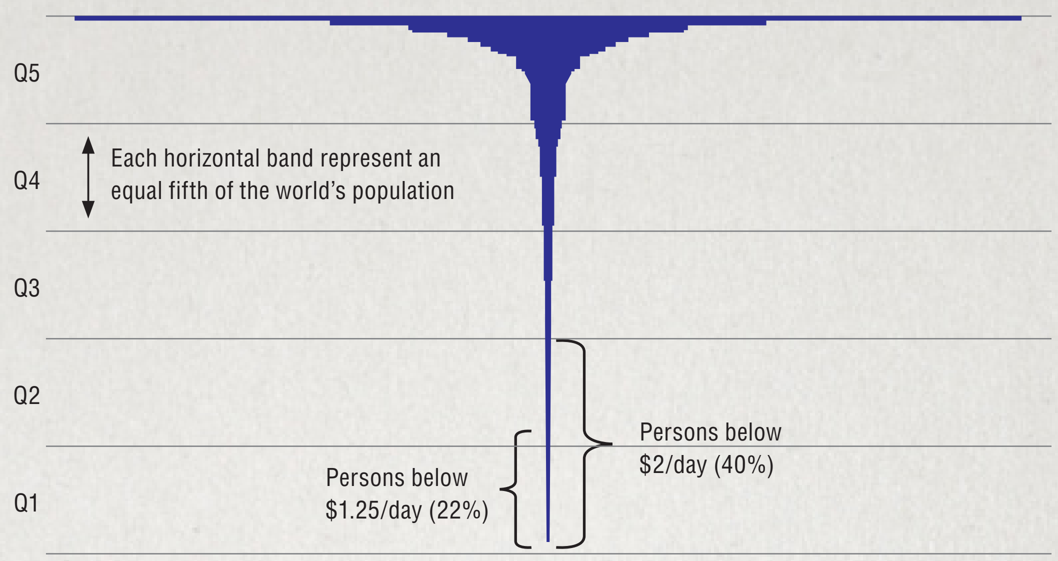
Trends in inequality are central to the persistence of poverty amid plenty. Inequality can be assessed globally, between countries and at a national level. A careful look at patterns of prevailing inequalities, and how they are divided within and between countries, can offer particular insights into what types of redistribution might be most effective, and where an international agreement seeking to reduce inequalities might focus.

The relationship between growth, income inequality and poverty reduction is straightforward – everything else being equal, inequality increases poverty whatever the level of growth. Globally, between 1981 and 2005, while the impact of economic growth enabled hundreds of millions of people to overcome poverty, greater inequality meant than nearly 600 million people who would otherwise have done so were denied that chance (Hillebrand, 2009:7).

As the global economy becomes more integrated, it has been argued that the distribution of income among the global population is increasingly important because of greater cross-border movements and the influence of global standards on people's perceptions of their situation and their aspirations (Milanovic, 2012). A recent study of global inequality estimates a Gini coefficient at about 0.7 (where 0 denotes complete equality, and 1 represents the maximum level of inequality): 'This is almost certainly the highest level of relative, and

> **"Globally, between 1981 and 2005, while the impact of economic growth enabled hundreds of millions of people to overcome poverty, greater inequality meant than nearly 600 million people who would otherwise have done so were denied that chance."**

Figure 5.3 Global Income distributed by percentiles of the population in 2007 (or latest available) in PPP constant 2005 international dollars



Source: Ortiz and Cummins, 2011

"Over the last 20 years, the world's richest 1% and middle classes in the emerging economies have been the main 'winners' in global income distribution."

certainly absolute, global inequality at any point in global history'.[51] It reflects a situation in which the top 8% of the world's population receive 50% of the world's income.

Prevailing disparities are extreme. This is a source of concern, but could be an opportunity if international cooperation were designed to foster redistribution. As Figure 5.3 makes clear that, other factors being equal, small amounts of money redistributed from the very wealthy could effectively eliminate income poverty.[52]

Over the last 20 years, the world's richest 1% and middle classes in the emerging economies have been the main 'winners' in global income distribution. The main 'losers' have been the bottom 5% of the global population, whose real incomes have remained static, and those between the 75th and 90th percentiles, whose real income gains have stagnated – including many in transition and Latin American countries, and those living in rich countries whose incomes have not risen. The bottom third of the global income distribution have experienced significant gains, except for the bottom 5%, as reflected in the fall in extreme poverty. Milanovic (2012: 13) describes this shift as 'probably the profoundest global reshuffle of people's economic positions since the Industrial revolution'.

Milanovic's findings also have implications for the distribution of inequality within and between countries. He points out that in 1870, in-country inequality accounted for more than 66% of global inequality, while most inequality today is between countries. The assessment of recent trends in global income inequality appears to depend crucially on the time period and indicator used.[53] The analysis of mean incomes suggests that overall inequality has changed little over the last 50 years,[54] while an analysis based on GDP suggests that global inequality has fallen because the rise of inequality in several countries does not outweigh the effects of reduced inequality between countries (Bourguignon, 2011).

The changes in national average incomes over the last 40 years show no convergence between richer and poorer countries (UNDP, 2010). When average national incomes are 'weighted' to reflect their relative populations, however, the experiences of China and India feature more heavily, and there is more convergence across countries. One implication is that migration from poorer to richer countries could potentially have strong redistributive effects (Milanovic, 2011, 2012), a subject we revisit in Chapter 9.

Alongside a potential recent fall in inequality between countries, when the data are 'weighted' by population size, in-country inequality appears to be rising, particularly in MICs (Ortiz and Cummins, 2011). This finding is corroborated by numerous case studies for China, (Sicular et al., 2006; Shi et al., 2011; Sutherland and Yao, 2011), India (Deaton and Drèze, 2002), Bangladesh (Deb et al., 2008), South Africa (Bhorat and Kanbur, 2006) and Ghana (Aryeetey and McKay, 2007). At a regional level, there is greater diversity, although in Latin American countries, where levels of inequality were among the highest in the world, inequality

51 See presentation by Branko Milanovic, available at:http://www.ub.edu/histeco/pdf/milanovic.pdf.

52 Palma (2011) argues that that in-country differences in distribution are due primarily to the political alliances forged between the middle class and either the richest 10% or bottom 40%.

53 In particular, whether inequality among countries and across the global population appears to be rising or not in recent years hinges to some extent on whether it is calculated using national growth rates based on GDP, or on mean incomes obtained from household surveys, deflated by domestic inflation.

54 Anand and Segal (2008) reach this conclusion on the basis of a meta-review of the available analyses of this subject. They report: 'the measured changes do not appear to be statistically significant on the basis of the standard errors estimated in some of the studies' and that they therefore 'cannot tell whether global inequality has increased or decreased in the recent past on the basis of existing findings' (p. 58).

has been declining since the early 2000s, owing to a combination of structural economic change and redistributive social spending (Lustig, 2009; Cornia, 2012). In Peru, one highly unequal country in the region, most studies agree that inequality has diminished slightly during the past decade, though some work suggests it may have risen for short periods in that time and among certain social groups. Research also suggests there are major differences from one part of the country to the other with urban coastal provinces generally outperforming highland provinces (Peru case study).

There is clearly considerable potential for redistribution to improve the wellbeing of deprived sectors, both globally and within particular countries. Consistent with this Report's overall focus on promoting inclusive development, efforts to realise this potential should be a key element of a post-2015 framework. Recent work has also pointed to ways in which certain policies can simultaneously bring about greater equity and sustainability (UNDP, 2010). But political economy considerations underline that what is normatively desirable needs to be balanced against what is feasible.

5.2.6 Summary: shifts in income poverty and in its distribution

This section has reviewed trends in income poverty and other factors that condition the experience of poverty. First, it showed that extreme income poverty has fallen markedly, and that its regional distribution has shifted. Current estimates suggest that 1.3 billion people will remain extremely poor in 2015, which suggests that any successor to the MDGs should continue to focus on the eradication of poverty and identify what types of international action can best contribute to achieving this.

Second, while international poverty lines provide the best available lens on levels of poverty across countries and trends over time, they suffer methodological problems. Moreover, they exclude those who live in extreme poverty according to national poverty lines that are over $1.25 PPP a day. In many parts of the world, the simplicity of universal poverty lines may need to be sacrificed in order to register and attain more meaningful gains. Potential solutions may require a clearer articulation of international and national poverty lines.

Third, longitudinal studies show that many people move into and out of poverty, and attempts to measure 'the poor' give only a static and incomplete 'snapshot'. Any future global development framework should therefore include a focus on vulnerability in order to capture not only those who are poor at any given time, but also those who are just above the poverty line and at risk of falling below (Shepherd 2011).

Fourth, a focus on relative poverty suggests a growing number of people are at risk of 'social exclusion'; relative considerations become more important as extreme poverty falls, and may be relevant in any international agreement to tackle deprivation, whether directly or through a broader focus on inequality.

Finally, prevailing patterns of inequality and recent trends suggest substantial scope for redistribution to improve the situation of the poorest, if political considerations can be overcome, and point to a role for migration as a potentially important means to achieve this. Addressing inequality should therefore be a key priority for a post-2015 framework.

5.3 A changing understanding of poverty and wellbeing

This chapter has so far focused on income as a marker of poverty. Income is an important proxy for welfare but it is a highly reductionist and imperfect one, not least because it confuses the

"Estimates suggest that 1.3 billion people will remain extremely poor in 2015. Any successor to the MDGs should continue to focus on the eradication of poverty."

> "The MDGs already reflect the multidimensional understanding of poverty in their focus on income, health, nutrition, education, gender equity and the environment."

ends of development with the means of achieving it and assumes the existence of markets for goods and services. In practice, low incomes do not tend to correlate well with other objective and subjective markers of deprivation. For these and other reasons, thinking on poverty has evolved from conceiving it as a state defined by low income or consumption to one involving deprivations in multiple aspects of wellbeing.

The MDGs already reflect the multidimensional understanding of poverty in their focus on income, health, nutrition, education, gender equity and the environment. In the years since their adoption however, the understanding of multidimensionality and how to translate it into practice has deepened. First, there has been considerable debate on the need to include new dimensions to obtain a fuller picture of wellbeing and how to measure these dimensions. Second, a new emphasis on poor people's experiences of deprivation provides one way to prioritise the multiple dimensions that matter to wellbeing and casts light on aspects such as the importance of relationships and of being treated with dignity. Third, there have been advances in measurement to focus on the 'joint distribution' of deprivation (given that people often face multiple dimensions at the same time), and to understand the intra-household distribution of resources. Finally, research has cast new light on inequalities in multiple dimensions and their correlates. These four developments all have implications for the form and content of any new post-2015 agreement.

5.3.1 An increasing focus on multiple dimensions

Amartya Sen's fundamental critique of welfare-based measures (Sen, 1992, 1999, 2009) proposed that development should centre on capabilities – on what people can do or be, rather than what they have; on the ends of development rather than the means; and taking into account people's differing abilities to convert resources into outcomes. This thinking underpins the human development approach embodied in the annual Human Development Report (HDR), first published in 1990. This broader view suggests that in addition to income, it is important to take into account other outcomes that have both intrinsic and instrumental value.

Research over the past decade has sought to advance this multidimensional notion by focusing on what constitutes wellbeing – notable initiatives include OECD's Measuring the Progress of Societies and the 2008 Stiglitz-Fitoussi-Sen Commission on the Measurement of Economic Performance and Social Progress (2009), which sought to identify the limits of GDP as an indicator of economic performance and to recommend alternative measures that would provide a broader picture of human wellbeing. The Commission recommended including material living standards and seven other dimensions: health, education, personal activities including work, political voice and governance, and social connections and relationships. In so doing, it echoed a broader consensus regarding the dimensions of wellbeing that people across countries consistently identify (Alkire 2002, 2007; Chambers, 2004)[55]. Moreover, it recommended that any attempt to measure the quality of life should be based both on objective criteria and on subjective perceptions.

A key final point is that this focus on the social aspects of poverty also highlights the two way interaction with sustainability: poor people are more likely to experience the effects of climate change and environmental degradation on their circumstances and livelihoods, while these processes in turn deepen poverty and increase their

55 For instance, Alkire and Sumner (2013) suggest that a global Multidimensional Poverty Index (MPI) could complement the $1.25-a-day income poverty measure in a post-2015 framework, which could also be used to monitor inclusive growth and/or highlight the relationship between poverty and sustainability.

vulnerability (ERD 2012). This Report's focus on inclusive and sustainable development underlines that the eradication of existing poverty should be achieved in ways that safeguard the opportunities of future generations.

5.3.2 Incorporating poor people's experiences of deprivation

Reviewing the measures of income, material need and capability deprivation, Robert Chambers argues that they fall into three progressively wider 'clusters' of thinking about 'what is poverty', but suffer a similar limitation in being based on external perceptions of what matters to people. As such they fail to take into account the 'diverse bottom-up realities of the powerless' (Chambers, 2004: 4), and what they value. Chambers argues that the MDGs follow a similarly abstract and reductionist logic, because they 'narrow and standardise vision, leave out much that matters, and do not allow for the multifarious ways in which people can be enabled to enjoy a better life'.

Participatory studies, notably the World Bank project, Voices of the Poor (Narayan et al., 2000), cast light on the 'many poverties and deprivations' people may experience, including but going beyond material needs to include aspects such as time poverty, poor working conditions, poor gender relations, insecurity and a lack of power (Chambers, 2004).

Such participatory studies have gained some traction in the 'wellbeing agenda'. For instance, it has been argued that development could integrate subjective and relational experiences of wellbeing, alongside material living standards, and so should focus on wellbeing as a more holistic and empowering concept than that of alleviating poverty (McGregor and Sumner, 2009).

There are concerns about how to interpret subjective information – it has been argued that poor people may become 'habituated' to deprivation, (for instance, Sen, 1979), which makes it difficult to compare perceptions. Such data do, however, give important insights into what people value. Aspects such as being treated with dignity and the importance of relationships, trust and social cohesion tend to come to the fore. It also sheds light on the extent to which different dimensions of wellbeing matter to people, although these are likely to vary substantially within and across countries and cultures. A better understanding of poor people's experiences of poverty should inform how the international community and national governments choose to bring about change, so that policies respond adequately to the concerns and frustrations of disadvantaged groups.

5.3.3 Measurement advances … but not enough

The multidimensional nature of wellbeing has found widespread expression in the HDR family of indices, which combine measures of living standards, health and education. The 1990 HDR first put forward the Human Development Index (HDI), and in 1996, the Human Poverty Index (HPI). Over time, the HPI is revealing of the large discrepancies that often existed between income poverty and this broader measure at a country level, yet also showed a net reduction of income poverty in 40 out of 44 countries between 1990 and 2004 (Fukuda Parr, 2004). The 2010 HDR adopted the Multidimensional Poverty Index (MPI), among others.

While previous composites aggregated data on dimensions at each country level, the MPI also accounts for the acute deprivations that people face at the same time.[56] In other words, it not only takes into account deprivations in the three areas but also

"It has been argued that development could focus on wellbeing as a more holistic and empowering concept than that of alleviating poverty."

56 See Alkire and Foster (2011), and for a critique (Ravallion, 2011). Ravallion argues that composite measures are beset by technical issues such as the need to impose thresholds on indicators without a clear methodological justification, and to 'weight' or value dimensions relative to one another.

> **There is a need for better measurement but also for greater sensitivity to and incorporation of those aspects of poverty that cannot be measured.**

their 'joint distribution' (which can be interpreted as a measure of the intensity of household poverty). The implication is that it is somewhat worse to be deprived in multiple dimensions (or indicators) than in just one. Therefore, the MPI combines both the incidence and depth of multidimensional poverty in a single measure, and enables policy-makers to focus on such households.

The MPI results both echo and deepen the findings from work on income poverty (for example, Alkire and Santos, 2010). According to the latest MPI data, some 1.6 billion people, representing 31% of people living in developing countries, are living in extreme poverty – well above the 1.3 billion identified by the $1.25 a day measure. While MPI levels are loosely correlated with income poverty, there is also widespread variation in certain countries. Similarly, the MPI identifies a broad association between the incidence and intensity of poverty, but also points to countries in which one aspect is much more pronounced than the other. MPI measures also point to the concentration of poverty in MICs and in particular countries such as India, where there are many more poor people than in SSA, although the intensity of multidimensional poverty is on average higher in the latter. Trend data for ten countries with observations for at least two years in the 2000s show a reduction in all of them (Alkire et al., 2011).

Efforts to apply a broader multidimensional approach tend to be constrained by a lack of data. There are signs that this focus is beginning to influence official statistics, albeit slowly and haltingly. One good example is sustainability, where Natural Capital Accounting – which seeks to assign a value to the natural resources used in production – moved forward with the recent adoption of accounting procedures by the UN Statistical Commission, despite criticism of the 'commoditisation' of common resources.

There have also been advances in other areas, although a major gap pertains to intra-household dynamics. There has been considerable attention devoted to inequalities in childhood but less to later periods of life. There has been some attention to gender-based differences but household surveys often focus on the nominal head, who is usually assumed to be any man who is present. There is a continuing need to address intra-household disparities across dimensions of wellbeing; surveys that seek to include several members of the same household show that this is feasible and that it provides useful insights for policy.

At the same time, it is important to be realistic about what can and cannot be measured, and to acknowledge the limitations of poverty numbers. There is a need for better measurement but also for greater sensitivity to and incorporation of those aspects of poverty that cannot be measured. On the measurement side, official statistics on non-monetary aspects of wellbeing are weak – particularly for complex aspects such as the quality of health and education, agency and governance. Subjective measures may yield useful insights but need to be further refined, and more attention needs to be devoted to their interpretation. Beyond these technical issues (which are often associated with political and/or attitudinal constraints), recent research shows that statistics cannot capture many aspects that matter to people. Naila Kabeer once commented that statistical perspectives on decision-making offered 'simple windows on complex realities', and this applies more broadly to measurement endeavours, particularly in light of the wealth of evidence on the 'multiplicity of meanings' that people accord to their experience of deprivation (Chambers, 2004). Such aspects are still divorced from the current poverty discourse and MDG debate, which therefore lags 'behind our understanding of realities on the ground in significant ways'; for instance, in underplaying 'powerlessness, stigma, discrimination and isolation…', as well as the interconnections among deprivations and policies (Poverty Analysis Discussion Group, 2012: 3).

A set of global development goals is necessarily reductionist, and it is likely that any successor to the MDGs will involve various quantifiable targets. Improving the range and availability of data is therefore very important. Nevertheless, objectives that are less quantifiable will inevitably be at a disadvantage, so incorporating a stronger recognition of the broader context into a post-2015 framework is essential so as to influence the way that goals are translated into practice, and how progress is interpreted.

5.3.4 Looking at inequality through a multidimensional and group-based lens

Some current research is focused on inequality in multiple dimensions and among social groups. To date, there is very little literature that describes the evolution of inequalities in dimensions apart from income, although it seems clear that there is not much correlation across dimensions (Samman, Ranis et al., 2011). The HDR's Inequality-Adjusted Human Development Index (IHDI) represents a first effort to compute inequality across income, health and education for a large sample of countries. Between 1990 and 2011, analysis of 66 countries found that worsening income inequality at the national level undermined large improvements in health and education inequality (UNDP, 2011). In Latin America, there was a fall in inequality in health and education reported in the 1980s and 1990s (Sahn and Younger, 2006), and in Africa, a fall in educational inequality but little change in health (Sahn and Younger, 2007).

A separate line of research has focused on inequality among social groups, so-called 'horizontal inequalities', which have marked importance – not least in their relationship to conflict (Stewart, 2009) – but are harder to trace at an aggregate level. While there are some common markers of disadvantage (e.g. age, caste, disability, ethnicity, language, religion and sex), the specific groups that are disadvantaged and the nature of their disadvantage vary significantly across and within countries. There has been extensive analysis of gender-based inequality using cross-national data. One study argues that gender-based inequality is falling 'in virtually all major domains' and 'across diverse religious and cultural traditions' (Dorius and Firebaugh, 2010). The HDR's Gender Inequality Index (GII), adopted in 2010, also shows falling inequality – although gender-based differences remain pronounced, particularly in South Asia and in SSA (UNDP, 2011). This persistence of group-based disparities seems to hold more widely. One analysis of 'intersecting inequalities' at a regional level with respect to the MDGs cited a narrowing of disparities for some groups and deprivations, and the persistence or widening of others. It also found that 'in almost every society and in almost every region of the world, certain groups of people face systematic social exclusion as the result of multiple inequalities that constrict their life chances' (Kabeer, 2010: 1). These factors, along with the MDG focus on average attainments, have led to heightened calls for the explicit consideration of inequality within any post-2015 framework (Melamed, 2012), and suggest a need to measure and monitor progress among those who are disadvantaged along these different dimensions.

5.3.5 Summary: multidimensional poverty and inequality

Taking multidimensionality seriously warrants reviewing and potentially enlarging the spectrum of dimensions addressed in any successor to the MDGs so that it adequately addresses inclusion and sustainability issues, although this will pose measurement challenges.

Poor people's experiences of poverty can help to prioritise dimensions and highlight aspects such as the importance of relationships and of being treated with dignity, principles which should guide future cooperation. The political value and importance of these insights should not be underestimated as they indicate how the poorer and more disadvantaged sectors of society will ultimately judge the results

"Taking multi-dimensionality seriously warrants reviewing and potentially enlarging the spectrum of dimensions addressed in any successor to the MDGs so that it adequately addresses inclusion and sustainability issues, although this will pose measurement challenges."

CHAPTER FIVE

> "There is a need for greater focus on the characteristics of people who have successfully moved out of poverty – and the role of factors such as age, disability, ethnicity and gender – suggesting a particular focus for measurement and monitoring efforts."

of development policies and whether they perceive them as adequately inclusive.

While there have been advances in measurement – not least, new efforts to measure so-called 'missing dimensions' and composite measures that focus on those individuals and households facing multiple deprivations at the same time – clear deficits remain. Sustainability is a major concern. There is also a need for more work on intra-household dynamics, where there is evidence to suggest that measuring poverty on the basis of per capita household figures yields seriously skewed findings.

Finally, to understand what works and further refine the effectiveness of policy there is a need for greater focus on the characteristics of people who have successfully moved out of poverty – and the role of factors such as age, disability, ethnicity and gender suggesting a particular focus for measurement and monitoring efforts.

5.4 Implications for a post-2015 agreement

This chapter has described changes in the global landscape of poverty since 1990, the MDG baseline. It has focused on two key types of change; (a) in the evolution of income poverty and its distribution, and (b) in the understanding of poverty and how it could be addressed. Both types of change have implications for any post-2015 agreement on global development.

- **International action:** Extreme poverty has fallen dramatically worldwide but over 1.2 billion people remain poor. Their distribution is changing over time but particular groups of countries and regions (Asia, SSA, LDCs and fragile states) present specific problems. Any successor to the MDGs should address how **global collective action can best help to eradicate poverty** in the context of prevailing country and regional dynamics.

- **Multiple poverty lines:** A strategy focused on eradicating poverty should incorporate **international and national poverty lines**. The $1.25 definition of extreme poverty highlights deprivation but is methodologically problematic and of limited relevance to all but the poorest countries. As countries develop relative poverty becomes a more prominent concern. **Inequality** should therefore be an explicit focus of a post-2015 framework.

- **Targets and mechanisms:** Despite the scale of inequalities, research suggests that, with the necessary political will, small amounts of redistribution could eliminate extreme poverty. Mechanisms **for reducing income inequality** include **fiscal measures, social protection** policies and **internal migration** at a national level and, for inequalities between countries, **migration** from poorer to richer countries

- **Multidimensionality:** Advances in this approach have brought important new insights into poverty and its resolution, which provide a strong justification for revisiting and potentially enlarging the **range of dimensions** included in a post-2015 agreement.

- **Vulnerability:** A future global development framework must take vulnerability into account in order to fully appreciate the **dynamics of poverty**, rather than static measures based on a fixed point in time. This would include a focus not only on those who are currently income poor but also on those who are susceptible to falling below the relevant poverty line. Vulnerability is also closely intertwined with sustainability.

- **Sustainability:** An explicit commitment to sustainability should be included in any post-2015 framework since people living in poverty are more exposed to the effects of climate change and environmental degradation, which in turn deepen poverty. Future interventions need to focus on eradicating existing poverty in ways that **safeguard the interests of future generations**.

- **Measurement:** There is a need to develop further the capacity to measure the 'missing' dimensions of wellbeing, the ways in which individuals and households experience multiple deprivations and intra-household dynamics.

- **Group-based inequalities** should be one focus of measuring and monitoring efforts, given that those who experience persistent poverty **share some common characteristics** – e.g. age, caste, ethnicity, caste, disability and gender – which often overlap in ways that make it harder to move out of poverty.

- **Poor people's experiences of deprivation** can help to prioritise dimensions of **wellbeing** and highlight aspects such as the importance of relationships and of being treated with dignity. These principles should guide future cooperation. Understanding people's and social groups' perceptions of poverty can also give insights into how they will judge the success or failure of development policies.

Any successor to the MDGs will have limitations. There is a need to be realistic about what can and cannot be measured, and to acknowledge the limitations of poverty numbers. The process of developing a new global development framework should seek to establish a new international vision regarding what are desirable objectives, and to outline some broad parameters for achieving and measuring progress.

> “As countries develop relative poverty becomes a more prominent concern. Inequality should therefore be an explicit focus of a post-2015 framework.”

> “Any successor to the MDGs will have limitations. There is a need to be realistic about what can and cannot be measured, and to acknowledge the limitations of poverty numbers.”

CHAPTER SIX

6 FUTURE CHALLENGES – SOME TRENDS AND PROJECTIONS

> “The world population is currently estimated at 7 billion, compared to 2 billion in 1927, 5 billion in 1987, and 6 billion in 1999. It is expected that the world population will reach 8.3 billion by 2030, 9.3 billion by 2050 and 10.1 billion by 2100.”

Introduction

This chapter explores some of the most important demographic, economic and environmental trends and projections that are likely to shape the broad context for any post-2015 development framework. It analyses the main findings of several forecasting studies and briefly assesses their implications. The aim of this forward-looking exercise is to provide an insight into the key challenges and opportunities different countries might face beyond 2015.[57]

6.1 Demographic trends

Although the size and structure of populations tend to change fairly slowly, these transitions often point to broader underlying tendencies in the economy and the environment. Indeed, demographic projections are often used to forecast economic and environmental trends. Demographic trends both depend on and reflect socioeconomic conditions and the natural environment (e.g. fertility declines in richer countries because of higher levels of female education and better employment opportunities, while the climate often affects economic performance). This section focuses on demographic dynamics.

6.1.1 Population trajectories

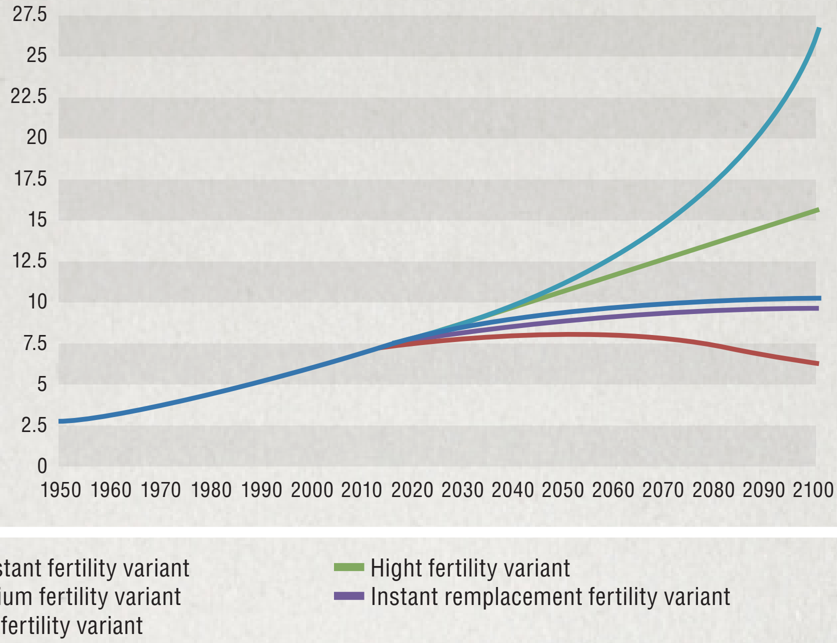
The world population is currently estimated at 7 billion, compared to 2 billion in 1927, 5 billion in 1987, and 6 billion in 1999 (UNFPA, 2011). It is expected that the world population will reach 8.3 billion by 2030, 9.3 billion by 2050 and 10.1 billion by 2100 (UNDESA, 2011a). This projection assumes that the pace of global population growth will continue to decline, and that many countries will reach population peaks before 2100.[58] For instance, Europe's population is projected to peak in 2020, China's in 2030 and India's in 2060. However, high-fertility countries – the majority of which are in sub-Saharan Africa (SSA) – will experience continued population growth for the foreseeable future.

While there is some consensus on these baseline estimates ('medium variant'), a change in the underlying assumptions may lead to considerable deviations. For example, the assumption that fertility rates will converge to replacement levels could be affected by a number of factors – such as a loosening of China's 'one-child policy' or greater social and cultural resistance to having fewer children in countries in SSA. Moreover, assumptions about mortality rates depend on the evolution of diseases such as HIV and AIDS, while assumptions about international migration could be significantly influenced by relevant

57 It should be noted that different studies report trends for distinct country groupings and timeframes. Moreover, countries may change their classification during the period covered by the projections (e.g. from LIC to MIC).

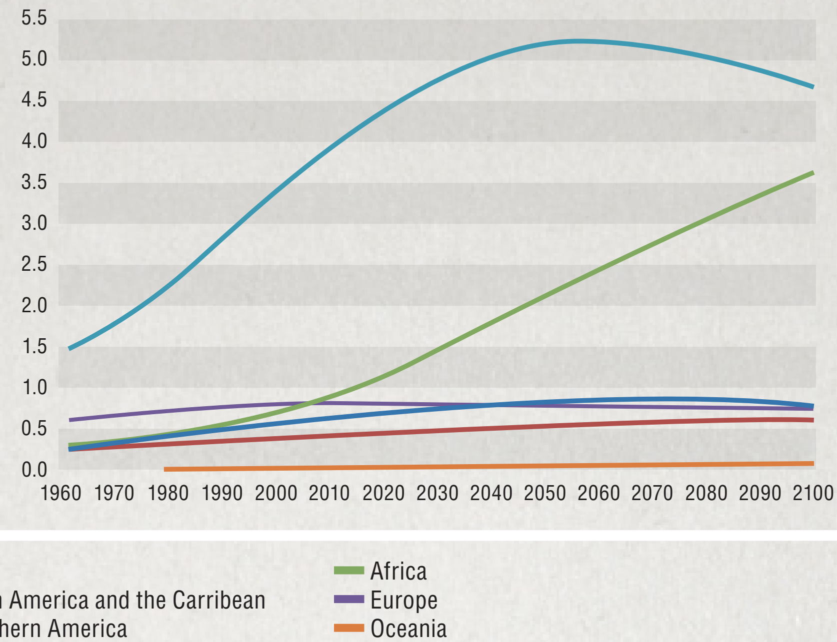
58 The pace of world population growth peaked in the mid-1960s and has been declining since then.

Figure 6.1 World population projections (billions)



Source: UNDESA, 2011a

Figure 6.2 World population projections by region (billions)



Source: UNDESA, 2011a

> "At the regional level, SSA is expected to experience the highest nominal and relative population increases, as its population is likely to more than double by 2050 (to about 2.2 billion). Asia will remain the world's most populated region, although its share of world population will decline as SSA's grows."

> "The world's median age is expected to increase from 29.2 years in 2010 to 37.9 in 2050, a change that will be felt most strongly in developing countries. While the proportion of people aged 60 or above rose from 8.1% in 1950 to 11% in 2010, it is expected to reach 21.8% in 2050."

policy changes. Under a 'high variant' scenario, the world population would reach 10.6 billion by 2050, while the 'low variant' alternative projects 8.1 billion by 2050 (UNDESA, 2011a).[59] The 'constant fertility' assumption generates huge population growth, but this is unlikely to materialise given historical trends and patterns of demographic transition. Nonetheless, fairly small changes in the underlying assumptions – especially with regard to fertility rates – can generate large differences in the forecasts (see Figure 6.1).

Broad population trends mask regional variations (see Figure 6.2). At the regional level, SSA is expected to experience the highest nominal and relative population increases, as its population is likely to more than double by 2050 (to about 2.2 billion). Asia will remain the world's most populated region, although its share of world population will decline as SSA's grows. The population of the remaining regions will grow only marginally, if at all. Collectively, Africa and Asia will represent nearly 80% of the world population by 2050, while Europe will account for 8%, down from the 22% registered in 1950 (UNDESA, 2011a).

Despite the decline in the rate of growth, the world population will continue to grow in the medium term, mainly because of predicted growth in developing countries, which will be equivalent to the entire (mostly stagnant) population of more developed countries (about 1.2 billion people).

6.1.2 Ageing societies

The broad demographic dynamics described above will also affect the age structure of the world population. For instance, while a country's population size usually booms in the early stages of demographic transition, its growth tends to decelerate as birth rates and mortality rates converge.[60] Barring significant migration, this usually leads to an increase in the median age of the population. Population ageing is an inevitable outcome of lower fertility rates and greater life expectancy.

As more countries undergo this demographic transition, the world's median age is expected to increase from 29.2 years in 2010 to 37.9 in 2050, a change that will be felt most strongly in developing countries. In addition, while the proportion of people aged 60 or above rose from 8.1% in 1950 to 11% in 2010, it is expected to reach 21.8% in 2050. In more developed countries, the proportion of the population aged 60 years and above is projected to increase from 21.7% in 2010 to 31.9% in 2050, and of over-80s from 4.3% to 9.3% (UNDESA, 2011a).

These trends will mean a substantial increase in old-age dependency ratios.[61] Between 1950 and 2010, the world ratio rose from 0.09 to 0.12 dependants and is projected to reach 0.26 by 2050. In other words, in 1950 there were 11 people of working age per elderly person, whereas by 2010 there were eight and the ratio is expected to drop to four by 2040. In China, for example, the old-age dependency ratio of 0.11 in 2010 is projected to increase to 0.42 by 2050, while the ratio in Europe will increase from 0.24 in 2010 to 0.47 in 2050 (UNDESA, 2011a). These trends are likely to have significant impacts on the demand for health services and pensions, as well as on tax revenues, and may affect intergenerational solidarity and dynamics. International migration, especially from Africa, could potentially play a role in rejuvenating ageing populations and reversing these trends.

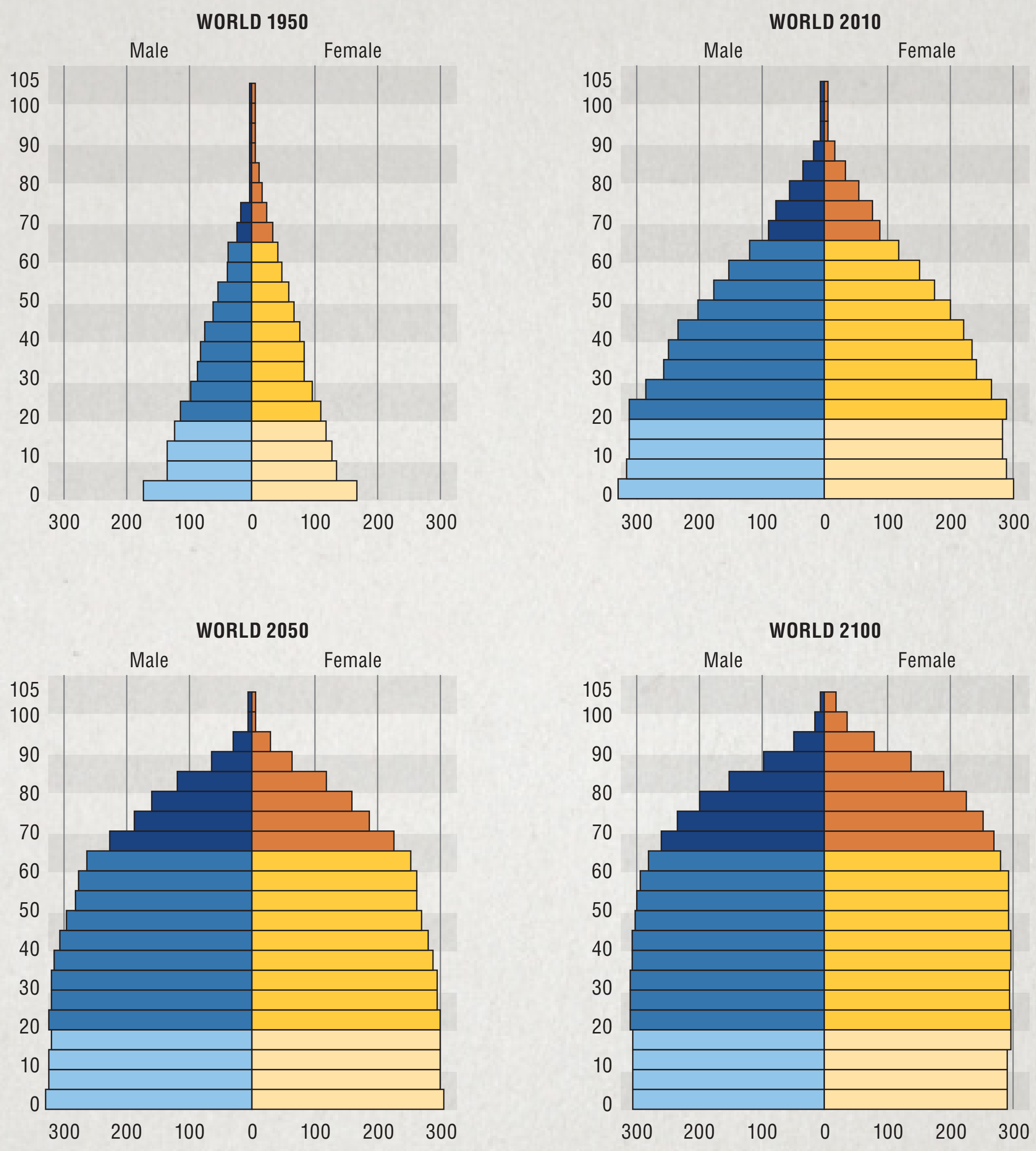
While there are concerns about population ageing, youth has also become a major issue in national and international policy agendas, notably

59 The medium variant assumes that global fertility will fall from 2.52 children per woman between 2005 and 2010 to 2.17 by 2045–2050, while the low [high] variant assumes that fertility rates are 0.5 children below [above] that of the medium variant.

60 Initially, mortality rates decline sharply due to better health (reduced child survival and increased life expectancy) while fertility rates remain comparatively high.

61 This is the ratio of the population aged 65 years or over to the population aged between 15 and 64 years.

Figure 6.3 Population by age group and sex (world and Africa)

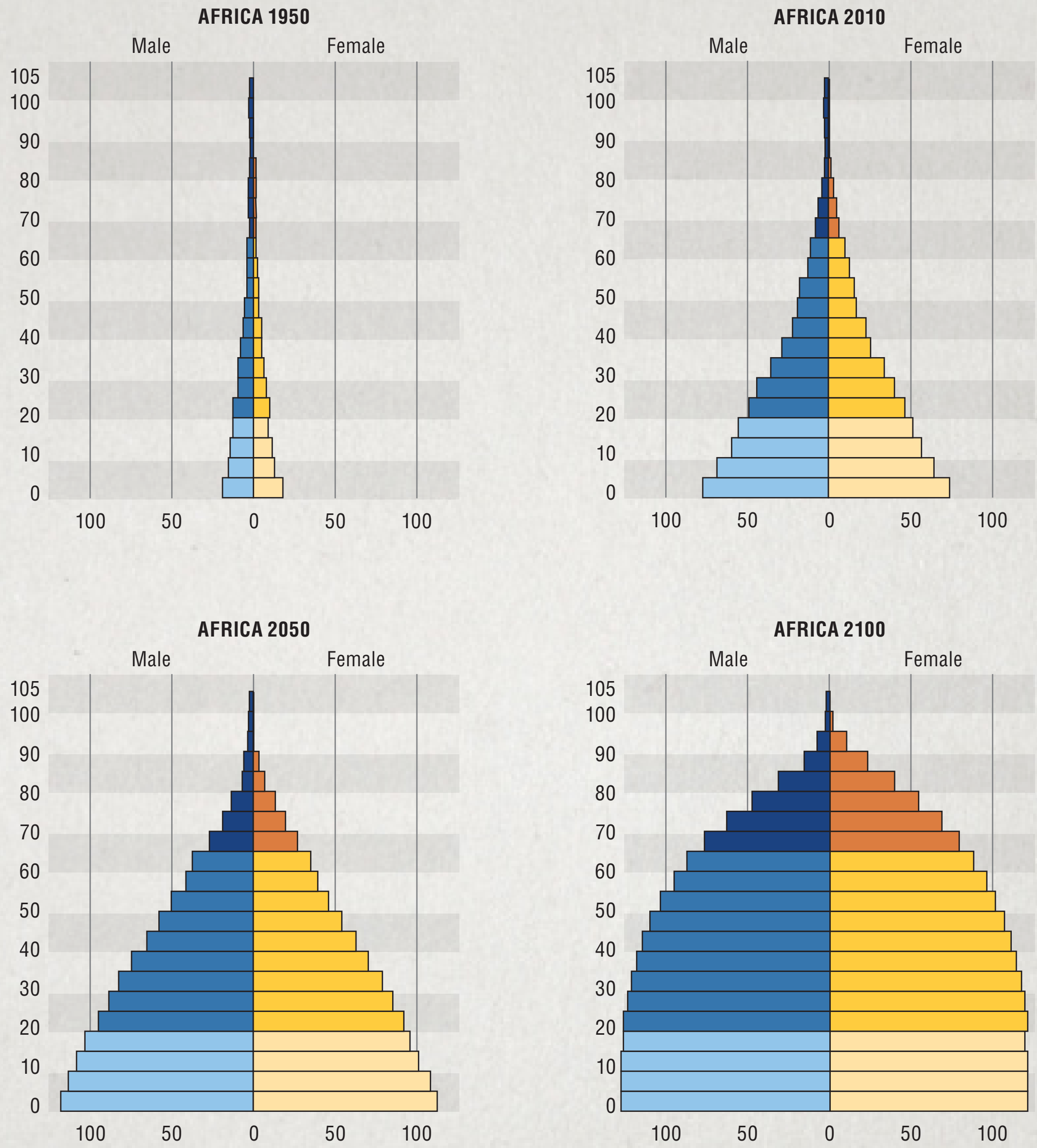


Source: UNDESA, 2011a

> The under-25s represent 44.4% of the world population and many are likely to face problems of economic and political exclusion.

"Rapid demographic transitions require substantial economic and social adjustments in most countries, although poorer countries are likely to have less time and fewer resources to take appropriate measures in view of the pace of change."

Figure 6.3 Population by age group and sex (world and Africa)



Source: UNDESA, 2011a

due to the so-called Arab Spring in 2011 and recent social movements in Europe. This renewed interest is both timely and crucial. The under-25s represent 44.4% of the world population and many are likely to face problems of economic and political exclusion.[62] Although the world's youth population appears to have surpassed a relative peak, this does not diminish the importance of focusing on future generations.

Countries with large young populations (especially in SSA) need to be in a position to take full advantage of this demographic dividend. As the current youth bulge enters the labour market, young adults could boost economic activity and trigger a virtuous cycle of inclusive economic growth. Realising this potential depends on the availability of productive employment opportunities and ensuring that young adults have the relevant skills.

Rapid demographic transitions require substantial economic and social adjustments in most countries, although poorer countries are likely to have less time and fewer resources to take appropriate measures in view of the pace of change.

6.1.3 Urbanisation

Urbanisation is likely to shape economic, social, environmental and political interactions in the coming years. Urban areas housed 29.4% of the world population in 1950, increasing to 51.6% in 2010 and a projected 67.2% by 2050 (UNDESA, 2012a). While global urbanisation rates are slowing down, those of poor countries are considerably higher. Asia is likely to reach urban–rural parity by 2020, and SSA by 2035. To some extent, these strong trends illustrate the importance of internal migration.

Between 2011 and 2050, towns and cities are expected to swell from 3.6 to about 6.3 billion, which is more than the projected world population increase during the same period (UNDESA, 2012a). This trend could create major economic opportunities – if it is associated with productivity gains – as it is estimated that the 50% of the world population currently living in urban areas generates about 80% of global GDP (McKinsey, 2011).

Urban areas can be broadly divided into two categories: the megacities and smaller urban centres and towns. The 23 existing megacities (i.e. with at least 10 million inhabitants) accounted for 9.9% of the world urban population in 2011, which is expected to rise to 13.6% by 2025. Most of the urban population will, however, live in cities and towns of fewer than 500,000 inhabitants (UNDESA, 2012a). It is estimated that just 600 cities generate about 60% of global GDP (McKinsey, 2011). While this share is unlikely to change significantly between 2011 and 2025, it is expected that a growing number of these cities will be in less developed countries, especially in Asia.

Urbanisation affects employment, housing, consumption and social relations. For instance, agglomeration can create more and better economic opportunities, encourage innovation, make the provision of basic services more cost-effective, improve access to information and facilitate participation in political life. On the other hand, rapid urbanisation could also lead to higher unemployment and more precarious forms of employment, greater economic vulnerability and inequalities, overstretched social services and worse pollution, and also undermine family cohesion, especially for rural migrants (Grant, 2008). For instance, it is estimated that by 2030 half of the urban population could be living in slums (UN-Habitat, 2012). These trends are likely to have major implications for national development strategies.

6.1.4 Migration

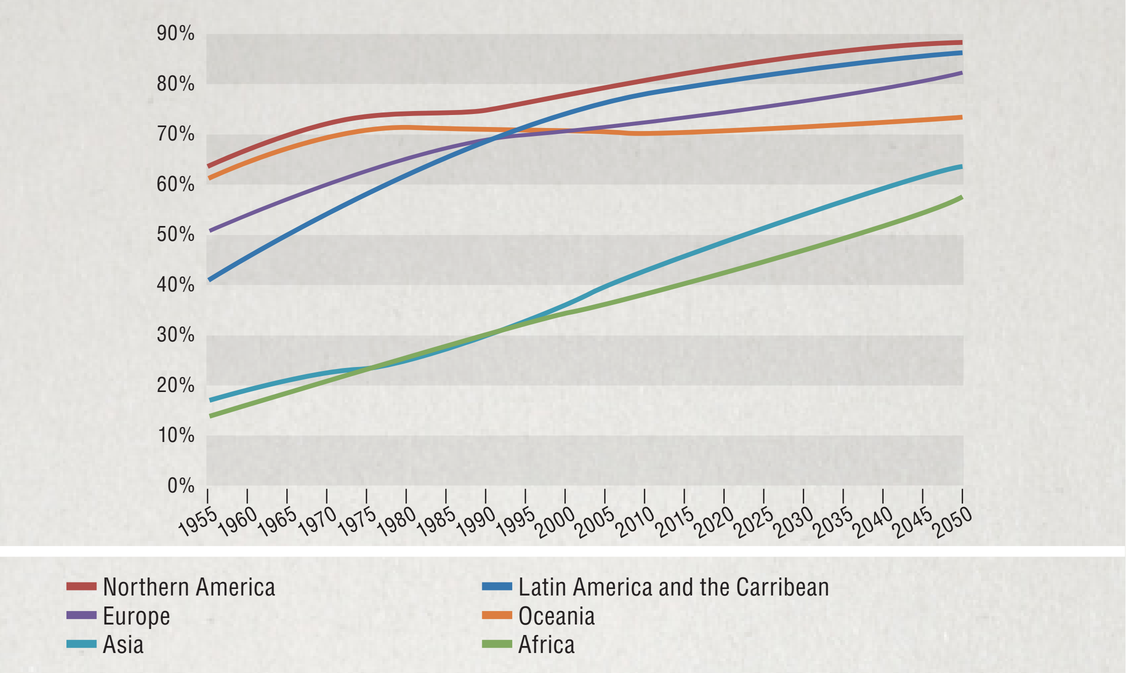
The number of international migrants increased from 156 million in 1990 to 214 million in 2010, currently representing 3.1% of the world population.

“Urban areas housed 29.4% of the world population in 1950, increasing to 51.6% in 2010 and a projected 67.2% by 2050.”

62 The under-25s represent 60.4% of the population in Africa and 44% in Asia.

> “The number of international migrants increased from 156 million in 1990 to 214 million in 2010, currently representing 3.1% of the world population.”

Figure 6.4 Urban population by region (% total population)



Source: UNDESA, 2011a

In 2010, about 60% of international migrants went to more developed regions such as Europe and North America. While the rate of migration to these regions has declined, South–South migration is growing (UNDESA, 2011b) and accounted for 34% of all global migrants in 2010, while 35% of international migrants were born in the South but resided in the North. About 25% of migrants were born and were living in the North (UNDESA, 2012b).

Nearly half of international migrants are women and migrants below the age of 35 years accounted for 42% of the global migrant population in 2010 – 12.4% were aged between 15 and 24 and 19.3% were between 25 and 34 years. Although the migrant population is older in more developed countries, it is becoming more common among older people worldwide. Nonetheless, youth migration could potentially help to slow down population ageing (UNDESA, 2011c).

The nature of migration is also changing. In the past, the choice of destination country was often linked to historical ties as well as cultural or geographical proximity. Currently, new trade relationships and strategic partnerships appear to be shaping migration choices – for instance there is growing migration between Africa and Asia. Countries along the coast of the Indian Ocean, like Kenya or Somalia, could become receiving or transit countries if such migration flows were to rise (MoD France, 2012).

It is not easy to forecast migration trends because these depend on a range of fairly unpredictable ‘pull’ and ‘push’ factors, including economic, social, environmental and political considerations.

Moreover, migration policy can shape migration. For these reasons, most projections tend to assume a continuation of recent trends (UNDESA, 2012b).

Assuming that the levels of migration observed between 2000 and 2010 remain constant, more developed regions are expected to receive an additional 96 million migrants between 2010 and 2050 – an average of 2.4 million per year. This increase should be sufficient to sustain (net) population growth until 2040–2050, but a population decline would then ensue. For less developed countries, net migration will have little impact on population growth (UNDESA, 2011b). This is an underlying assumption of the 'medium variant' projections described earlier.

If there were no migration, however, the population of the more developed regions would have declined by 10% by 2050, while in less developed regions it would be 2% higher (UNDESA, 2011b). The zero-migration scenario could mean that the old-age dependency ratio in richer countries would increase by more than expected.

In speculative terms, it is possible to imagine the following five scenarios for international migration, not all of which are mutually exclusive: (a) major receiving regions remain the same (i.e. Europe, North America and Australia); (b) Europe becomes less attractive as a receiving region because of economic uncertainty or tighter migration control, and immigration declines; (c) emerging economies attract migrants away from traditional destinations; (d) climate change forces some people to move and settle elsewhere; and (e) social instability, conflict or violence lead to greater forced or involuntary migration (MoD France, 2012).

Section summary

Demographic forecasts suggest that, despite a decline in population growth rates, the size of the world population will continue to expand in the near future, which will place further pressures on the environment. Population growth in Africa and Asia will mean that these regions account for 80% of the world population by 2050. Declining fertility rates and higher life expectancy will contribute to population ageing, which could have significant economic and social impacts in the more developed regions and in parts of Asia. Projections suggest that two-thirds of the world's population will live in urban areas by 2050, which could create opportunities but also pose challenges, especially in Africa and Asia. In fact, the prospect of half of this urban population living in slums by 2030 highlights the importance of tackling urban poverty.

In order to benefit from a demographic dividend, countries with large young populations will need to make very large investments (e.g. in social sectors and economic infrastructure) in order to create sufficient employment opportunities. International migration trends are difficult to forecast, partly because their size and direction are closely linked to economic opportunities and migration policies in potential destination countries. Growing demographic pressures in the more developed regions could encourage migration flows. Migrants could boost the working-age population of receiving countries and ease the economic and social impacts of an ageing population.

> **"Youth migration could potentially help to slow down population ageing."**

6.2 Economic trends

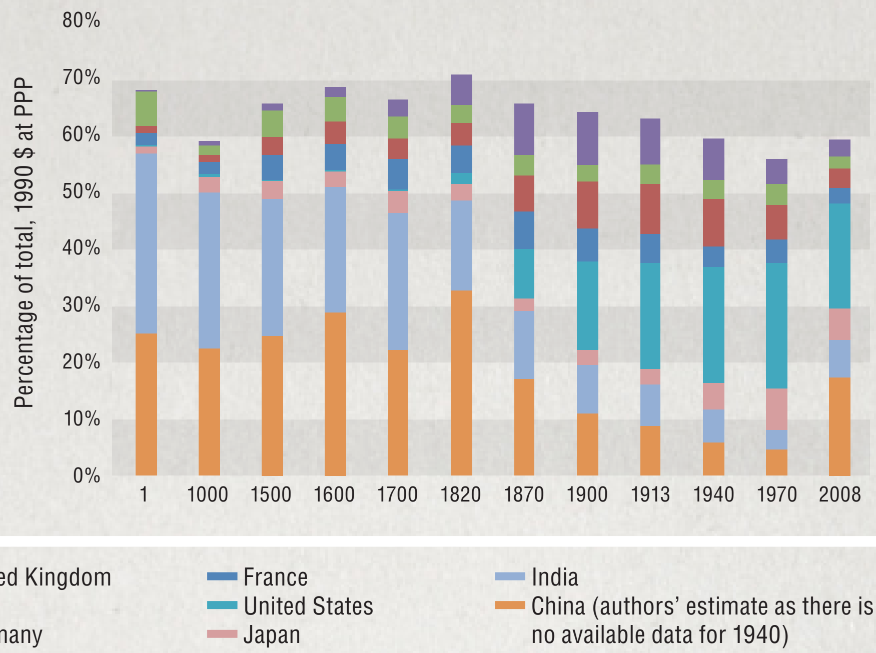
This section examines the potential evolution of economic trends such as global GDP, trade patterns, capital flows, employment and poverty. Although many studies focus mainly on advanced and emerging economies, the section looks at the implications for poorer countries, in particular at whether their unprecedented levels of economic growth since the mid-1990s are likely to be sustained.

6.2.1 Economic growth

The world economy is undergoing radical transformation. In the 19th century, Europe and the USA

> The USA, EU and Japanese share of world GDP will shrink, while China's – and to a lesser extent, India's – will rise significantly.

Figure 6.5 A history of world GDP



Source: Angus Maddison, University of Groningen (2010), available at: www.ggdc.net/maddison/Historical_Statistics/horizontal-file_02-2010.xls

became the dominant economic powers, a position that was consolidated from the end of World War II until the late 1970s. Since the 1980s, however, they have lost ground, while the rise of other economies, especially China's, is likely to shape economic relations in the coming years.

The projected size of the world economy depends on assumptions about GDP growth rates, even when the same population forecasts are used. For example, Mold (2010) projects that the size of the world economy will double by 2030, the OECD (2012) projects that it will nearly quadruple by 2050, and Hillebrand (2010a) suggests it will be two to four times larger by 2050 than it was in 2005, depending on different policy scenarios.

Despite this considerable variation, some trends appear to be fairly robust. For instance, the European Commission (2011) develops three scenarios for the world economy, all suggesting a dramatic shift in economic power. The USA, EU and Japanese share of world GDP will shrink, while China's – and to a lesser extent, India's – will rise significantly. In the main scenario, China and India will double their global GDP shares by 2030 – to 18% and 5% respectively – while the EU will decline from 29% to 22%, the USA from 26% to 23%, and Japan from 9% to 7%. By 2050, China will account for 24% of world GDP, the USA 18%, the EU 15% and India 9%. The alternative scenarios place China's share at between 23% and 28% of global GDP by 2050. Other studies have suggested even more pronounced shifts. For instance, Mold (2010) estimates that China's share will reach 28% of world GDP by 2030, Subramanian (2011) forecasts 23% for China (and 12% for the USA) by 2030, and Fouré et al. (2012) project 33% for China by 2050, 12% for the EU and 9% for the USA. These shares for China and India are fairly similar to what both countries experienced in the early 1800s. The shares for Latin America and Africa are not expected to change significantly in the next 40 years.

These forecasts suggest that the share of world GDP accruing overall to less developed countries will increase from 45% in 1990 to nearly 70% in 2030 (Mold, 2010). In fact, six economies – Brazil, China, India, Indonesia, Russia and South Korea – are expected to account for over half of the world's GDP growth by 2025 (World Bank, 2011).

Certain key assumptions underlie these trends. GDP growth rates in richer countries are expected to slow down in the medium term, due in part to demographic pressures and the long-term consequences of the current economic crisis. For less developed countries, growth would also slow down but remain quite strong, especially in China and India. China's future economic growth would decelerate due to unfavourable demographic trends, greater inequality and the nearing of the technological frontier. India could eventually grow faster than China, owing to certain structural advantages such as more favourable demographic trends (Mold, 2010). Other countries are also likely to experience strong economic performance, such as Brazil, Indonesia, Mexico, Nigeria and Turkey (RBSC, 2012). Several economies in SSA are expected to grow vigorously, although many will depend on the behaviour of commodity markets.

The structure of global GDP is likely to be shaped by the dynamics in emerging economies. For instance, China's GDP composition is expected to move away from industry (especially manufacturing) and towards services. The weight of agriculture in global GDP is expected to continue its decline and the share of services to rise, although some countries could see their shares of industry increase if they fill the manufacturing 'vacuum' left by China. Sub-Saharan Africa is likely to remain heavily dependent on agricultural and mineral commodities – and thus vulnerable to volatile commodity prices – unless governments take decisive steps to transform and diversify productive capacities. From an expenditure perspective, China's consumption as a share of GDP is likely to rise, partly at the cost of investment. Consumption is expected to increase from 41% to 55% of GDP by 2025, and investment to decline from 45% to 39% of GDP (World Bank, 2011). This suggests some expectation that structural transformation in emerging economies (e.g. greater domestic demand) could ease current imbalances in the world economy, and provide significant export opportunities for the poorest countries.

Another important global trend is the growth of the middle class. It is anticipated that by 2030, about two-thirds of the world's middle class will be living in the Asia-Pacific region (Kharas, 2010).[63] This represents a dramatic shift from the region's current 28%, and corresponds to an increase from 500 million to 3.2 billion people. Europe's share is expected to decline from 36% to 14%, and North America's from 18% to 7% by 2030. This emerging middle class will have significant implications for global demand, since consumption is also anticipated to boom. It is projected that middle-class (real) purchasing power in the Asia-Pacific region will increase from \$5 billion to \$32.6 billion by 2030, dwarfing that of North America (\$5.8 billion) and Europe (\$11.3 billion) (Kharas, 2010). The main contribution to this trend will initially come from China, but will be outstripped by India before 2030. China's middle class is expected to increase from 40% to 75% of the population by 2025, while in India it is expected to increase from 7.1% to 57% in the same period (RBSC, 2012). Hence, there will be a decline in the weight of USA and EU consumers in the world's aggregate demand, giving

“Another important global trend is the growth of the middle class. It is anticipated that by 2030, about two-thirds of the world's middle class will be living in the Asia-Pacific region.”

63 Kharas (2010) defines the middle class as those living with capita incomes of between \$10 and \$100 a day (PPP).

> "Not only are less developed countries expected to account for a growing share of international trade, but South–South trade is also expected to increase significantly. Hence, greater openness to South–South trade could safeguard growth in poorer countries from a possible slowdown in richer countries."

place to China and India. These trends could have important implications for poor countries seeking to identify export markets.

6.2.2 International trade

It is expected that international trade will continue to grow in the near future, contributing to a more globalised and integrated world economy. Despite concerns about trade protectionism, especially during the global economic crisis, a repeat of the 1930s appears unlikely. Even if greater protectionism is averted, however, domestic policies could have a significant impact on global demand for goods and services. For instance, fiscal austerity in highly indebted OECD countries is expected to depress imports, in other words it will reduce demand for exports from existing trading partners.

Several studies suggest that world trade will increase in the medium term. For instance, the World Bank (2011) forecasts that it will increase from 49.9% of output in 2010 to 53.6% in 2025. Moreover, while world exports as a share of GDP increased from 17% in 1990 to 26% in 2010, these are expected to reach 33% by 2030 (RBSC, 2012). This implies that world exports will grow faster than global GDP, although probably at a slower pace than in the past 20 years.[64]

Industrialised countries are expected to account for only 27% of global exports by 2030, compared to the current 47% (RBSC, 2012). This projection partly reflects the large expansion of Asia's middle class, which also contributes to deeper regional integration. Asia's world export share is projected to reach 30% by 2023, thus surpassing the EU as the world export leader. Of this, China is expected to account for 14% of global exports by 2030, and India for 6.4%. By then, China will lead the two major international trade corridors with Europe and other parts of Asia – 11% and 10% of interregional trade respectively (RBSC, 2012). Moreover, China and India are projected to become the main global suppliers of manufactured goods and services, while Brazil and Russia will lead in the supply of raw materials.

Not only are less developed countries expected to account for a growing share of international trade, but South–South trade is also expected to increase significantly. A recent study estimates that the share of South–South trade in global trade will increase from 12.8% to 26.5% in 2030, and slightly more under alternative scenarios – e.g. slower growth in developed countries, further trade liberalisation, or a slowdown in productivity growth in primary industries (Anderson and Strutt, 2011). Hence, greater openness to South–South trade (e.g. to the level of South–North trade) could safeguard growth in poorer countries from a possible slowdown in richer countries. Moreover, regional agreements (e.g. among ASEAN countries) could provide significant benefits, possibly even larger than a multilateral trade agreement under the Doha Development Round (Anderson and Strutt, 2011)

With regard to the (perhaps unlikely) possibility of a 'deglobalisation' scenario – i.e. reduced trade interdependence, capital flows, and migration – Hillebrand (2010b) argues that this would bring few benefits. For instance, while declining imports could lead to improved equity in developing countries, this might be at the cost of lower incomes.

6.2.3 Capital flows

International investment is intrinsically linked to current account trends, which in turn depend on future trade patterns. Major emerging markets are projected to increase their external (net) assets by more than $15 trillion between 2010 and 2025, while advanced economies will experience a fast deterioration of their investment positions (World Bank, 2011). However, it should be noted that these trends are mainly driven by China's asset

64 Over the past few decades, the increase in global trade flows has been mainly due to the growing fragmentation of production processes rather than a significant boost in value added.

accumulation patterns (from 35% of GDP in 2009 to 61% in 2025) and the respective offset in the USA (where net liabilities will rise to 69% of GDP by 2025). Japan and the Middle East will also account for fairly large positive investment positions. Nonetheless, China's current account surplus has been shrinking since 2007 – from 10% to 2.8% of GDP in 2011 – which raises some questions about the likelihood of these trends.

RBSC (2012) argues that FDI flows will grow four times faster than global GDP by 2014. Although not providing longer-term forecasts, the study argues that these are likely to grow at a higher rate than global GDP. It is expected that countries such as China and India will 'catch up' with industrialised countries by 2030 in terms of inward and outward FDI. Despite a likely increase in nominal terms, the share of global FDI in industrialised countries will continue to decline by 2030 – it was 83% in 1990 and 51% in 2009. Therefore, less developed countries will be the main recipients of FDI by 2030, with the BRICs (Brazil, Russia, India and China) likely to become the most attractive destinations, partly due to growth prospects and resource wealth. India is expected to catch up with China, possibly receiving about 70% of China's FDI inflows by 2014. There will also be greater FDI in the poorest countries, especially those that are rich in natural resources or have abundant labour. Migrant remittances and ODA are expected to remain important sources of foreign income, although these trends are difficult to predict.

6.2.4 Employment

Employment has become a key policy issue for all countries, especially in the continuing global economic crisis and highlighted in the 2011 Arab Spring.

Low real-wage growth in more advanced economies partly contributed to the global economic crisis (since it was coupled with easy credit it led to over-borrowing), while high youth unemployment played a role in the Arab Spring. Although employment was prominent in the discourse on development policy during the 1960s and 1970s, it then lost ground to other priorities (Thorbecke, 2006). The prevailing economic doctrine since the 1980s was that economic growth would inevitably lead to the creation of more and better job opportunities. As experiences in Africa and Asia attest, this is not necessarily the case.

Employment issues are likely to remain on the policy agenda for some time to come. This is partly due to future demographic trends, the impact of technological advances on labour demand, and the widening gap between capital and labour earnings – which underlie mounting income inequalities. In addition, it is crucial to achieve better employment in order to ensure that economic performance raises living standards and thus reduces poverty (World Bank, 2012). This presents a range of challenges. While unemployment and skill mismatches are perhaps more pronounced in richer countries, underemployment and precarious work are key concerns in the poorest countries.

The broad economic trends described earlier, such as the pace and type of economic growth, will crucially affect global employment prospects. However, since employment trends are quite difficult to predict, forecasts are usually made only for a few years ahead. Overall, employment growth is expected to remain subdued in most parts of the world until 2016 (ILO, 2012a). While employment growth rates have broadly remained positive during the continuing global economic crisis – with the exception of some OECD countries – these are likely to be lower than 2002–2007 rates. For instance, employment is expected to grow by about 1.3%, down from the pre-crisis level of 1.8%. East Asia, the Middle East and North Africa will be far from reaching previous growth rates – 0.3%, 2.5% and 2.3% in the period 2014–2016 versus 1.2%, 4.5% and 3.4% respectively in the period 2002–2007, which could lead to significant social and economic

> **"Employment issues are likely to remain on the policy agenda for some time to come."**

"The global economy will need to create 400 million new jobs by 2023 in order to halt the rise of unemployment, let alone reduce it (ILO, 2012a). In order for employment figures to return to their pre-crisis trend, the world economy would need to boost investment by 2 percentage points of global GDP."

distress (ILO, 2012a). Clearly, employment statistics need to be analysed in conjunction with population trends, which further highlights the urgent need to pursue a path of inclusive and sustainable growth. Finally, labour productivity is expected to increase to above the pre-crisis level, which suggests the scope for a better distribution of wealth.

Recorded global unemployment rose from 5.5% in 2007 to 6.1% in 2010, where it is expected to remain until 2016. It is also estimated that the global economy will need to create 400 million new jobs by 2023 in order to halt the rise of unemployment, let alone reduce it (ILO, 2012a). In order for employment figures to return to their pre-crisis trend, the world economy would need to boost investment by 2 percentage points of global GDP (or the equivalent of $1.2 trillion).

Global youth unemployment rates are projected to linger at about 12.7% by 2016 – one percentage point increase from the pre-crisis level in 2007–2008 (ILO, 2012b). This partly reflects the growth in unemployment in more developed regions, which rose from 12.5% in 2007 to 18.1% in 2010, although it is expected to decline to 16% by 2016. In less developed regions, youth unemployment rates have not suffered to the same extent and are expected to remain fairly stable. Youth unemployment rates in the Middle East and North Africa are alarmingly high, however, and could increase from about 24–25% in 2007 to 27–29% in 2016.

Notwithstanding these trends, there are some caveats about employment statistics. For instance, quantitative trends may conceal important qualitative changes in employment conditions, such as growing job insecurity (e.g. temporary and part-time contracts) and lower real wages. Moreover, unemployment trends take no account of the rising number of discouraged workers. In the poorest countries, it makes little sense to look at unemployment data since very few people can afford to be out of work. Indeed, vulnerable or precarious forms of employment – such as own-account and unpaid family work – are the norm. Considering the economic prospects of rich countries and the demographic pressures faced by many less developed countries, employment remains a key challenge for the world economy.

6.2.5 Poverty

Recent trends in income poverty have been discussed in previous chapters. This section summarises key poverty projections, which are often surrounded by much more uncertainty and controversy.

Chandy and Gertz (2011) project that world poverty will decline from 25.7% in 2005 to 9.9% in 2015 – with an intermediate estimate of 15.8% in 2010 (see Table 6.1). All regions would experience large reductions between 2005 and 2015, namely East Asia (from 16.8% to 2.7%), South Asia (from 40.2% to 8.7%) and SSA (from 54.5% to 39.3%). These trends would affect the geographical distribution of poverty. For example, the share of the world's poor living in Africa would rise from the current 28% to 60%, and in fragile countries from 20% to over 50%. Some regard even these estimates as over-optimistic. In particular, their poverty projections for India (7%) and China (0.3%) are far lower than those forecast by the World Bank (23.6% and 5.1% respectively), leading to significantly different levels (and distribution) of poverty. The difference can be explained by the fact these forecasts rely on two crucial (and fairly optimistic) assumptions: (a) that income distribution remains the same (i.e. inequality does not change), and (b) that economic growth fully translates into an increase in mean household income.[65]

The World Bank (2010) on the other hand makes projections to 2020. Global poverty declined from 41.7% in 1990 to 25.2% in 2005, and this fall is

65 For a further discussion on these methodological differences, see http://blogs.worldbank.org/developmenttalk/new-brookings-study-is-overly-optimistic-on-progress-against-poverty

Table 6.1 Poverty projections

	Chandy and Gertz			World Bank			
	2005	2010	2015	2005	2010	2015	2020
East Asia and Pacific	16.8	7.4	2.7	16.8	..	5.9	4.0
China	15.9	..	0.3	15.9	..	5.1	4.0
Europe and Central Asia	3.4	1.8	0.9	3.7	..	1.7	1.2
Latin America and Caribbean	8.4	6.2	4.5	8.2	..	5.0	4.3
Middle East and North Africa	3.8	2.5	1.9	3.6	..	1.8	1.5
South Asia	40.2	20.3	8.7	40.3	..	22.8	19.4
India	41.6	..	7.0	41.6	..	23.6	20.3
Sub-Saharan Africa	54.5	46.9	39.3	50.9	..	38.0	32.8
World	25.7	15.8	9.9	25.2	..	15.0	12.8

Source: Chandy and Gertz, 2011; World Bank, 2010

“While most studies project a continuing decline in global poverty (even at the regional level), the pace at which this will take place will depend on a range of factors, including the level and distribution of economic growth.”

expected to continue to 15% in 2015 and 12.8% in 2020.[66] These trends already take into account the impact of the global economic crisis. However, in a more pessimistic scenario of slower growth, world poverty would reach 18.5% in 2015 and 16.3% in 2020. For SSA, poverty fell from 57.6% in 1990 to 50.9% in 2005 and it is expected to drop to 32.8% in 2020. Again, a slower growth scenario would hold back poverty reduction to 43.8% in 2015 and 39.9% in 2020. In order to reach the MDG1 targets, poverty in SSA would need to be below 29% by 2015. Poverty in South Asia is projected to fall from 40.3% in 2005 to 19.4% in 2020 (the values for India are fairly comparable). In East Asia and the Pacific (EAP), poverty is expected to decline from 16.8% in 2005 to 4% in 2020 (the estimates for China are quite similar). Obviously, these reductions will be less pronounced in a more pessimistic scenario.

Finally, Hillebrand (2010a) makes a longer forecast for poverty. The optimistic scenario suggests that world poverty could fall from 21.3% in 2005 to about 13.3% in 2015 and 2.6% in 2050. Sub-Saharan Africa would reduce poverty from 50.9% in 2005 to 41.1% in 2015 and 11.7% in 2050. China and India would halve their 2005 poverty headcount ratios by 2015 (to 7.6% and 19.8% respectively) and nearly eradicate extreme poverty by 2050. The world's Gini coefficient would decline from 0.684 to 0.648 respectively. In a slow-growth scenario world poverty would remain at 12% by 2050, with SSA experiencing an increase in extreme poverty to 53.1% in 2050, while the world's Gini coefficient would decline marginally to 0.679.

While most studies project a continuing decline in global poverty (even at the regional level), the pace at which this will take place will depend on a range of factors, including the level and distribution of economic growth. It should also be noted that the main discrepancies relate to the pace of poverty reduction in India and, to a lesser extent, China. For example, the Chandy and Gertz (2011) projections are more optimistic than those produced by the World Bank (2010), while those from Hillebrand (2010a) are often in between those two. Nonetheless, the observation that global extreme poverty will

66 These are fairly similar to the figures presented in World Bank (2012), used in Chapter 1, but this earlier source also includes forecasts for China and India.

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> "There will be a need for a differentiated approach in order to simultaneously address the challenges faced by the poorest countries and countries that require a different type of engagement."

become more concentrated in SSA appears to be fairly robust, which would reinforce the original MDG call for a special focus on Africa.

Moreover, while the majority of the world's extreme poor now live in MICs, future trends are sensitive to several factors – including national dynamics (e.g. relating to population, average income, and poverty) and updates to the income threshold for LICs and MICs. Sumner (2012a) projects that the world's poor might be evenly distributed between LICs and MICs by 2030 (according to the $2 poverty line). But since some LICs will probably graduate to MIC status in the coming years, it is likely that the majority of the poor will live in MICs.[67] This is not to suggest that the focus of the international community should be on MICs. There will be a need for a differentiated approach in order to simultaneously address the challenges faced by the poorest countries (many of which are struggling to significantly reduce poverty levels) and countries that require a different type of engagement. In fact, while external support such as ODA is likely to remain crucial for the poorest countries, it will play only a minor role in advancing human development in MICs, given their greater domestic and international financial resources. Sumner (2012b) argues that in the near future, most of the world's poor will live in countries that have the domestic scope to eradicate extreme poverty, while external support for poverty reduction will remain essential for LICs. The future will certainly require a more focused allocation and use of ODA to eradicate poverty in the poorest countries, and a stronger focus on domestic redistribution in fast-growing developing countries. This essentially calls for a greater focus on inclusiveness (and sustainability) in a post-2015 development framework.

Section summary

There is broad agreement that economic growth in less developed countries will be faster than in richer countries. China and India in particular will account for a much larger share of world GDP. Moreover, a growing middle class in emerging economies is likely to shape the dynamics of the world economy. The volume of international trade and capital flows is expected to increase, suggesting a more interdependent global economy, although the geographical patterns are likely to change significantly, with a particularly strong increase in South–South economic relations. Global employment prospects are quite bleak, partly due to the long-term impact of the global economic crisis, the effects of globalisation on wage levels, and technological advances. There are some discrepancies in projected poverty trends. Emerging economies are expected to reduce poverty significantly (especially China and India, even if the magnitudes are rather uncertain), but current trends suggest that poverty in SSA is likely to remain high. This suggests that a successor to the MDGs should pay special attention to the challenges faced by the poorest countries. In particular, they will need support to diversify their economies, enhance productive capacities and promote structural transformation.

Given the recent slowdown of economic growth in emerging economies – especially Brazil, China and India – the key question is whether this phenomenon is cyclical or structural. If the deceleration is linked to ageing populations, lower potential output or a so-called 'middle-income trap', then the future prospects of the poorest countries may be significantly reduced. This would further support the need for a global development agreement.

6.3 Environmental trends

This section examines the main environmental trends particularly in relation to climate change and the scarcity of natural resources, which may affect the sustainability of current demographic and economic trends.

67 Kharas and Rogerson (2012) argue, however, that the bulk of poverty will revert to LICs by 2025.

6.3.1 Atmosphere and global warming

There is a broad academic and policy consensus that increased greenhouse gas (GHG) emissions and atmospheric concentrations have led to rising global temperatures. In fact, 2000–2009 was the warmest decade since records began in the mid-19th century. Current models project that GHG emissions could double over the next 50 years, which would lead to at least a 3°C rise in the global temperature by the end of the century (UNEP, 2012b). The OECD (2012) projects a smaller increase in GHG emissions by 2050 (50%), but also projects that the global temperature could rise between 3°C and 6°C by 2100. A key contributing factor is the level of energy-related carbon-dioxide (CO2) emissions, which is expected to grow by 70% by 2050 (OECD, 2012). These trends could have substantial economic impacts.

Some estimates suggest that a 2.5°C temperature increase from pre-industrial levels could generate economic damages equivalent to 1–2% of world GDP by 2100. These values rise significantly under alternative scenarios: 2–4% of world GDP with a 4°C temperature increase, and 10–11% of global GDP with a 6–7°C increase (UNEP, 2012a). The environmental, social and economic consequences of such scenarios would be catastrophic.

The main effects of a significant long-term rise in global temperature include changes to rainfall patterns, rising sea levels and greater intensity and frequency of extreme weather events. Flood and drought-related disasters have risen by 230% and 38% respectively between the 1980s and 2000s, while the costs of adaptation and mitigation of these events are also expected to soar (UNEP, 2012a). The poorest regions are expected to be the worst affected by the consequences of climate change (Cline, 2007). Africa and Asia, in particular, will experience reduced agricultural productivity and food security, increased water stress, floods and droughts, and the spread of diseases such as cholera (IPCC, 2007). Small island development states (SIDS), especially in the Caribbean and Pacific regions, are also extremely vulnerable to environmental shocks. Climate change will also cause significant biodiversity losses.

Increased air pollution could generate large economic losses, for instance by lowering agricultural yields and accentuating the impacts described above. Moreover, it would aggravate its already large impact on global health, in particular respiratory diseases. Air pollution is expected to become the main environmental cause of premature deaths by 2050, overtaking unsafe water and sanitation (OECD, 2012). This is partly due to increased traffic and industrial emissions, which raise pollution concentrations in urban areas, but also due to high domestic pollution from biomass cooking stoves.

There has been some progress in protecting the stratospheric ozone. For example, the measures taken under the 1987 Montreal Protocol were instrumental in drastically reducing the consumption of ozone-depleting substances, which in turn have led to a significant decline in their concentration in the stratosphere since 1994 (UNEP, 2012a). This is an encouraging illustration of how a global agreement can lead to successful results.

6.3.2 Land

About one-third of the world's land surface is currently used for agricultural production, with another third occupied by forests, and a fifth by savannahs and grasslands. The remaining land is sterile or unproductive, with cities covering only 1% of the global land mass (Hertel, 2010).

The increasing pressures on land are due partly to competing demands for food, animal feed, fuel, fibre and raw materials, which aggravate deforestation and desertification (UNEP, 2012b). The factors underlying these trends include population growth, changing consumption patterns associated with improved living standards and the search for alternative sources of energy.

“Some estimates suggest that a 2.5°C temperature increase from pre-industrial levels could generate economic damages equivalent to 1–2% of world GDP by 2100. These values rise significantly under alternative scenarios: 2–4% of world GDP with a 4°C temperature increase, and 10–11% of global GDP with a 6–7°C increase.”

> “It is estimated that global food production will have to increase by 70% by 2050 in order to meet growing demand, with cereal production increasing by around 50% and meat production by 75%.”

It is estimated that global food production (i.e. excluding biofuels) will have to increase by 70% by 2050 in order to meet growing demand, with cereal production increasing by around 50% and meat production by 75% (FAO, 2009). These trends require a significant increase in yields and/or expansion of agricultural land (i.e. arable land and pastures), which global warming could impede. Such large-scale increases would not be necessary if significant measures were taken to reduce waste. A recent study suggests that one third of food produced for human consumption is lost or wasted globally – in Europe and North America, individual consumers waste on average 95–115 kg/year compared with 6–11 kg/year in SSA and Southeast Asia (Gustavsson et al., 2011).

The fast-growing middle class in emerging economies will lead to significant changes in consumption patterns, including a shift towards a more meat-intensive diet. Although meat represents a small share of the global human diet, its production is extremely resource-intensive, notably in terms of land and water, and significantly contributes to CO_2 emissions. For instance, livestock production accounts for 70% of agricultural land, while overgrazing plays an important role in land degradation (Steinfeld et al., 2006). Hence, a stronger demand for meat would have significant economic and environmental implications. Moreover, a rapid expansion of biofuel production, such as ethanol, could seriously undermine food security in the poorest countries, as competing uses of land for the production of food and renewable energy intensify (ERD, 2012). Even if crop yields and animal productivity increase, the impact of climate change on agricultural yields could more than offset potential technological improvements. Moreover, the scope for increasing yields through the use of phosphorus-rich fertilisers may not be infinite. There have been growing concerns about the depletion of phosphorus stocks, although projections vary considerably (HLPE, 2011).

6.3.3 Water

By 2050, global water demand is projected to double, owing to higher demand for industry, domestic use and the need to maintain ‘environmental flows’, such as for agriculture (Foresight, 2011). The OECD (2012) estimates that global demand for water will increase by over 50% by 2050 – due to mounting demand from manufacturing (400%), thermal electricity generation (140%) and domestic use (130%). This leaves little scope to increase irrigation for food production. More water efficient technologies should help, and the growing demand for water could also be addressed via pricing and better management of waste. Limiting waste in other sectors such as food production, which is a water-intensive activity, would also help to limit the rise in water consumption.

While there has been progress in the MDG7 target to increase sustainable access to clean drinking water and basic sanitation, poor water quality remains the largest cause of global health problems (UNEP, 2012b). Moreover, dealing with water scarcity and pollution arising from population growth and climate change can have significant costs, for instance desalination and addressing nitrate concentrations. Over 40% of the global population is expected to live in river basins experiencing severe water stress, especially in Africa and Asia (OECD, 2012). Groundwater depletion and nutrient pollution already threaten agriculture and urban water supply. In addition, fish stocks are being depleted at an unprecedented rate, mainly due to commercial fisheries and overfishing (UNEP, 2012b).

6.3.4 Biodiversity

Biodiversity plays an important role in reducing poverty. The loss of populations (e.g. plants, animals), species and habitats tends to affect poor people directly, as they often rely on local ecosystems and live in places that are most vulnerable to ecological changes (UNEP, 2007). Biodiversity supports ecosystem services that provide food, freshwater, medicines, biomass and unpolluted air, among other things, which are vital for sustaining livelihoods and wellbeing. For instance, the genetic and physiological blueprints of species of flora and fauna are crucial for the development of crops to safeguard global food security, and for medical and technical research (WBGU, 2011). Many of these are public goods, but their importance is often underestimated (ERD, 2012).

Recent projections point to accelerated rates of extinctions of species, loss of natural habitat, and changes in the distribution and abundance of species (Leadly et al., 2010). The main causes of biodiversity loss include changes in land use, modification of river flow, freshwater pollution and exploitation of marine resources. Climate change and ocean acidification are becoming more important. Biodiversity illustrates the interconnectedness of different environmental resources. Furthermore, the impacts of biodiversity loss are expected to affect the poorest countries most profoundly. This underlines the need to address environment-related challenges at the global level. It also suggests that environmental sustainability measures should be embedded in development policies, since poor people tend to rely more heavily on their immediate environment for their livelihood.

6.3.5 Mineral and energy resources

Energy supply plays a key role in economic development. For instance, the availability of reliable and inexpensive sources of energy is crucial for expanding production capabilities and enhancing industrial competitiveness. Moreover, about 20% of the world's population (1.3 billion people) lacks access to electricity, and 2.7 billion people rely on biomass for cooking – a source of air pollution that causes respiratory diseases (IEA, 2011). It will be necessary to increase investments in energy infrastructure in order to ensure an adequate and sustainable provision of energy, as well as improved access.

The global demand for primary energy is projected to grow by a third between 2010 and 2035 (IEA, 2011). However, these forecasts tend to be quite sensitive to assumptions about energy efficiency, in addition to underlying demographic and economic trends. For example, BP (2012) estimates that primary energy consumption will grow by nearly 40% between 2010 and 2030, and the OECD (2012) argues that the world economy could require 80% more energy in 2050. These differences are also partly related to the design of alternative policy scenarios, which have an impact on the supply and demand of energy.

Despite these discrepancies, there is some agreement that at least 90% of this growth will come from non-OECD economies (IEA, 2011; BP, 2012).[68] China is expected to account for about 30% of global energy demand, although energy consumption growth rates will be faster in India, Indonesia, Brazil and the Middle East. As regards energy supply, OPEC oil production is expected to account for more than half of the global total in 2035, while more than 70% of gas will be produced by non-OECD countries, such as Russia (IEA, 2011).

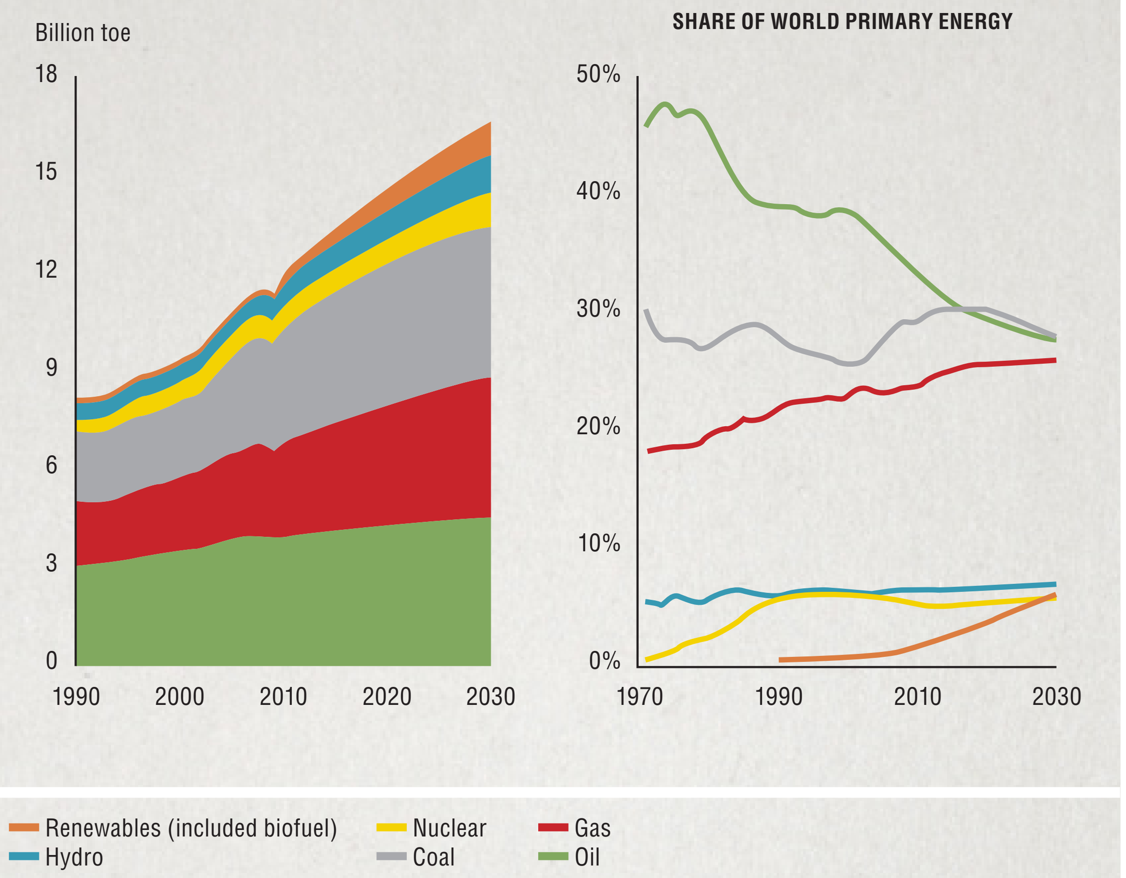
In terms of its composition, the demand for fossil fuels – which include oil, coal and natural gas – will rise and remain the predominant source of primary energy. The global share of fossil fuels is expected to either decline slightly – from 81% in 2010 to 75% in 2035 (IEA, 2011) – or to remain at about 85% (OECD, 2012). The expected growth of natural gas is particularly noteworthy, whereas the dependence on oil and coal is projected to decrease marginally. Nuclear power is expected to grow by

“The impacts of biodiversity loss are expected to affect the poorest countries most profoundly. This underlines the need to address environment-related challenges at the global level. It also suggests that environmental sustainability measures should be embedded in development policies, since poor people tend to rely more heavily on their immediate environment for livelihood.”

68 Between 2010 and 2035, non-OECD countries are expected to account for 90% of population growth, 70% of economic growth, and 90% of energy demand growth (IEA, 2011).

"Energy supply plays a key role in economic development."

Figure 6.6 Energy consumption and shares of world primary energy



Source: BP, 2012

about 70% (mainly led by China, India and South Korea), while renewable energy sources – such as hydropower and wind – could account for about half of the additional power-generation capacity to help meet a growing global demand (IEA, 2011).[69]

Although oil will continue to be an essential energy source for the world economy, it is expected to slowly decline in relative terms owing to the slow growth of supply. Nevertheless, several studies suggest that prices will remain high due to strong demand from the transport sector in emerging economies (especially cars) and rising production costs.[70] The demand for oil (excluding biofuels) is expected to increase from 87 million to 99 million barrels per day between 2010 and 2035, with prices rising to about $210 a barrel (in nominal terms) by 2035 (IEA, 2011). However, the discovery of new oil reserves, improvements in fuel efficiency, investments and technological advances in renewable energy sources, and changes in consumer behaviour could push down the price of (and in some cases the demand for) oil in the medium term.

The share of natural gas in the global primary energy mix is set to increase over a period that will also witness an important growth in demand. New methods of extraction – such as 'fracking', used to release shale gas – are considered to have significant potential to tap new reserves of natural gas. However, the environmental impacts of 'fracking' and other new extractive methods remain uncertain and controversial. Renewable sources of energy (including hydro and possibly nuclear) are also expected to grow considerably over the next few decades, but will remain a relatively minor source due to low starting points.

Global energy intensity is expected to continue its declining trend, including in China and India, which will result in significantly less energy-intensive growth, or 'relative decoupling'. However, there is some historical evidence that energy intensity increases as countries industrialise and then declines as their economies mature – usually coinciding with a peak in the share of the industrial sector in GDP (BP, 2011). This suggests that the poorest countries are likely initially to experience growing energy intensities. There is little evidence to suggest that 'absolute decoupling' will materialise in the short to medium term, even in the richer countries that have already improved their efficiency.

Most of the trends presented so far correspond to the International Energy Agency's baseline scenario that assumes there will be significant global investments in energy infrastructure in order to boost supply – about $38 trillion from 2011 to 2035, of which two-thirds would be in non-OECD countries. According to this scenario, global emissions increase by 20%, leading to a long-term global temperature increase of over 3.5°C, and the continuing reliance on fossil energy sources would still cause irreversible impacts on the environment (IEA, 2011).

Uncertainties relating to nuclear power, subsidies and investments in renewable sources, and technological advances can lead to significantly different scenarios, all with implications for energy supply and prices. In a rather bleak scenario in which governments do not observe recent policy commitments, global temperatures could increase by 6°C or more. An optimistic scenario, which envisages the achievement of the international goal to restrict the global temperature increase to 2°C above pre-industrial levels, would require a remarkable shift in the supply of energy – especially away from coal and oil – and thus require much stronger policy commitments (IEA, 2011).

> "There is little evidence to suggest that 'absolute decoupling' will materialise in the short to medium term."

69 The forecast for nuclear power might need to be revised downwards in view of the Fukushima disaster.

70 In order to meet a growing global demand, there will be a need to explore unconventional sources of oil (e.g. deep-water, oil sands and oil shales). Although these entail higher production costs, higher prices could stimulate investment in these areas, especially if demand remains fairly price-inelastic.

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> "Population growth and increased production are predicted to have alarming effects on the climate, natural resources and energy provision, and only a drastic shift in policy priorities and patterns of consumption and waste will avert catastrophic consequences."

Section summary
The environmental projections presented above provide some evidence of the likely impact and (lack of) sustainability of current demographic and economic trends. Population growth and increased production are predicted to have alarming effects on the climate, natural resources and energy provision, and only a drastic shift in policy priorities and patterns of consumption and waste will avert catastrophic consequences. The impact of these trends on the poorest countries is likely to be severe. Although technological developments could ease the burden of current trends on the environment, it is unclear whether these will materialise at a sufficient speed or scale to absorb a growing demand for natural resources.

6.4 Conclusions

Following this critical overview of major demographic, economic and environmental trends, this section draws out the implications in a schematic representation of the main obstacles to an inclusive and sustainable development path for the world economy. Signs of many of these trends are illustrated at the country level in this Report's four case studies (see Table 2.2). The problems of environmental degradation are noticeable in all four countries. Under- and unemployment are also shared concerns, and the different age structures and urbanisation rates could generate major changes in the three poorest countries if the global trends reviewed in this chapter are confirmed.

Many of the trends highlighted in this chapter coincide with global risks identified in recent international surveys. For instance, within each of the five risk categories analysed by the World Economic Forum (WEF, 2012), a wide range of stakeholders judged the most severe to be: (a) unsustainable population growth (societal risks); (b) chronic fiscal imbalances (economic risks); (c) GHG emissions (environmental risks); (d) global governance failure (governance risks); and (e) critical systems failure (technological risks). Others include the mismanagement of population ageing, chronic labour-market imbalances, prolonged neglect of infrastructure, persistent extreme weather, and a 'hard landing' of an emerging economy. Nonetheless, the likelihood and impact of the 50 risks presented in this survey vary considerably across regions and among different stakeholders. For example, the most critical risks in SSA were food shortage, extremely volatile energy and agricultural prices; water supply and severe income disparity.[71]

The trends reviewed in this chapter suggest three types of scenario: neutral, pessimistic and optimistic. In a neutral scenario, which represents the 'status quo', demographic pressures continue to strain the environment and population ageing poses considerable social and economic challenges (see Table 6.1). Fast urbanisation in less developed regions aggravates economic and environmental problems, such as unemployment and pollution. International migration remains fairly restricted, despite labour shortages in regions with ageing populations, such as Europe, Japan and possibly China. Although global GDP per capita increases (thus leading to higher living standards), the world economy remains vulnerable to the performance of emerging economies. International trade and capital flows increase as a share of GDP, thus enhancing economic interdependence, and South–South economic relations become more important. Employment remains subdued in many parts of the world, posing a challenge to inclusiveness and potentially leading to social unrest. Global poverty is reduced, although progress in SSA remains slow and inequality increases marginally. Finally, continuing global warming causes significant environmental and economic damage. Resource

71 Data explorer available at: http://reports.weforum.org/global-risks-2012/. See also 2011 barometer.

scarcity leads to high and volatile commodity prices, which undermine economic performance in less developed regions and hinder structural transformation. The world remains heavily dependent on fossil fuels.

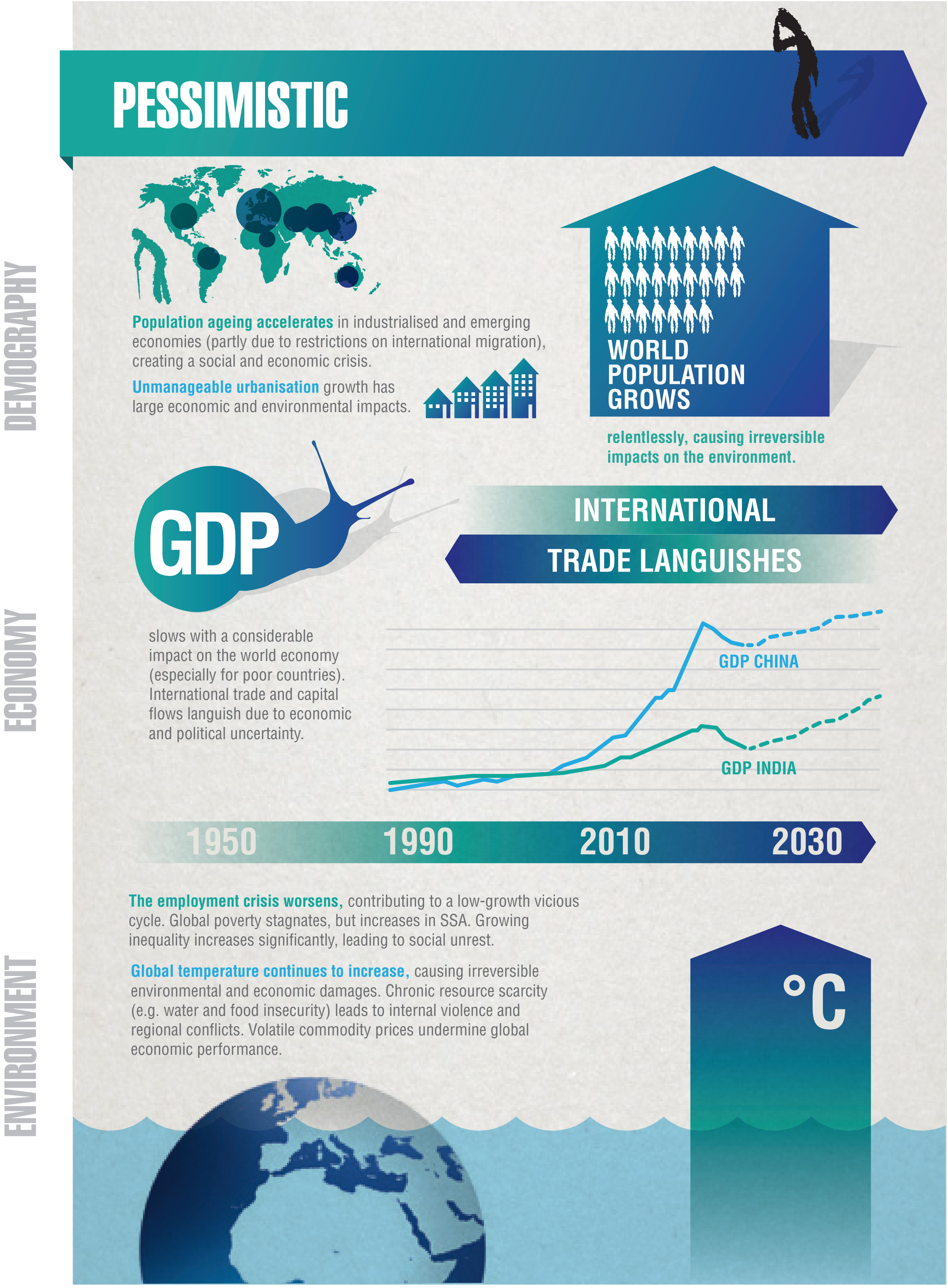
A more 'pessimistic' scenario entails the failure to adopt policies or coordinate efforts at the global level. In this scenario, the world population grows relentlessly, causing irreversible damage to the environment. Population ageing accelerates in industrialised and emerging countries (partly due to restrictions on international migration), creating a social and economic crisis. Unmanageable urbanisation has large economic and environmental impacts. Global living standards deteriorate, as a sharp economic deceleration in China and India has a devastating impact on the world economy, especially for poor countries. International trade and capital flows languish due to economic and political uncertainty, or even because of greater protectionism and nationalism. The employment crisis worsens, contributing to a low-growth vicious cycle. Global poverty stagnates, but rises in SSA. Inequality increases significantly, leading to social unrest around the world. Finally, significant levels of global warming result in irreversible environmental and economic damage. Chronic resource scarcity (e.g. water and food insecurity) leads to highly volatile commodity prices, as well as internal violence and regional conflicts.

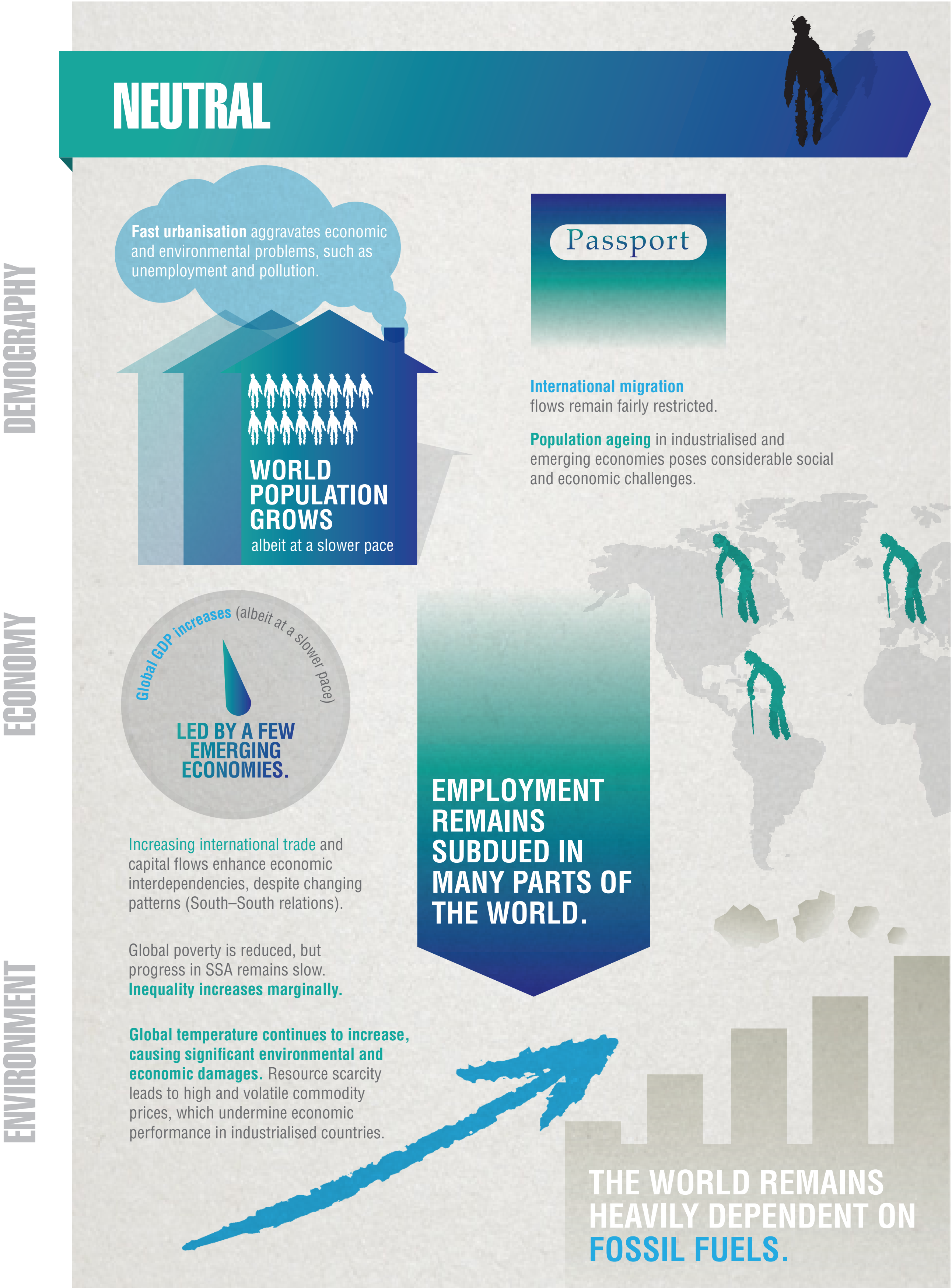
Achieving the 'optimistic' scenario would require bold and immediate action in order to achieve more inclusive and sustainable outcomes. The rate of world population growth continues to decline, easing demographic pressures. This would be mainly achieved via better living standards in SSA, likely to lead to a dramatic reduction in fertility rates. Greater international migration from poor countries reduces the impact of population ageing in richer economies and helps to reduce global poverty. Greater investment in rural areas slows down urban growth and is accompanied by stronger investment in social and municipal services. Global GDP growth is sustained because of the performance of several developing countries, contributing to a more balanced and resilient world economy. Indeed, SSA becomes an important and booming market. International trade and productive capital flows increase, especially across the South. A dynamic world economy contributes to the widespread creation of productive employment, pushing up real wages and reducing income inequality. Global poverty is significantly and sustainably reduced, especially in SSA. Finally, the global temperature increase is restricted to the international goal of 2°C. Land and water resources are well managed, partly due to strong agricultural development to ensure national food security. A large investment in renewable energy dramatically reduces the dependence on fossil fuels.

These three scenarios illustrate the great challenges that a new global development framework will need to tackle, and therefore emphasise the urgent need for global action. In fact, a more inclusive and sustainable path for the world economy (the 'optimistic' scenario) is highly dependent on strong collective action. Whichever scenario prevails, SSA and to a lesser extent South Asia – where most LDCs are located – are especially vulnerable to changes in the global economic and environmental context. This should compel the international community to focus its attention on the region(s) and underlines the need for a post-2015 development agenda to have inclusiveness, sustainability and transformational development at its core.

“The trends reviewed in this chapter suggest three types of scenario: neutral, pessimistic and optimistic.”

Table 6.2 Three scenarios




DEMOGRAPHY
ECONOMY
ENVIRONMENT
NEUTRAL
Fast urbanisation aggravates economic and environmental problems, such as unemployment and pollution.
WORLD POPULATION GROWS
albeit at a slower pace
Passport
International migration flows remain fairly restricted.
Population ageing in industrialised and emerging economies poses considerable social and economic challenges.
Global GDP increases (albeit at a slower pace)
LED BY A FEW EMERGING ECONOMIES.
Increasing international trade and capital flows enhance economic interdependencies, despite changing patterns (South–South relations).
EMPLOYMENT REMAINS SUBDUED IN MANY PARTS OF THE WORLD.
Global poverty is reduced, but progress in SSA remains slow.
Inequality increases marginally.
Global temperature continues to increase, causing significant environmental and economic damages. Resource scarcity leads to high and volatile commodity prices, which undermine economic performance in industrialised countries.
THE WORLD REMAINS HEAVILY DEPENDENT ON FOSSIL FUELS.

OPTIMISTIC

DEMOGRAPHY

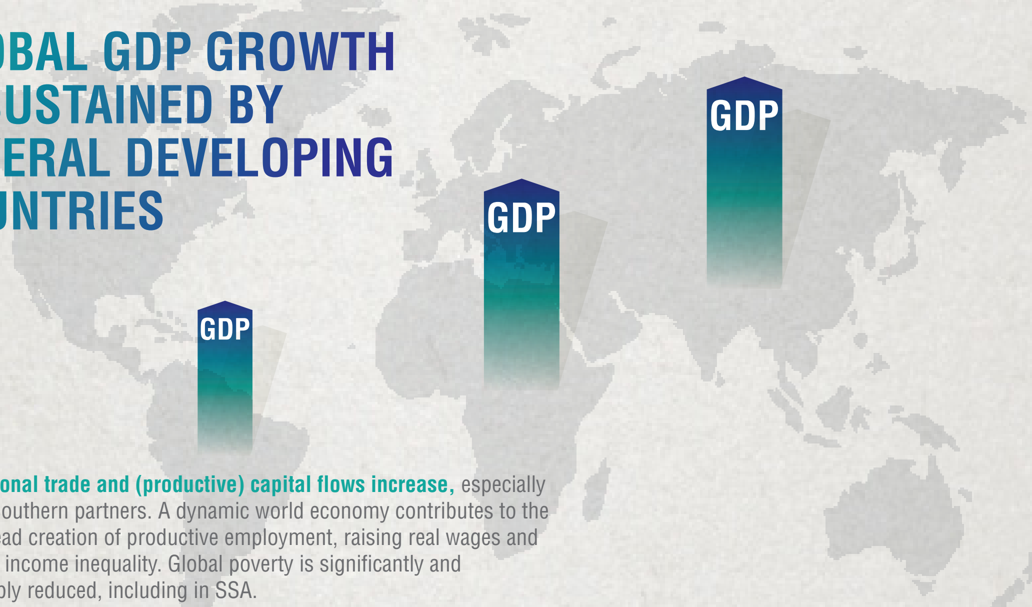
FALLING FERTILITY RATES

WORLD POPULATION GROWTH IS FURTHER REDUCED (DUE TO FALLING FERTILITY RATES), EASING DEMOGRAPHIC PRESSURES.

Greater international migration from poor developing countries attenuates impacts of population ageing in more advanced countries. Slower urbanisation growth (due to investments in rural areas) is accompanied by stronger investments in social and municipal services.

ECONOMY

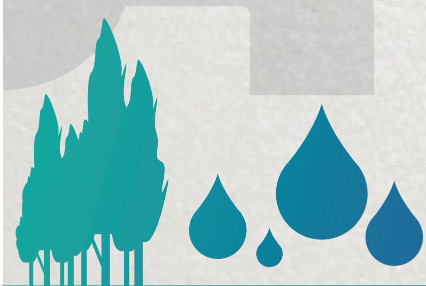
GLOBAL GDP GROWTH IS SUSTAINED BY SEVERAL DEVELOPING COUNTRIES

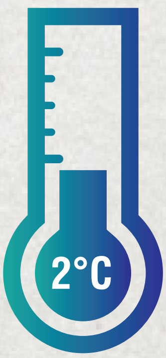


International trade and (productive) capital flows increase, especially among Southern partners. A dynamic world economy contributes to the widespread creation of productive employment, raising real wages and reducing income inequality. Global poverty is significantly and sustainably reduced, including in SSA.

ENVIRONMENT

LAND AND WATER RESOURCES ARE ADEQUATELY MANAGED.





THE GLOBAL TEMPERATURE INCREASE IS RESTRICTED TO 2°C

(INTERNATIONAL GOAL).

Strong investments in renewable energy sources dramatically reduce the world's dependence on fossil fuels.

PART III. DRIVERS OF THE GLOBAL PARTNERSHIP FOR DEVELOPMENT

This third Part focuses on the possible basis for a new global partnership for development by looking at three key drivers of global partnership: flows of money, goods and people. It examines the international environment these create toward enabling developing countries to pursue their own development priorities. These issues are treated in three thematic chapters on development finance (Chapter 7), trade and investment (Chapter 8), and labour migration (Chapter 9), each looking into their existing and potential impact on poverty reduction, and at the international policies that govern them.

CHAPTER SEVEN

7 MONEY: DEVELOPMENT FINANCE

> “A fundamental question for an ambitious post-2015 global development framework is how both to raise additional development finance and make it more effective.”

7.1 Introduction and overview of recent trends

The global financial crisis intensifies the challenge to increase the volume of development finance. The failure of all but a handful of OECD countries to reach the 1970 commitment to provide 0.7% of GNI as ODA, and the funding gap for the MDGs, illustrate the existing difficulties. To this can be added the huge cost of financing climate change adaptation and mitigation. A fundamental question for an ambitious post-2015 global development framework is, therefore, how both to raise additional development finance and make it more effective.

A first step is to look at recent trends in the main international financial flows. Between 2000 and 2008 many developing countries experienced remarkable economic growth, which also boosted government revenues. In sub-Saharan Africa (SSA), direct tax revenue as a share of GDP increased during that period by 2.9 percentage points overall, and for the LICs in the region by up to 3.4 points (AfDB, 2012), a trend also observed in parts of Asia and Latin America.

External financial flows to developing countries also increased and became more diversified since the adoption of the MDGs. For instance, ODA to lower middle-income countries (LMICs) and LICs rose steadily (Figure 7.1), while ODA to upper middle-income countries (UMICs) remained almost stable. However, 2010 marked a turning point. In 2011, ODA disbursements dropped by around 2.7% in real terms (OECD, 2012b). In view of the austerity measures being adopted in many donor countries, this trend is expected to continue for the foreseeable future (OECD, 2012c). Similarly, FDI to developing countries was gradually increasing until the global financial crisis (Figure 7.2). Inflows dropped most significantly for UMICs, which had been attracting more investment than LMICs and LICs, while LICs generally struggled to attract investment. Compared to ODA, FDI has been more volatile and responded more rapidly and dramatically to the financial crisis, but seemed to have recovered by 2010, which suggests a positive trend. Portfolio investment flows to developing countries are much lower and more volatile than FDI flows (Figure 7.3). They too slumped in 2008, followed by weak signs of recovery. Remittances to developing countries have risen since 2000, although the rate of increase has been far higher in MICs than in LICs (Figure 7.4). Following a slight reduction in 2009, remittance transfers quickly regained pre-crisis levels in 2010.

Comparing the absolute volumes of external flows since 2000, it is clear that globally ODA was surpassed from the start and is unlikely to become more significant in view of the austerity measures

Figure 7.1 Net ODA (2000-2010)

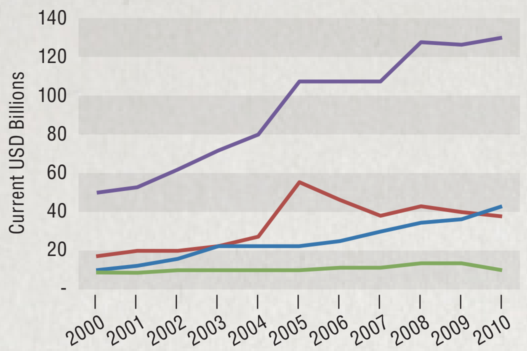


Figure 7.2 FDI (net inflows) (2000-2010)

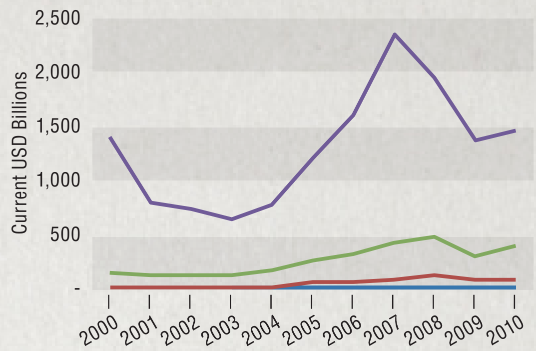


Figure 7.3 Portfolio equity (net inflows) (2000-2010)

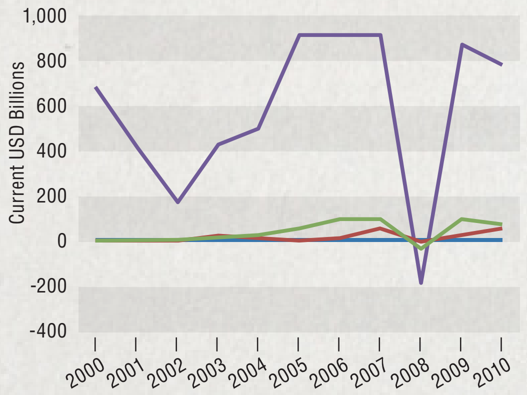
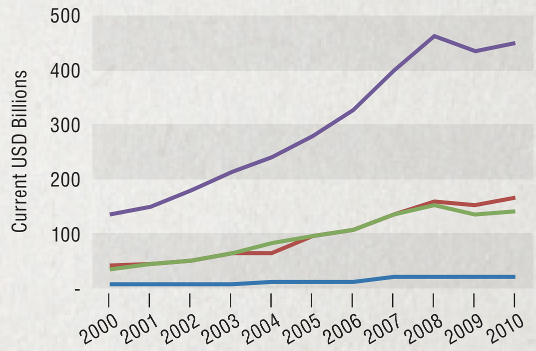


Figure 7.4 Remittances (2000-2010)



LICs
Lower MICs
Upper MICs
World

Source: The author, based on World Bank (2012a Source: The author, based on World Bank (2012a)

> "Between 2000 and 2008 many developing countries experienced remarkable economic growth, which also boosted government revenues."

CHAPTER SEVEN

> "ODA is still a primary source of revenue for LICs, and the near stagnation and volatility of other external flows suggest it will continue to be important, at least in the medium term."

in many donor countries. Nevertheless, ODA is still a primary source of revenue for LICs, and the near stagnation and volatility of other external flows in these countries suggest that it will continue to be important, at least in the medium term. The larger volumes of remittances and FDI in MICs are expected to play a growing role in financing their development.

It is difficult to establish precisely how far development finance does in fact contribute to development. While development is by definition what ODA seeks to promote, this is not necessarily the case for FDI and portfolio investment, which are driven by financial returns. The current environment leaves no doubt, however, that external and domestic financial resources need to be increased to tackle the development challenges ahead.

This chapter explores a range of flows and mechanisms that could contribute to development that is both economically and ecologically sustainable. The discussion concentrates on those that seem to have the most potential. For domestic resources, the chapter focuses on mobilising finance through taxation as opposed to savings. This is due to increasing attention paid to taxation in recent policy discussions and because equitable and transparent tax systems underpin national development. Looking at external flows, the chapter explores the potential for increased South–South Cooperation (SSC), which is gaining in economic and political importance. The chapter also explores approaches that could increase the contribution of ODA. The roles of FDI and remittances are discussed in Chapters 8 and 9.

To assess the effectiveness of the different flows in fostering development, the chapter pays particular attention to three criteria that the country case studies suggest developing countries find important:

- **Volume:** What level of resources can potentially be raised?
- **Predictability:** How sensitive is the flow to political, social, economic or environmental fluctuations?
- **Policy space:** How much room for decision-making and manoeuvre does the flow give to developing countries?

Based on these three criteria, this chapter first examines how to increase the potential development contribution of a number of flows, either by raising their volumes or being allocated more efficiently. The extent to which financial resources can contribute to the development of LICs and MICs also depends on enhanced international cooperation. The chapter therefore considers ways in which collective action could reform the international financial system in order to enhance the impact that financial flows can make on development. The final section draws conclusions for a post-2015 global framework.

7.2 Domestic resource mobilisation through taxation

The 2002 International Conference on Financing for Development in Monterrey, stressed the importance of a holistic approach to raising development finance in support of the MDG agenda, and recognised that within this, creating the conditions for mobilising domestic financial resources was a critical challenge for development (UN DESA, 2003). The main impetus for domestic resource mobilisation of course comes from developing countries themselves, but since Monterrey, the international community has also promoted domestic resource mobilisation as a major source of development finance,[73] although much of the MDG funding effort has focused on ODA. However, the

73 The EU, for instance, acknowledges that for most countries the biggest source of development finance is government revenue and that ODA can only complement or catalyse other financial flows (COM, 2012).

global financial crisis has reduced the prospects for ODA growth and refocused attention on enhancing domestic resource mobilisation (OECD, 2011b; UNCTAD, 2007; AfDB, 2010).

While there is broad agreement that domestic resource mobilisation should be a key means to finance any post-2015 development framework, it is less clear how to increase the contribution of domestic resources to any agreed set of goals. Much attention has been paid to tax systems as opposed to domestic financial sectors as a source of domestic revenue. This section focuses on taxation in view of its prominence in discussions on financing any successor to the MDGs, and the scope for policy-makers to target tax revenues.

7.2.1 Opportunities for taxation to contribute to development

A large body of empirical work suggests that some developing countries could increase tax revenues to raise development finance. While there are only limited data on tax revenue in developing countries, tax performance (tax revenue as a percentage of GDP, the so-called tax ratio) in LICs and LMICs seems to have improved since the mid-1990s (IMF, 2011). This suggests that governments have more means to promote development, such as providing cash transfers to vulnerable groups, encouraging youth employment or subsidising the renewable energy sector. Moreover, empirical estimates suggest that significant revenue could be raised in many developing countries whose tax performance is currently low (OECD, 2011b; Pessino and Fenochietto, 2010). Such revenues could meet needs that ODA cannot easily underwrite because of their scale or their recurrent nature (OECD, 2011b).

A stronger focus on domestic taxation can also improve the quality of a country's development finance. For instance, the volatility and limited predictability of external flows can intensify fluctuations in investment in countries that depend on them. Both recurrent expenditure (e.g. social spending – see ERD 2010) and long-term investment projects (e.g. in the renewable energy sector) require predictable and sustainable sources of financing. Reducing the dependence on external sources by increasing domestic resources and thus diversifying the finance portfolio can help to increase the stability and predictability of a country's development finance, so that resources can be better used.[74] In addition, increasing the share of domestic resources in a country's development finance can increase its policy space[75] because there is less need to accommodate the interests of external contributors, be they donors or investors (Montes, 2013). In fact, national policy-makers increasingly weigh up the benefits of different sources of financing with a view to reducing their dependence on ODA and expanding their policy space, as the Nepal and Rwanda case studies illustrate (Pandey et al., 2012; Abbott et al., 2012). Improved alignment with national development priorities is also likely to ensure that funds are used more effectively.

It is increasingly recognised that the importance of taxation goes beyond raising development finance. Given the central importance of taxation in the exercise of state power, more efficient and equitable tax systems can improve governance by building and sustaining the state and improving state–society relations (Bräutigam et al., 2008; Prichard, 2010; OECD, 2008a). Tax reform can help to raise the revenue to support national development strategies

"While there is broad agreement that domestic resource mobilisation should be a key means to finance any post-2015 development framework, it is less clear how to increase the contribution of domestic resources to any agreed set of goals."

74 While external finance, including aid (Martins, 2010), is volatile, domestic resources do not necessarily constitute a more stable source of financing for developing countries: Many key types of taxation in developing countries such as commodity taxation, notably taxes related to natural resource extraction, tend to be volatile. However, a more diversified development finance portfolio can increase the expected stability of the envelope of development finance available in a particular country – notwithstanding the fact that in some circumstances external and domestic financial resources might be correlated and subject to matching trends.

75 The Government of Rwanda, for instance, has launched the Agaciro Development Fund (Dignity Fund), to mobilise voluntary resources from both at home and abroad to invest in the country's development with a view to reduce aid dependency and boost resource mobilisation from Rwandans (Rwanda case study).

> “Taxation can promote development not only by increasing the volume and quality of finance but, through its effects on governance, by making states more willing to align development policies to citizens’ priorities.”

and more effective tax administrations will ultimately enhance public financial management. Tax reform may also contribute to better state–society relations by encouraging citizens to engage in relevant debates (Prichard, 2010), for instance on progressive taxation. Few governments have established effective tax systems without first entering into a national dialogue on taxation (Tilly, 1992). Moreover, when governments depend on tax revenues they have an incentive to improve governance and transparency in order to encourage compliance (Prichard, 2010). This suggests that taxation can promote development not only by increasing the volume and quality of finance but, through its effects on governance, making states more willing to align development policies to citizens’ priorities.

7.2.2 Challenges for taxation to contribute to development

Efforts to increase the contribution that domestic taxation can make to financing development have been the subject of considerable academic research and empirical experience (IMF, 2011; Bräutigam et al., 2008; OECD, 2008a; OECD, 2011b; Byiers and Dalleau, 2011). There needs to be a broad tax base to provide a sizable, predictable and sustainable source of development finance. It is also essential that tax systems form part of an equitable fiscal system if they are to contribute to inclusive development. As Box 7.1 and Box 7.2 illustrate, however, for a variety of political and economic reasons the tax systems in developing countries often do not meet these criteria: tax bases are narrow, governments have only limited capacity to levy taxes and fiscal systems may not be sensitive to distributional concerns.

Narrow tax base

Much of the increased tax revenue raised in developing countries over the past decade seems to have derived more from natural resources than from broadening the tax base. Peru, for instance, increased its tax performance from 6% to 13% of GDP over the 1990s and to around 17% of GDP by 2010 (IMF, 2011), largely based on higher revenues from natural resources (Peru case study – Barrantes and Berdegué, 2012). The African Economic Outlook 2010 highlights a similar phenomenon. The average national tax revenue as a share of GDP has been increasing since the early 1990s and African countries now tend to collect similar levels of revenue to those of other countries at comparable stages of development (AfDB et al., 2010). Again, however, this has been driven mainly by resource-related revenue and other tax revenues have stagnated at best (AfDB, 2010). Where governments rely on receipts from natural resources rather than widening the tax base, taxation is unlikely to become an effective source of development finance. First, the ecological and financial sustainability of the tax base is questionable because revenues depend on depleting finite resources. Moreover, the revenue is unpredictable because of market volatility (IMF, 2011), which makes it an unreliable source of long-term investment in development. Second, their reliance on revenue from natural resources might discourage governments from broadening the tax base. Third, such reliance might indirectly impede development by having perverse effects on governance, for instance by stabilising authoritarian governments (Morrison, 2009; Ross, 2001) or raising tensions and conflict in resource-rich countries (Ross, 2004; Collier and Hoeffler, 2005; Arellano-Yanguas, 2011).

A further challenge for using taxation as a means to finance development is that many of the countries most in need of such finance have limited tax potential.[76] The calculations of tax potential show that UMICs are generally better able to mobilise enough resources through taxation to fund development spending than are the groups of

76 Econometric work has linked national tax performance and potential with a range of structural characteristics. Many (such as the agricultural share in the economy, per capita income or past political instability) are beyond the control of public authorities, especially in the short term. Tax potential calculations use the variables of agriculture as a share of GDP, trade openness and GNI per capita (OECD, 2011b). The difference between tax potential and tax performance includes both inefficiencies and tax policy issues. For a critical account of the determinants of tax performance in developing countries see Ivanyna and von Haldenwang (2012).

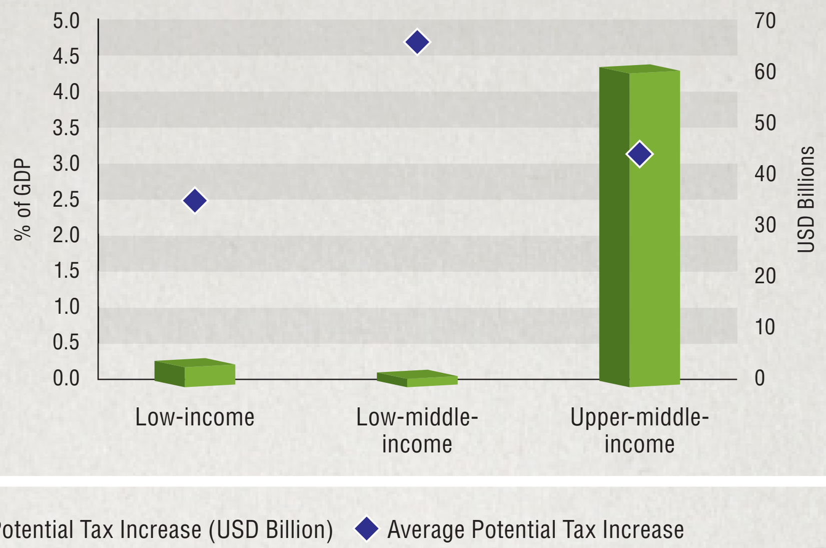
LMICs and LICs (OECD, 2011b). Figure 7.5 shows the difference in the scale of potential tax increases between countries in different income groups. While potential additional tax revenues as a share of GDP are similar across the groups, the absolute potential amounts differ substantially. The OECD (2012b) therefore argues that only the group of UMICs has the potential to raise enough taxes to fund social expenditure in order to reach the MDG targets on poverty reduction, education and health. Moreover, several LICs and LMICs, among them Côte d'Ivoire, have already reached their tax potential and collect more taxes than might be expected given their structural characteristics (OECD, 2011b). Increasing the tax potential in countries where it is low is thus a necessary but medium- to long-term task because it requires broadening the tax base by fostering the growth of productive sectors, which can be politically challenging. Political challenges arise because growth of the productive sector means finding ways to strengthen coordination and collaboration between the state and private investors (Moore and Schmitz, 2008), whereas reforms of the investment climate tend to reduce the privileges of certain powerful actors within the private sector and government and can thus increase conflicts between them.

Limited tax capacity

Capacity constraints also limit the potential contribution of taxation to development finance. Many developing countries have successfully increased the technical capacity of tax administrations, for instance by adopting information and communication technologies (ICTs), ensuring adequate staffing or developing the capacity for tax expenditure and wider tax policy analysis (IMF, 2011). Some governments have stepped up their efforts to improve the technical capacity of sub-national tax administrations in order to address the mismatch between the devolution of public financial responsibilities and

> "UMICs are generally better able to mobilise enough resources through taxation to fund development spending than are the groups of LMICs and LICs."

Figure 7.5 Total potential tax increases (in US$ billion) and average potential tax increases as a share of GDP by income group (annual amounts)



Source: OECD (2012b)

> "Not only the volume of tax revenues but also the quality of spending are important: increasing the contribution of taxation to inclusive development depends on its being part of a progressive fiscal system."

the relevant managerial capacity in decentralisation processes. Such reforms are often slow or limited for political reasons (Bird et al., 2008; Bräutigam et al., 2008; di John, 2011).

Three types of political factor have often constrained taxation capacity:

1. Government incentives for tax collection are shaped by the existing sources of revenue (Bräutigam et al., 2008; Ivanyna and von Haldenwang, 2012). Rents from natural resource, for instance, create a degree of financial autonomy that requires little bargaining between the government and taxpayers or investment in the capacity to raise taxes (Bornhorst et al., 2009; Chaudhry, 1997). The question of whether ODA reduces the incentives for governments to raise taxes is the subject of intense debate, although the empirical evidence on whether some kinds of aid displace domestic revenue is mixed (Moss et al., 2006; Bräutigam and Knack, 2004; Clist and Morrissey, 2011; Benedek et al., 2012; Knack, 2009).

2. The limited legitimacy of tax and fiscal systems associated with a lack of transparency in raising and spending tax revenues is likely to discourage tax compliance (Prichard, 2010; Fjeldstad, 2004). For example, exempting 'hard-to-tax' elites and small businesses so that a higher burden falls on a small number of formal enterprises can reduce the perceived fairness of a tax system and hence the willingness to pay.

3. International factors, in particular international financial governance (Reuter, 2012; IMF, 2011), can limit the capacity of governments in developing countries to raise taxes. For instance, some forms of profit-shifting by multinational companies (MNCs), offshore secrecy jurisdictions (or 'tax havens', of which several are in Europe) offering low tax rates, lower regulatory standards and secrecy to rich individuals and firms, as well as international tax regimes, serve to facilitate tax evasion and avoidance.

Limited sensitivity of fiscal systems to distributional concerns

The limited sensitivity of tax systems and expenditure to distributional concerns, such as regressive tax and fiscal policies, makes it harder to ensure that tax revenues contribute to inclusive development (AfDB et al., 2010). For instance, the 2009 and 2011 editions of the Latin American Economic Outlook (OECD, 2008b; OECD and ECLAC, 2012) show that taxes and public spending have had very little impact on reducing social inequality in much of Latin America. Poverty should decline significantly with the enhancement of tax collection and adoption of progressive fiscal policies with targeted transfers to the poor, because high inequality is a major cause of the persistence of poverty in these countries (OECD, 2012b). Thus, as Box 7.2 illustrates, not only the volume of tax revenues but also the quality of spending are important: increasing the contribution of taxation to inclusive development depends on its being part of a progressive fiscal system. In other words, the combined impact of taxation and expenditure influence the reduction of poverty and inequality. Increasing the sensitivity of the tax system and expenditure to distributional concerns involves confronting entrenched political interests that benefit from a regressive tax and fiscal system (Prichard, 2010; Bird and Zolt, 2005). It is hard for governments to introduce redistributive policies against these interests unless they can provide compensation, because they often depend on the support of political and economic elites (Ascher, 1989; Byiers and Dalleau, 2011). Thus in some countries a regressive tax may be the only way to finance strongly progressive public expenditure, whereas in others it may be more politically feasible to implement universal social policies financed by progressive taxes (IMF, 2011; Mahon, 2009). In both cases, efforts to give more weight to distributional considerations in taxation and expenditures are critical for inclusive development.

Box 7.1 Efforts to increase tax revenues in Côte d'Ivoire, Rwanda and Nepal

Côte d'Ivoire's tax performance is outstanding. Since the 1990s, tax receipts averaged 18% of GDP while ODA amounted to less than 1% over the same period. This is particularly remarkable because the government managed to maintain high levels of tax revenue throughout a decade of political instability and conflict by making deliberate efforts to promote the development of the private sector and enhance the technical capacity of tax administrations. It is doubtful whether the government can further increase tax revenues, since some calculations show that the country already collects more taxes than can be expected given its structural characteristics, such as a large agricultural sector (OECD, 2011b, Grimm and Zhang, 2012). Moreover, the country's tax authority finds it difficult to combat tax evasion, particularly by small firms, which is thought to amount to CFA Francs 120 billion annually (approximately 1% of GDP).

Rwanda's Revenue Authority has made concerted efforts to bring small and medium enterprises (SMEs) into the tax net in order to broaden the tax base, including setting up a Small and Medium Taxpayers Office, a simplified tax regime for SMEs and training for taxpayers. Even so, in 2009 ODA accounted for about 49% of Rwanda's budget (MINECOFIN, 2010). Broadening the tax base is challenging, because some tax exemptions are politically motivated and the productive sectors are weak.

Weak productive sectors and politically motivated tax exemptions are also problematic in Nepal, further complicated by the decade of political instability. As a result, ODA continues to account for a substantial portion of the government budget (18.5% on average from 2008 to 2011). Nepal could seek to bring more firms into the tax net, but ultimately the broadening of the tax base will depend on developing the productive sector.

Sources: Côte d'Ivoire, Rwanda and Nepal case studies

> "Taxation is not a shortcut to development. Success depends on political leaders making a long-term commitment to widen the tax base and to develop equitable and transparent fiscal systems."

7.2.3 Taxation as a source of finance for a post-2015 global framework

A country's greater reliance on taxation as a source of development finance is likely to mobilise substantial resources, make development finance more predictable, by increasing the diversity of its development financing portfolio and expand its policy space. Yet taxation is not a shortcut to development. Success depends on political leaders making a long-term commitment to widen the tax base and to develop equitable and transparent fiscal systems even when this means challenging powerful political interests. The international context is also critical. Developed countries could continue to assist the revenue authorities in developing countries to improve their tax capacities and, in line with the PCD agenda, increase international cooperation to limit tax evasion by MNCs and wealthy individuals.

The heavy reliance on ODA to fund the MDGs has been a source of criticism (Peterson, 2010; UNCTAD, 2007). Placing development finance on a more sustainable footing will depend in part on the capacity of developing countries to mobilise domestic resources and improve their own financial systems. A solid financial sector is essential to productive investment and is part of widening the tax base. This is not to suggest that all countries could provide all the development finance

> “Since the introduction of the MDGs, private foundations, traditional and emerging donors, and private investors have increased the volume and introduced new forms of external development finance.”

Box 7.2 Social expenditure and distributional concerns in Peru

While Peru had long been one of the most inequitable countries in Latin America, its fiscal policy during the 1990s reflected the assumption that economic growth would reduce poverty via a trickle-down effect and redistributive policies favoured political supporters (Schady, 2000). In the last decade, however, there was a a rise in tax revenues and in per capita social expenditure, which averaged $117 in the 1990s and $207 in the 2000s (at constant 2000 prices) (ECLAC, 2011). Moreover, Peru introduced several targeted expenditure programmes, e.g. the conditional cash transfer (CTT) programme JUNTOS in 2005, and in 2011 created a Ministry of Social Development and Inclusion. Peru's social policy was inspired by experiences in other Latin American countries, notably Brazil and Mexico, rather than by donors or the MDG agenda.

While Peru has improved the contribution of its tax and fiscal system to inclusive development, social expenditure, standing at around 8% of GDP between 2007/2008, is below the Latin American average of 18.4% in the same period (ECLAC, 2011). Moreover, government transfers to local government follow a natural resource canon that does not properly address local expenditure needs and fiscal capacity, thus exacerbating existing regional disparities and risking social conflict by failing people's expectations.

Source: Peru case study

they need from domestic resources. It is clear that the costs of development (including those related to climate change) exceed what developing countries can meet on their own. Moreover, the principle of common but differentiated responsibilities for global public goods justifies external financing (Spratt, 2013; Griffith-Jones et al., 2012).

7.3 The development finance landscape: external financing

Since the introduction of the MDGs, private foundations, traditional and emerging donors, and private investors have increased the volume and introduced new forms of external development finance. The extent to which this supports poor countries' efforts to develop by increasing available resources, improving the predictability of external financing and increasing countries' policy space varies according to the specific flow and country context.

This section looks at the potential contribution of new forms of external development finance. It concentrates on South–South Cooperation (SSC) and ODA, because the former is assuming greater economic and political importance and the latter will remain a vital source of development finance for LICs beyond 2015 (OECD, 2012b).

7.3.1 South–South Cooperation for development finance

External development finance is increasingly shaped by emerging economies, including Brazil, China, and India (Walz and Ramachandran, 2011; Zimmermann and Smith, 2011). The term South–South Cooperation (SSC) refers to ‘a broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains’ (UNDP, 2012). Development assistance is therefore only one element of SSC, which often combines loans, grants, trade, investment and technical cooperation.

While SSC is not new, it has received renewed attention due to changing geopolitical realities (Chaturvedi et al., 2012). The rise of 'new' donors may be seen as the mirror image of a new system of global governance in which countries like Brazil, China, and India are increasingly influential (Grimm et al., 2009). The potential contribution of SSC will be an important element of any post-2015 global framework that seeks universal relevance.

Opportunities for SSC to contribute to development

While all elements of SSC could contribute to a post-2015 framework, this section focuses on the aid component. The lack of official figures makes it difficult to isolate the level of ODA-type resources in SSC. Rough estimates suggest that emerging economies provide about $15 billion in aid each year and that this could potentially rise to over $50 billion by 2025 (Kharas and Rogerson, 2012). Between 2005 to 2010 India's foreign assistance spending grew by around 11% to $680 million and China's by around 24% to $3.9 billion (Global Health Strategies initiatives, 2012).

Since the adoption of the MDGs, traditional donors have tended to focus on social sectors such as health, education and social protection rather than on productive sectors. In contrast, SSC has invested mostly in infrastructure development and investment in the productive sector (Kragelund, 2011). In Nepal, for instance, infrastructure development such as roads, bridges and hydro-power is the key area of SSC support. Of total Southern aid in 2011, 39.5% was allocated to roads, 31.7% to the power sector and 14.5% in irrigation, while social sectors constituted 13.7% (Nepal case study).

Aid-recipient countries also consider that SSC comes with fewer policy-related conditions than traditional ODA, thus providing more ownership and policy space (United Nations, 2010). Following the principle of 'non-interference', SSC tends not to be conditional on the adoption of policies regarding governance, or economic and institutional reform. Fewer 'conditionalities' allow national governments greater policy space. In Côte d'Ivoire, for example, Southern donors were more flexible than traditional donors in continuing their support during the political crisis and imposed fewer conditions (Côte d'Ivoire case study – Kouadio et al., 2013). Although SSC may not come with policy-related conditions, it is often earmarked and provided in the form of in-kind grants or loans for projects or technical cooperation that are tied to purchases from the providing country. Yet, in Nepal, where technology transfer is a keenly felt need, Southern technology is often preferred because of the low costs of transfer and fast diffusion and adaptation (Nepal case study).

The countries providing SSC can also share their own recent development experiences. UNCTAD's *Least Developed Countries Report 2011*, for instance, argues that SSC may be more likely to support and encourage state-building efforts because of shared development experiences and objectives (UNCTAD, 2011). Such support could be in the form of capacity-building and sharing of policy lessons, which could help partner countries to create instruments and institutions to develop their productive capacities in ways that promote structural transformation, employment generation and poverty reduction.

Challenges for SSC to contribute to development

A notable challenge is the lack of transparency about SSC volumes and activities. Transparency is a precondition for evaluating external development assistance (Easterly and Pfutze, 2008), in the absence of which it is hard to determine the impact of SSC. Traditional ODA is characterised by inefficiencies, overlaps and high transaction costs on all sides, partly due to inadequate transparency. For SSC, part of the issue is to better account for its various components. It characteristically consists of aid and non-aid components and the mix between concessional and non-concessional funding often

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"Most providers of SSC are still classified as developing countries and will face their own poverty-reduction problems beyond 2015."

makes it difficult to get a clear picture of the scale of SSC assistance. Many SSC providers cannot as yet present a comprehensive overview of their cooperation programmes, in part due to a lack of central oversight and limited systematic data collection.

In addition, it may be difficult to bridge the gap between international expectations of SSC and domestic development needs (Grimm and Zhang, 2012). Most providers of SSC are still classified as developing countries and will face their own poverty-reduction problems beyond 2015. This tension between allocating resources for development efforts at home and abroad also explains why SSC-providers are sometimes reluctant to open details of their cooperation programmes to public scrutiny (Chaturvedi et al., 2012). In fear of a domestic backlash, or anticipated political pressure from partner and OECD countries, they may choose not to make their contributions transparent. Lack of transparency also brings misconceptions and misinformation, however, which SSC providers may in due course wish to counter by providing comparable and timely information (Box 7.3).

SSC is often portrayed as being motivated more by economic and political considerations, particularly connected to the extraction of natural resources, than by seeking to meet the development needs of its partners. A frequently voiced concern is that in engaging with countries that are characterised by weak rule of law and large natural resources, SSC providers ignore human rights or environmental standards (Naim, 2007; Chileshe, 2010). The lack of accountability could restrict the contribution of SSC to development. Moreover, SSC tends to be associated with individual projects rather than programme-based approaches and budget support (ECOSOC, 2008). It is often argued that such projects have only local impact and do little to address the country's structural problems. If SSC-funded projects are not aligned with the government's development priorities, they could potentially undermine its administrative and political capacities or reduce its policy space.

Finally, the lack of internal and external coordination of SSC might limit its contribution to development. Currently there are few collective mechanisms or platforms for coordination among emerging powers apart from the BRICs, IBSA (India, Brazil and South Africa) or BASIC (Brazil, South Africa, India and China) groups, and there are significant gaps in their ability to harmonise actions. For instance, there remains scepticism about the potential influence of the BRICs due to their different political regimes, diverging positions on climate change, disagreements on agricultural policy, and territorial disputes between China and

Box 7.3 International aid transparency

Traditional donors have been slow to improve their own transparency, although there are recent signs of improvement (Publish What You Fund, 2011). The most important attempt to bring greater transparency into the international aid system is the International Aid Transparency Initiative (IATI), founded in 2008, which ultimately aims to ensure that aid agencies are more accountable both to their domestic constituencies and to those receiving their assistance (Faust, 2011). IATI is a voluntary, multi-stakeholder initiative that includes donors, partner countries and CSOs who have jointly agreed on a common, open, international IATI standard (IATI, 2012).

India (de Jesus, 2012). There has been only limited institutional engagement between SSC providers and traditional donors, and coordination could be improved on the issue of aid effectiveness. In Rwanda, for example, though in the past non-traditional donors have not actively engaged with the government's efforts to coordinate aid there are recent signs this is changing. Thus China did attend a recent development partner retreat and China and India's development assistance for 2012/13 were included in the budget submitted to the parliament of Rwanda (Rwanda case study – Abbott et al., 2012).

South–South Cooperation in a post-2015 development framework

This section has shown that SSC can make a significant contribution to development. The rising volume of SSC illustrates its growing importance but also highlights the need for greater transparency. Many countries perceive SSC as relatively predictable and disbursed on schedule, although most is project-based. As discussed in relation to conditionality, whether SSC opens up more policy space for partner countries depends very much on the specific project. In general, however, SSC has introduced new ideas and approaches to international development cooperation, and so extended development opportunities in partner countries.

This section has also highlighted various elements that may determine whether SSC fulfils its potential. Two main conclusions can be drawn. First, the emerging economies have greatly increased their contribution to and responsibilities for shaping global development outcomes. Second, SSC providers could usefully be more active in international discussions on aid information and transparency, although this will require flexibility on all sides in order to devise mutually acceptable definitions and approaches.

7.3.2 ODA in the new development finance landscape

There is increased pressure on traditional donors to demonstrate how ODA contributes to development outcomes. On the one hand, budget constraints in donor countries have increased the need to present tangible results for governments and taxpayers who are sceptical of aid's effectiveness. On the other hand, the surge of studies, summits and conferences in the run-up to 2015, highlighting the scale of outstanding development challenges, including those related to climate change, has created a sense of urgency to increase the contribution ODA makes to development.

In response, donors have introduced new forms, instruments and mechanisms of development assistance over the past decade. This section looks at selected approaches to improve aid effectiveness and at innovative financing to raise aid volumes. Compared to traditional uses of ODA, innovative approaches have yet to take off, but the section highlights some that have been applied in recent years and the potential to expand their use.

(i) Two approaches to increase aid effectiveness

The way in which donors disburse ODA has changed significantly since the MDGs were adopted, most prominently in a series of initiatives to improve the impact of aid and development. The Rome (2003), Paris (2005), Accra (2008) and Busan (2011) High Level Fora on aid effectiveness have been the main platform to discuss how countries should work together to meet development goals and maximise the impact of aid. Central to this effort is the principle of 'ownership', which implies that governments should set their own development goals, map out the route to reach them, and coordinate its own and its aid partners' activities.

Although there has been insufficient adherence to the undertakings on aid effectiveness, there has been some progress (Wood et al., 2011). For instance, approaches that are integrated into a government's own spending programmes contribute to meeting aid-effectiveness targets. Also, more rigorous evaluations, both peer-review processes among international partners and new approaches at the

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> "The SWAps involve donors deciding to support a sector and providing ODA to help the recipient government to meet its own goals. In budget support, donors channel funds directly to national budgets, leaving it to the government to set priorities and allocate resources."

micro level, have helped to improve aid effectiveness. Two approaches in particular, programme-based approaches (PBAs) and results-based approaches (RBAs), illustrate ways to improve the contribution of ODA to development. PBAs are currently the main approach to applying the principles of aid effectiveness, while RBAs demonstrate efforts to document what ODA achieves in order to justify its continuation.

Programme-based Approaches

PBAs are seen as a way to apply aid-effectiveness principles to improve the contribution of ODA to development, not least in terms of enhancing policy space for aid-recipient governments. Over the last decade, donors have shifted their focus from projects to PBAs, which are defined as way of '*engaging in development cooperation based on the principles of coordinated support for a locally owned programme of development, such as a national development strategy, a sector programme, a thematic programme or a programme of a specific organisation*' (OECD/DAC, 2008: 148). The 2005 Paris Declaration committed donors to providing 66% of ODA via PBAs, but so far not one of the 78 countries that participated in the evaluation of progress has met this target and only 45% of all ODA was provided via PBA (OECD, 2012a). Meeting or even approaching the PBA target might significantly improve the contribution of ODA to development.

There are various ways to pursue PBAs, including pooled (or basket) funding for specific activities, joint support for sector-wide approaches (SWAps) and sector or general budget support (Leiderer, 2012; Handley, 2009; Koeberle et al., 2006). The latter two are particularly prominent. The SWAps involve donors – often working as a group – deciding to support a sector and providing ODA to help the recipient government to meet its own goals. In budget support, donors channel funds directly to national budgets, leaving it to the government to set priorities and allocate resources, usually on the basis of prior discussion.

These two mechanisms give the recipient governments more ownership and policy space in how they spend ODA, and evaluations of budget support have indicated that it helps to improve aid effectiveness (Caputo et al., 2011; De Kemp et al., 2011). Aid-recipient governments benefit from the greater predictability of ODA for multi-year programmes. The European Commission has been one of the key promoters of budget support and SWAPs[77] (Faust et al., 2012a). In Nepal, the share of SWAps as a proportion of total foreign aid increased from 12.9% in 2004 to 21.1% in 2012 (Nepal case study – Pandey et al., 2012). The SWAps were focused on health, education, local development, peace and reconstruction as well as renewable energy. In Rwanda, the government has signed seven SWAp agreements in agriculture, education, energy, environment and natural resources, health, justice and transport. The government plans to adopt a strategy and spending programme for each sector. The governments of Côte d'Ivoire, Nepal and Rwanda have also expressed their strong preference for budget support, delivered either as general budget support or focused on specific sectors (country case studies).

There are several ways in which to improve SWAps and budget support in order to make a more effective contribution to development. In Nepal, for instance, despite the SWAps, in 2011 there were 37 projects under the Ministry of Education and 81 under the Ministry of Health and Population. Second, SWAps often apply to the area of responsibility of a single ministry rather than the whole sector. For example, primary education may be covered by a SWAp, but not secondary or tertiary education, which come under the purview of a different ministry, despite the crucial need to ensure coordination across all

77 The European Commission usually refers to SWAps as Sector Policy Support Programmes.

levels of formal education. Third, it has sometimes been perceived that the donors become more operationally involved under SWAps (Nepal case study – Pandey et al., 2012).

For budget support, a major challenge is that donors often have competing objectives and fail to coordinate and establish common priorities. Their objectives in providing budget support range from poverty reduction to promoting sectoral and governance reforms. Although evaluations of budget support demonstrate its effectiveness, there is a danger of 'overloading' it with competing objectives (Faust et al., 2012b). This makes it hard for governments to focus on any of the objectives, which means that budget support falls short of its potential. In such cases, the lack of coherence among donors prevents recipient governments from being able to plan and budget.

Results-based approaches

Results-based approaches can be divided into results-based aid and results-based financing. The former involves government-to-government aid and the latter contracts to service providers (Pearson, 2011). Results-based aid usually includes negotiations on several key steps (Klingebiel, 2012). First, the intended result must be agreed since the provision of ODA is conditional upon its achievement. Second, an independent third party must be identified to evaluate the results. It is difficult to assess the level of RBA to date because most projects are still at the pilot stage, and it therefore represents only a minor share of overall ODA.

In principle, linking aid more closely to performance can be attractive both for donors and for aid-recipient governments. It allows the latter to allocate aid more efficiently, expanding successful programmes and cutting back on weaker ones (Morris and Pryke, 2011). It also enables donors to produce evidence of the impact of ODA because RBAs verify that the intended outcomes have been achieved. RBAs are also an opportunity for governments to obtain funding without donors interfering in their domestic affairs because the negotiations are about results and not approaches. RBA is thus likely to provide incentives for governments to achieve results in their own ways and resolve their own policy or bureaucratic constraints. Governments may also become more accountable to their domestic constituency because RBA may encourage them to improve the quality of service provision (Klingebiel, 2012), which might in turn increase ownership of their political and administrative systems.

RBAs could potentially contribute more to development if certain issues were addressed. First, the concept definition varies and the terminology remains unclear. The European Commission, governments, bilateral aid agencies and others use terms such as results-based aid, cash-on-delivery, pay-for-performance and results-based financing, sometimes to mean different things. In addition, there is still a lack of empirical evidence since various forms of 'managing for results' projects, as set out in the Paris Declaration, are still being piloted or are in their infancy. For example, Nepal has embarked on a bridge-improved project with the support of the World Bank under Program-for-Results (P4R) lending that started only in July 2012.

The success of RBAs also depends on requirements that can be difficult to fulfil. First, producing a comprehensive and exact assessment of the existing situation relies on having reliable baseline data. Second, the contracting partners have to agree on a precise formulation of expected results, and on measurement and monitoring methods. Third, the assessment of results again requires reliable information and data. Each of these may result in costs.

There is also the risk that RBAs could encourage donors to favour short-term programmes with outcomes that can be directly attributed to their support. This would undermine donor coordination

"In principle, linking aid more closely to performance can be attractive both for donors and for aid-recipient governments."

"There is the risk that RBAscould encourage donors to favour short-term programmes with outcomes that can be directly attributed to their support."

and development progress, and potentially divert funds from long-term projects. Such a bias could also result in a regression to bilateral aid, which would undermine joint approaches or multilateral aid that generally involve less tied aid with lower transaction costs.

Lastly, the crucial question will be whether RBAs help to improve aid effectiveness. The answer is likely to depend strongly on the individual RBA initiative. A first evaluation of six prominent RBAs is rather sobering: except for the EU's MDG Contracts, the other initiatives were not particularly good at supporting the principles of aid effectiveness (Pereira and Villota, 2012).

Implications for ODA in a post-2015 framework

Overall, the case studies of Côte d'Ivoire, Nepal and Rwanda suggest that traditional donors and developing countries endorse the principles of aid and development effectiveness and welcome approaches such as PBAs and RBAs. For financing a post-2015 global framework it will remain important to retain a mix of approaches suited to each country context.

There is a fairly clear case for PBAs and particularly budget support as they have already been widely applied and recipient governments appreciate that they can improve aid effectiveness, ownership and alignment with national development priorities, especially by increasing the policy space and ensuring a level of predictability. A key limitation is that donors are still often unable to agree on their priorities. This suggests that policy-makers should work towards establishing a coherent goal hierarchy and incentive system.

It is still too early to assess RBAs' contribution to aid effectiveness, but they promise to be a valuable complement to other forms of ODA provided that they retain a long-term focus. Policy-makers should therefore consider their adoption on a case-by-case basis.

(ii) Aid as a catalyst: tapping capital markets as sources of innovative financing

Donors have sought to increase the funds at their disposal by using innovative financing sources and mechanisms. While the MDGs are widely regarded as having been effective in increasing the volume of aid, there is broad agreement that this is still insufficient (Spratt, 2013; UN DESA, 2012). The numerous proposals for innovative financing can be classified into four broad categories of mechanisms, intended in turn to:

1. **Mobilise capital from investors**, for instance through public private partnerships (PPPs)[78] or tapping capital markets;

2. **Increase public sector revenues**, for instance through international levies or taxes;

3. **Capture global resources**, for instance by issuing more international liquidity in the form of special drawing rights (SDR); and

4. **Harness voluntary or private-sector resources** like the Product RED initiative whereby companies create dedicated RED-branded products, the profits from which support the Global Fund to Fight AIDS, Tuberculosis and Malaria.

So far, it is mainly the first of these mechanisms that has generated significant finance (UN DESA, 2012; Girishankar, 2009). This section therefore focuses on development finance mobilised from capital markets because, unlike the other categories, its fairly widespread use makes it possible to draw lessons (Girishankar, 2009; Wälde, 2012).

78 The term 'PPP' refers to a number of models of public–private cooperation to mobilise finance and improve the efficiency of public services and other public functions (Girishankar, 2009). In many models the private investor provides all or most of the financing, planning, construction and even running of public institutions, in return for an agreed level of payment from the government or donors (Wälde, 2012).

While the mobilisation of funds from capital markets has long been advocated as an option for meeting investment financing gaps in developing countries, it has been difficult to tap into international capital markets. Commercial investors have been reluctant to invest in many of the most important areas relevant to development in poor countries, because these are relatively risky and unprofitable. Although the social and economic benefits may be high, the financial viability and returns on such investments remain low (Spratt and Collins, 2012).

In response, donors have increasingly used their ODA commitments as a means to reduce investment uncertainty, explicitly or implicitly guaranteeing future returns. Reducing risk allows donors to make investment projects more financially viable and mobilise funding from capital markets, thereby increasing the volume of development finance. Special purpose bonds and blended finance mechanisms are two mechanisms used to tap capital markets based on the strategic use of donors' financial commitments. Their use has increased in recent years and are expected to provide a significant level of development finance beyond 2015 (Wälde, 2012; Girishankar, 2009). Both mechanisms have also been promoted as a means to finance renewable energy in developing countries, which may contribute to sustainable development (Griffith-Jones et al., 2012; WBGU, 2012).

Special purpose bonds

Donors use special purpose bonds to raise funds from capital markets in order to meet particular needs. One example is the International Finance Facility for Immunisation (IFFIm), which was launched in 2006 and is managed by the World Bank. The IFFIm issues bonds in capital markets to raise finance for programmes managed through the Global Alliance for Vaccines and Immunisation (GAVI). These bonds are backed by donor commitments to service and repay debt from ODA allocations earmarked for this purpose. By 2012, the IFFIm had raised $3.6 billion – more than six times the amount received from donors since 2006 (IFFIm, 2012). Green Bonds are used to raise funds for climate-change adaptation or mitigation in developing countries and have appealed to those Socially Responsible Investors who prioritise these issues. The World Bank has issued over $3 billion in Green Bonds since 2008, selling triple A-rated bonds to investors (World Bank, 2012b).

Special purpose bonds offer considerable opportunities to increase the contribution ODA makes to development by increasing its volume at critical moments. More generally, their backing by sovereign states makes such bonds attractive to institutional investors that can provide some of the large-scale, 'patient' capital needed to finance infrastructure projects (Spratt and Collins, 2012).[79] Such bonds make it possible to raise development finance for immediate use. This makes them particularly suited to projects in which most funds are required at the start (so-called 'frontloading') rather than at later stages. This tends to be the case in projects aimed at prevention, for instance of the adverse effects of climate change or the spread of communicable diseases, which usually require large initial investments to achieve returns over the long term, although the financing needs subsequently decline.

Of course, there are challenges to increasing the ODA contribution through such bonds. In particular, frontloading mechanisms do not raise additional development finance because the net increase in ODA in the medium term is offset by the forward commitment of ODA budgets for debt repayment rather than being available for new development needs. In addition, funds raised through special purpose bonds are vulnerable to

> "Special purpose bonds and blended finance mechanisms are two mechanisms used to tap capital markets based on the strategic use of donors' financial commitments."

79 Given the scale of assets under their management and their long-term liabilities institutional investors could be significant sources of development finance. For instance, European institutional investors such as pension funds are estimated to hold assets worth up to $12 trillion (Griffith-Jones et al., 2012).

“Blending involves the complementary use of grants and non-grant sources such as loans or risk capital to finance investment projects in developing countries.”

cyclical fluctuations. Currently donors are hesitant to commit to further future liabilities in the form of such bonds because of fiscal constraints and financial market conditions, which limits the prospects of expanding their use.

Blending

Blending involves the complementary use of grants and non-grant sources such as loans or risk capital to finance investment projects in developing countries. Usually donors provide the grant component, which can take various forms including direct investment, interest rate subsidies or a loan guarantee. Development finance institutions or development banks often provide the non-grant component, usually using funds mobilised through bonds issuance in capital markets (Gavas et al., 2011; Núñez Ferrer and Behrens, 2011; Wälde, 2012).

Blending allows donors to use grants to make investment projects that have a high economic rate of return financially viable.[80] By providing a grant element, donors can close financing gaps in the project that prevent investment from materialising. In this way, blending can make investment projects more feasible by reducing overall project costs, including interest, and by reducing risks for the providers of non-grant finance. The grant element allows risk to be shared and ensures that in the event of losses, all financial returns accrue to the providers of the non-grant component. This can increase the risk-adjusted returns of investment projects, and hence unlock non-grant financing for investments where the economic rate of return is high, but the financial return is not enough for investors to be attracted without the grant element (Rudischhauser, 2012). This is the case for many infrastructure projects in developing countries. For most investments in renewable energy, for example, the economic rate of return exceeds the financial rate of return. Using the quantitative leverage of the grant element can hence catalyse non-grant financing from institutions borrowing in capital markets.[81] In addition, using non-grant financing releases grant funding for other development projects. This makes blending appealing to providers of SSC and donors such as the EU (Box 7.4), which have increased the use of blending facilities (Núñez Ferrer and Behrens, 2011). Finally, by increasing the financial viability of projects adhering to high social and ecological standards blending can indirectly contribute to development because the grant element, as a qualitative lever, serves to finance the additional costs associated with adherence to such standards.

Its potential notwithstanding, blending carries the risk that development projects will be selected more on financial than on development grounds because investments must achieve a minimum financial return to attract non-grant financing. Where donors seek to depress the grant component and emphasise financial viability in order to attract funding, they may opt to engage in high-return low-risk projects, although low-return high-risk projects may potentially have greater development impacts (Spratt, 2013; Griffiths, 2012). There are also high opportunity costs in using ODA to leverage non-grant financing for investment projects whose impacts on development may be ambiguous. Furthermore, where investors would have provided the funds without the grant component, ODA effectively crowds out non-grant finance (Griffiths, 2012). But it can be difficult to assess whether a project using blended finance has created financial additionality because of the lack of a counterfactual and because there may be limited transparency where blending relies on private finance, as contracts often have commercial confidentiality clauses (Spratt, 2013). There is some

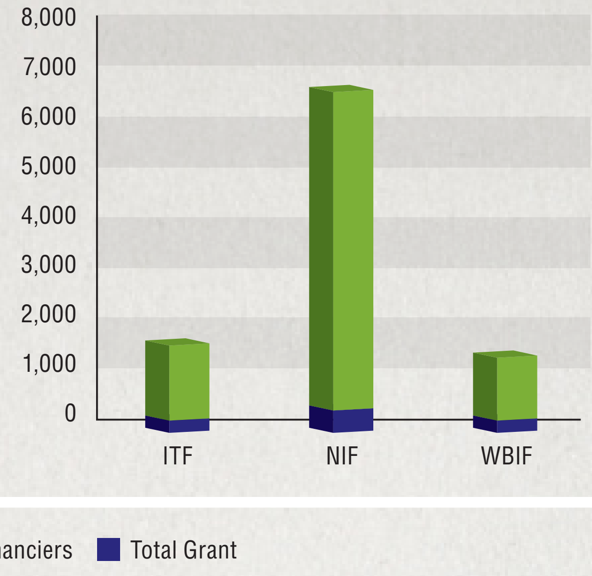
80 The economic rate of return measures the total net economic and social impact of an intervention. The financial rate of return, which measures the net financial return to the project initiator, is a sub-set of the economic rate of return.

81 The leverage ratio (loan component/grant component provided) depends on the type of project, i.e. its economic and financial rate of return, and the gap between the two.

Box 7.4 EU blending facilities

Since 2007, the European Commission has launched seven blending facilities to support large-scale infrastructure and SME development, including the Infrastructure Trust Fund (ITF) in Africa, the Neighbourhood Investment Facility (NIF) for European Neighbourhood and Partnership countries, the Western Balkans Investment Framework (WBIF), the Latin America Investment Facility and the Investment Facility for Central Asia. These facilities link EU budget grants (sometimes topped up with grants from financial institutions and EU Member States) with loans by accredited international, regional and European bilateral financial institutions such as the European Investment Bank (EIB), Agence Française de Développement (AFD) and KfW Bankengruppe. As Figure 7.6 suggests, these facilities have substantial leverage effects. For instance, the ITF has a leverage ratio of approximately seven whereas the NIF and the WBIF have leverage ratios of about 15 and five respectively. The leverage ratio refers to the ratio of loan component provided by accredited financiers against the grant component provided to approved projects since the inception of the facility until end 2011.

Figure 7.6 Grant and loan components of selected EU blending facilities (million EUROS)



Source: The author, based on 2011 data and annual reports

> "Blending carries the risk that development projects will be selected more on financial grounds because investments must achieve a minimum financial return to attract non-grant financing."

> **"A post-2015 development framework that looks beyond aid could affirm the value of innovative development financing mechanisms, and underline the need to choose those most suited to the given purpose."**

evidence that financing from development finance institutions tends to provide additionality in LICs and in less commercially attractive sectors; this may also apply to blended funds (te Velde, 2011; Spratt, 2013). The picture is less clear for MICs and commercially attractive sectors.

Mechanisms to tap capital markets as sources of development finance

With respect to the three criteria of *volume*, predictability and policy space, special purpose bonds and blending both score high on the first, although the volume of financing that can be mobilised clearly depends on financial market conditions (Spratt, 2013; Wälde, 2012; Girishankar, 2009). However, the *stability and predictability* of the potential financing are limited since commercial investment is vulnerable to financial market fluctuations, although in the case of blending, a counter-cyclical deployment of concessional finance may offset the pro-cyclical availability of commercial finance. Assessing the development effectiveness of projects funded through blending can be problematic as public–private contracts often contain confidentiality clauses, limiting transparency. The *policy* space for developing countries in the deployment of funds depends on the initial conditions applied in such mechanisms. Both mechanisms also illustrate two further general challenges:

1. First, as with other forms of finance, the contribution of mechanisms that tap capital markets for development depends on the country context and domestic economic and political factors. For instance, the provision of funds as loans, as in blending, seems less appropriate in LICs. The capacity to repay loans in hard currency tends to be higher in MICs than in LICs, where foreign exchange earnings tend to be limited. Moreover, there is some evidence that the quality of governance can affect the potential of aid to promote development, with ODA being more effective in environments with good governance (Wright, 2008; Bourguignon and Sundberg, 2007; Burnside and Dollar, 2000). Evidence that ODA tends to stabilise political regimes (Morrison, 2009) also suggests that increasing the volume of aid (from tapping capital markets) could potentially undermine inclusive development in countries with weak governance.
2. Second, a particular financing source or mechanism is able to mobilise funds only for a limited range of purposes. Thus, special purpose bonds are best suited for projects requiring a large initial investment; blending is suited to projects yielding economic and social benefits and generating a financial return that would not be enough to attract non-grant financing without the grant element. From the perspective of financial sustainability, neither mechanism seems likely to provide the sustained financing needed for recurrent social expenditure.

These constraints underline the importance of using a wide range of mechanisms for financing development (Box 7.5). A post-2015 development framework that looks beyond aid offers an opportunity to propose certain goals and the means to achieve them. It could affirm the value of innovative development financing mechanisms, and underline the need to choose those most suited to the given purpose.

7.4 Beyond borders: international cooperation in development finance

In order to increase the contribution of ODA and other development finance in any post-2015 global framework, development cooperation must focus as much on building international partnerships as on financing and policies in developing countries. Globalisation has increased the impacts of international policies on developing countries. For instance, international financial

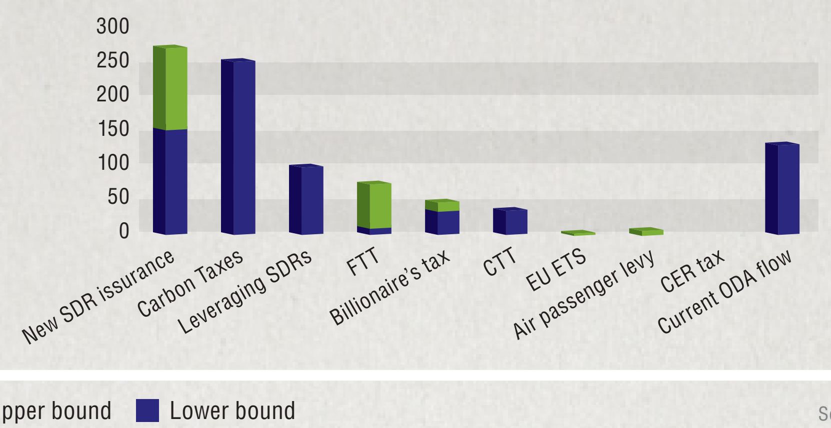
Box 7.5 The toolbox of innovative financing mechanisms

Besides mechanisms to raise funds from capital markets, mechanisms which seek to capture global resources or mobilise public revenues by applying a levy or tax are deemed to have great potential to mobilise development finance (Wälde, 2012, UN DESA, 2012, Leading Group, 2012). Figure 7.7 illustrates the potential of some existing and potential sources of development finance in these categories. Blue bars indicate the estimated revenue potential and red bars indicate upper and lower estimates of the revenue potential where point estimates were difficult to establish.

Among mechanisms to capture global resources, proposals related to the exploitation of Special Drawing Rights (SDRs) seem to have the largest revenue potential (UN DESA, 2012). One proposal is that the IMF should issue new tranches of SDRs and allocate them to developing countries. This would reduce their need to build up their own reserves as 'insurance' against future crises, thus releasing domestic resources for other purposes. Another proposal assumes that developed countries make annual SDR allocations available to international financial institutions in a way that preserves their status as reserve asset to float bonds backed by SDRs to raise development finance (UN DESA, 2012). EU Member States, receiving a large amount of SDRs, could well promote both proposals.

Several existing mechanisms mobilise additional public revenues through levies or taxes applied to existing or potential markets. Germany, for instance, imposes a levy on its auctions within the European Trading Scheme (ETS), in which EU governments sell and allocate emission permits, with some of the proceeds used to fund climate change mitigation and adaptation in developing countries. There is a small tax on proceeds from certified emission reduction (CER) trading, with the proceeds underwriting the Adaptation Fund. The 'solidarity air ticket levy' applies a small fee to airline tickets bought in participating countries, with the funds allocated to UNITAID, GAVI and the Global Fund. There are also proposals for an international tax on the use of fossil fuels and other products contributing to CO2 emissions and on financial transactions.

Figure 7.7 The potential of some (proposed and existing) sources of development finance (billion US$ per annum)



Source: UN DESA (2012)

CHAPTER SEVEN

> "The international financial crisis has created a broad consensus on the need for international cooperation to address deficiencies in financial regulation."

regulation determines the size and volatility of capital flows to developing countries; international tax regimes determine their scope for taxation; and institutionalised engagement between SSC and traditional donors influence the level and effectiveness of development cooperation. Thus, for developing countries to benefit from larger and more diversified financial flows, there is a need for better international cooperation to reform rules and policies related to financial flows. The remainder of this chapter focuses on the opportunities and challenges for the international community in these areas.

7.4.1 A development-friendly international financial system

In order to make the international financial system more conducive to development, reformers, both scholars and policy-makers, have sought to promote international cooperation in two major areas. First, financial regulatory reform in order to increase financial stability, which is essential for developing countries to receive more stable external financial flows; and second, curbing illicit financial flows (IFFs) from developing countries, which would facilitate domestic resource mobilisation. This section looks at these in turn and then discusses the implications for a post-2015 global framework.

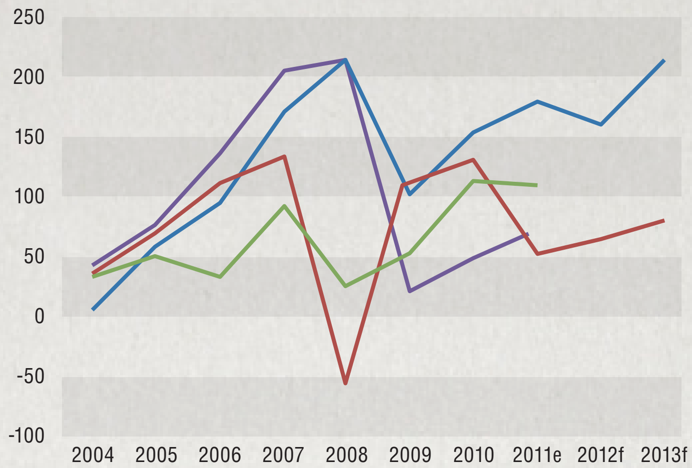
Opportunities and challenges for international financial reform

The international financial crisis has created a broad consensus on the need for international cooperation to address deficiencies in financial regulation (IMF, 2012; Levine, 2011; G20, 2010b). This consensus emerged when the extensive costs of the regulatory deficit at the international level and of the subsequent financial and economic crisis in developing countries became known. In addition to significant impacts on growth and poverty in some countries (Massa et al., 2012; van Bergeijk, 2012; te Velde, 2010), the global economic and the eurozone crises have severely constrained the potential of external capital, both ODA and private cross-border flows, to finance development. In the wake of their fiscal crises, Greece, Ireland, Italy and Spain have significantly reduced their ODA (World Bank, 2012a) and DAC members' net ODA fell by 2.7% in 2011 compared to 2010 (2012c).[82] Moreover, as Figure 7.8 shows, the financial crisis led to a sharp (albeit temporary) drop in net flows to developing countries, due partly to an increase in capital flight. The financial crisis has increased the volatility of capital flows in MICs because of their greater integration into international financial markets. The volatility and reduction of net financial flows to developing countries created by the global financial crisis has increased awareness of the need for international cooperation on financial reform in order not to undermine development (Ostry et al., 2011; Volz, 2011; Griffith-Jones and Ocampo, 2009). The lack of international financial stability affects the sustainability and predictability of external financial resources, both ODA and private flows, and limits their potential to contribute to development.

Since the onset of the financial crisis there has been growing agreement on the direction of desirable reforms among the G20 political leaders and in a number of academic and official reports. For instance, it is broadly agreed that regulatory reforms should be oriented towards curbing short-term speculative transactions that can distort markets and exacerbate crises. In particular, there has been increasing support for the notion that reforms should follow the principle of comprehensiveness. For regulation to be effective, the regulator should be in the same domain as the market to be regulated (Reinhart and Rogoff, 2008; Mattli and Woods, 2008). Since financial markets are global, regulatory oversight should be based on a network of national, regional and international regulatory authorities

82 Empirical evidence that banking crises in donor countries are associated with a substantial drop in ODA (Dang et al., 2009) underlines the relationship between financial instability and ODA.

Figure 7.8 Net capital flows to developing countries (US$ billion)



Note: FDI inflows on secondary axis. e=estimate, f=forecast.
Source: The author, based on World Bank (2012a)

> Although political leaders emphasise commitment to reform and there has been some tangible progress, there are substantial challenges to international cooperation on financial reform.

and supervisory agencies with global reach, such as the Basel Committee on Banking Supervision (BCBS) and the IMF. There is also a consensus on the importance of such global cooperation in regulation and supervision because competitive pressures erode national regulation, for instance through regulatory arbitrage.

Although political leaders emphasise commitment to reform and there has been some tangible progress, there are substantial challenges to international cooperation on financial reform. Areas of progress include (a) the increasing recognition by the international financial institutions that regulating capital accounts can under certain circumstances enhance financial stability (Ostry et al., 2011); (b) Basel III requirements for more and better-quality capital and liquidity buffers developed by the BCBS (BIS, 2012), including anti-cyclical capital buffers; and (c) the establishment of the Financial Stability Board (FSB).[83] There has been only limited progress in financial reform at the global level. For instance, there is no agreement on a global financial transaction tax (FTT) and cross-border cooperation in banking supervision and resolution remain inadequate. The barriers to reform stem largely from political and economic interests. For instance, it is difficult to reform the system of global financial governance without the corresponding architecture; it is hard to reach agreement among national authorities and governments because they are accountable to their domestic constituencies, there is often divergence between national and international policy priorities, and in some cases powerful domestic interests may block reforms. An illustration of this is how financial institutions

83 The mandate of the FSB is to coordinate the work of national financial authorities and international standard-setting bodies and promote effective regulatory and supervisory policies.

"Global Financial Integrity estimates that illicit financial outflows from developing countries reached about $900 billion in 2009 whereas UNDP estimates that IFFs from LDCs totalled about $20 billion in 2008."

Box 7.6 Examples of political agreement on the need to curb illicit flows

The G-20 addressed the challenge of illicit flows in its communiqué following the 2009 Pittsburgh summit and in its 2010 Multi-Year Action Plan on Development. At the European Council meeting on the MDGs in June 2010, EU Member States committed to 'push for a more development-friendly international framework' to address tax evasion and increase cooperation and transparency. The European Parliament published several resolutions in 2010 and 2011, and in March 2011 adopted a non-legislative resolution on Tax and Development, calling for strengthened international tax cooperation.

have sought to limit progress in financial reform, arguing that more stringent financial regulation and supervision reduce their external competitiveness (Griffith-Jones et al., 2010; Lall, 2011).

Opportunities and challenges to curb illicit financial flows

Mounting understanding and evidence of the problem of illicit financial flows (IFFs) have created broad awareness of the need to develop policies to curb them (Baker, 2005; Kapoor, 2008). While there are different definitions of IFFs,[84] most discussions refer to three broad categories: (a) proceeds of criminal activities (including money laundering); (b) corruption; and (c) tax evasion and avoidance, including transfer pricing (Leading Group, 2008). Thus IFFs comprise both illegal and borderline activities such as aggressive tax avoidance (Reuter, 2012; Kar and Cartwright-Smith, 2008; Everest-Phillips, 2012). Much of the discussion has centred on the question of scale. The think tank Global Financial Integrity (GFI) estimates that illicit financial outflows from developing countries reached about $900 billion in 2009 (Kar and Freitas, 2011) whereas UNDP estimates that IFFs from LDCs totalled about $20 billion in 2008. While the lack of agreed definitions and the nature of the phenomenon confound precise estimation, it is clear that the volumes are significant. This has led to broad agreement that IFFs drain development resources, notably by reducing the scope to mobilise domestic revenue (Leading Group, 2008; OECD, 2011a; Baker, 2005; UNDP, 2011). Moreover, there are indications that IFFs undermine governance in developing countries (Blankenburg and Khan, 2012). Wide scope for the illicit expatriation of funds may exacerbate existing problems of corruption because the possibility of hiding proceeds reduces the chances of detection and hence increases the expected returns of corruption (Moore, 2012). As Box 7.6 shows, the scale of financial resources lost and the negative effects on governance have heightened agreement on the importance of curbing illicit flows (COM, 2010; G20, 2010a).

The growing awareness of what IFFs cost developing countries has fostered agreement on a broad outline of international reforms. Research shows that the structure of the international financial system, in particular the lack of transparency in some onshore and offshore financial centres, so-called secrecy jurisdictions or tax havens, of

84 There is no agreed definition for IFFs. For instance Reuter (2012) sees as the defining characteristic of IFFs that (a) the acts involved are themselves illegal (corruption or tax evasion) in a regime that has some democratic legitimacy, or (b) the funds are the indirect fruits of illegal acts (for example, benefits given to those who have provided illegal funding for a presidential election). Kar and Cartwright-Smith (2008) define IFFs as funds that are illegally earned, transferred, or used and cover all unrecorded private financial outflows that drive the accumulation of foreign assets by residents in contravention of applicable laws and regulatory frameworks.

which are many in developed countries, including the EU (Government Commission on Capital Flight from Poor Countries, 2009; Cobham, 2012; OECD, 2012d; Gravelle, 2010), facilitate and encourage IFFs. In the light of these findings, proposals have focused on reforms in developing countries to discourage IFFs (e.g. strengthening of local tax administrations and improving the investment climate) and international reforms.

Since a major portion of illicit funds seems to be related to tax avoidance and evasion by MNCs (Kar and Freitas, 2011), many proposals seek to enhance international cooperation to address this (Leading Group, 2008; The Task Force on Financial Integrity & Economic Development, 2012; COM, 2010; UNDP, 2011). Curbing tax avoidance and evasion that is related to the extractive industries has received particular support because countries that are dependent on natural resources seem to face a higher risk of illicit outflows (Kar and Freitas, 2011). This risk is partly due to the difficulty of taxing MNCs in the natural-resource sector (von Haldenwang, 2011). There seems to be broad support for proposals to increase transparency, for instance through the reform of international accounting standards (COM, 2011). More specifically, country-by-country corporate reporting of accounting information has been proposed as a means to address transfer price manipulation (TPM).[85] For instance, the European Commission, the World Bank and the OECD set up a Tripartite Initiative on Transfer Pricing that seeks to increase the capacity of a number of countries to deal with the problem. Reform proposals also focus on introducing more structured processes into the international exchange of tax information, particularly with secrecy jurisdictions (Reed and Fontana, 2008; OECD, 2011a).

Yet despite the rhetoric and some tangible progress in relation to reform, international cooperation to curb illicit flows must confront substantial political challenges. Areas of progress include the geographical expansion of the Multilateral Convention on Administrative Assistance in Tax Matters beyond EU and OECD countries and the African Agreement on Mutual Assistance on Tax Matters. Norway has led government efforts to focus attention on the IFF issue and commit to country-by-country corporate reporting of basic accounting information. Moreover, while it still needs to be agreed with the Member States, EU legislators have voted a draft law requiring large extractive companies dealing with oil, gas and minerals and loggers of primary forests to disclose full information on their payments to national governments, on a country-by-country and project-by-project basis. The EU has also supported international initiatives to promote revenue transparency such as the Extractive Industries Transparency Initiative and international cooperation on tax evasion and avoidance such as the International Tax Compact.[86] Moreover, the international development community (including multilateral agencies, governments, NGOs and a number of private foundations) has made substantial efforts to improve governance and tackle corruption in developing countries, and with aiming to change the incentives environment for IFFs in developing countries. It remains difficult to achieve coordinated international action on curbing illicit flows and changing the incentives environment in destination countries, although there have been some advances. For instance, there has been only limited movement on country-by-country reporting in non-extractive sectors, and some tax havens are slow to meet treaty obligations to share reports on suspicious activities. Progress

“There is broad agreement that IFFs drain development resources, notably by reducing the scope to mobilise domestic revenue.”

85 TPM refers to the over- and under-invoicing of intra-firm transactions, which MNCs use to exploit differences in national regulations and tax rates as a key mechanism for the illicit transfer of funds.

86 EITI is a voluntary process aimed at strengthening governance in the extractive industries sector, while the International Tax Compact is an informal international action and dialogue platform grouping bilateral and multilateral donors to strengthen cooperation with developing and transition countries to stop tax evasion and avoidance.

> “A new development framework could encourage reforms to create a more development-friendly financial system at the highest politically feasible level, be it national, regional or international.”

has been limited largely because of the opposition of influential groups, such as financial institutions receiving illicit flows and tax-evading MNCs (Spratt, 2013). Domestic considerations regarding the competitiveness of MNCs that operate in developing countries or of financial institutions in tax havens constrain international cooperation.

Cooperation for a development-friendly financial system beyond 2015

The obstacles to international cooperation notwithstanding, financial reform and curbing IFFs are two areas in which the international community can make a difference by changing its own policies. There are two strategies to deal with lobbying by powerful interest groups:

- Regional or national reforms can be adopted even if international collective action is elusive. In the EU, for example, 11 Member States plan to apply a FTT without waiting for a global agreement (Box 7.7). Similarly, the USA Administration passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which created the Financial Stability Oversight Council to oversee systemic risk and requires USA-listed companies to issue public reports on payments to governments in exchange for oil, gas and minerals, by country and by project. These are valuable initiatives, not least because they have been agreed by political leaders in some of the largest financial markets and could be influential in shaping regulation elsewhere by demonstrating the economic and political feasibility of reform.
- Expand the space for international reforms by engaging relevant stakeholders. For instance, corporations concerned about their tax-paying reputation can be powerful supporters of reform, as the EITI shows. Companies participating in the EITI disclose tax and royalty payments from the extraction of natural resources, and governments in the respective countries disclose payments received.

A new development framework could encourage reforms to create a more development-friendly financial system at the highest politically feasible level, be it national, regional or international. This could improve on the MDG framework by placing greater emphasis on global partnerships and by making it clear that these comprise cooperation not only in ODA but also other financial flows. While international coordination is important, development progress depends on poorer countries retaining the policy space to adapt international standards to their own needs and characteristics. For instance, developing countries should be able to take a gradual approach to adopting international financial regulations, depending on their domestic capacity and the need to assess the impact of regulatory standards on both financial stability

Box 7.7 The EU Financial Transaction Tax (FTT)

In the absence of global agreement, in 2011 the European Commission proposed an EU FTT for the 27 EU Member States. Any legislation in the field of taxation requires the unanimous agreement of all Member States, which allows them to block the EU-wide implementation of an FTT, despite its potential benefits for financial stability, which is important for sustainable development. Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain have gone ahead and requested to apply an FTT, and in January 2013, EU finance ministers gave approval for these countries to pursue a levy on financial transactions.

and financial inclusion (Deuchert and Foerch, 2012). Influential actors such as the EU can press for developing countries to be better represented in global standard-setting bodies, which would help to safeguard their policy space in financial governance. A new development framework could catalyse such pressure.

7.4.2 Coordination of aid and other policies

To maximise the contribution of any development finance it will be just as important to establish an international partnership of all stakeholders in development cooperation as in global financial governance. Fostering partnerships in development cooperation will depend on reforming international coordination of aid and non-aid policy areas. This section focuses on the opportunities and challenges for the international community to reform development cooperation with a view to increasing its contribution to development.

Opportunities and challenges to enhance aid and development effectiveness

An important opportunity for international cooperation is the institutionalisation of the international aid and development effectiveness agenda.[87] The High Level Fora (HLFs) on aid and development effectiveness have become the main venues for addressing the problems of fragmentation of aid sources and channels. They have increased awareness of the need for all stakeholders to promote the principles of aid effectiveness and that there is enormous potential to allocate aid more efficiently and effectively. For example, one recent study (Bigsten et al., 2011) estimated that in the EU and its Member States alone, continuing to implement the aid-effectiveness agenda could save up to €5 billion a year.

The Global Partnership for Effective Development Cooperation replaced the former OECD Working Party on Aid Effectiveness (WP-EFF) in 2012, marking the beginning of a transition process. The Partnership is managed by a multi-stakeholder Steering Committee with representatives of government, civil society, the private sector and multilateral agencies. Its work will be structured in eight 'building blocks', which are goal-specific and member-specific initiatives. These so-called 'light working arrangements' reflect a trend towards 'mixed coalitions' in a voluntary and non-unanimous approach to international cooperation (Savedoff, 2012). While such mixed coalitions may well play a growing role in addressing international challenges, they can be both promising and problematic, as illustrated by the current state of cooperation on aid and development effectiveness.

The main challenge this poses for the international community is the two-speed implementation of the agreed principles (Klingebiel and Leiderer, 2011). Traditional donors have confirmed their commitment to work towards greater aid and development effectiveness and are perceived to be leading the agenda, but there remain significant implementation gaps and OECD countries have failed to meet the 2005 Paris commitments (Wood et al., 2011). Only one of 13 targets of the Paris Declaration has been met to date, and there is scepticism about whether there is still the momentum to strive for more effectiveness. At the same time, emerging economies engaged more prominently in the Busan HLF. It remains an open question whether the new Global Partnership will indeed foster more effective development cooperation and ensure accountability for adherence to the Busan commitments. Brazil, China and India, for instance, agreed that the principles of the Busan Declaration would apply to them only on a 'voluntary basis' and did not join the Global Partnership 'building block' for SSC. Yet these emerging powers have increasingly sought to use the MDGs to improve their performance in

“In the EU and its Member States alone, continuing to implement the aid-effectiveness agenda could save up to €5 billion a year.”

87 The term development effectiveness encompasses organisational effectiveness, as coherence or coordination, as outcomes from ODA and overall development outcomes (Kindornay, 2011). Here the term is used to indicate that the international discussion on aid effectiveness has broadened to include these notions.

"Any post-2015 global framework will require better international cooperation on aid and effectiveness."

disbursing aid (Grimm and Zhang, 2012). While they might not wish to lead in implementing a post-2015 global framework, they do regard strengthening cooperation with other developing countries as a cornerstone of their foreign policies.

Another notable outcome of Busan was the stronger integration of a newly formed group of countries. Several countries and international organisations[88] endorsed the 'New Deal for Engagement in Fragile States' (International Dialogue on Peacebuilding and Statebuilding, 2011), which recognises the specific development challenges facing fragile states and sets out five goals (legitimate politics, justice, security, economic foundations and revenues and services) to clarify the policy priorities in such states (International Dialogue on Peacebuilding and Statebuilding, 2011). These goals complement the Paris Declaration by reinforcing its call for alignment and harmonisation, providing guidance on the application of Paris principles in fragile situations, and extending the aid-effectiveness framework to encompass 'whole-of-government' approaches and policy coherence in the political, security and development nexus (Manning and Trzeciak-Duval, 2010).

International cooperation for aid and development effectiveness beyond 2015

Any post-2015 global framework will require better international cooperation on aid and effectiveness. There is a need both to maintain the momentum on applying the principles of aid effectiveness and to integrate new concerns such as the engagement in fragile states and the impact of non-ODA financial flows on development. Moreover, there is a need to ensure the more active engagement of new actors, especially the emerging powers[89].

There are two main ways in which better cooperation can improve the contribution of aid to development. One option is to pursue the harmonisation of all donor policies, in line with the agenda on aid effectiveness. This may not be feasible, however, because of some unwillingness, particularly on the part of non-traditional donors, to adopt an agenda they perceive as dominated by the OECD. The second option is to explore other ways in which to ensure that all aid providers respect the principles of effective development cooperation, in particular predictability and policy space.

In a post-2015 context, all countries will need to continue their efforts to build a development partnership that is stable and transparent and allows ownership and policy space to developing countries. A post-2015 framework could provide an opportunity to achieve progress on cooperation for tackling global challenges, including development, and mechanisms to monitor the allocation of public resources to LICs from advanced and emerging economies. The EU also has a responsibility to foster closer international cooperation in the post-2015 context, including with emerging powers (Box 7.8).

International cooperation in global public policies

In a globalised world, governments can improve their internal stability and prosperity to some extent, but they must also contend with international conditions that are beyond their reach. Many development challenges are of a global nature and require coordinated global responses. While all governments must take action to address global challenges, coordinating these actions is complex. The role of aid is changing from funding local development projects to addressing global

88 Afghanistan, Australia, Austria, Belgium, Burundi, Canada, Central African Republic, Chad, Democratic Republic of Congo, Denmark, Finland, France, Germany, Guinea Bissau, Guinea, Haiti, Ireland, Japan, Liberia, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sweden, Switzerland, Timor-Leste, Togo, United Kingdom, United States, African Development Bank, Asian Development Bank, European Union, OECD, UN Development Group, World Bank.

89 The Nepal case study proposes that emerging Southern economies could allocate 0.2% of GNI as aid to LDCs and adhere to the principles of national sovereignty, national ownership and independence, equality, non-conditionality and non-inference in domestic affairs as outlined in the UN Resolution on South–South Cooperation.

Box 7.8 Implications for post-2015 EU engagement with the emerging powers

In order to achieve consensus on a post-2015 framework, with strong engagement on the part of the emerging powers the EU should:

1. Demonstrate leadership in forging a post-2015 framework through outreach and partnerships.

2. Engage with SSC providers by continuing and deepening multilateral dialogue and/or cooperation mechanisms, such as trilateral mechanisms that include all SSC partners, thereby strengthening experience and knowledge exchange with the Global South.

3. Identify the complementarities between SSC and EU cooperation, e.g. how to combine SSC's success in supporting the infrastructure development (e.g. roads and transport) and the EU's strengths in 'soft' areas (e.g. institution building), or the pragmatic approach of SSC with the EU's rule-based approach.

4. View development cooperation more holistically, placing less emphasis on aid policies and more on combining various policies in country- and situation-specific packages.

Based on Grimm and Zhang, 2012

"A post-2015 framework for development could be a chance to promote the provision of various GPGs and identify ways to pay for them."

challenges (Severino, 2012). Global public goods such as a stable climate have non-excludable and non-rival benefits that reach across national borders (Kaul et al., 2003). Similarly, 'global public bads' do not respect borders and have widespread effects such as hunger, pollution, climate change, financial instability and regional conflict. The provision of GPGs and the existence of global public 'bads' affect wellbeing in all countries, and addressing these challenges depends on international cooperation (Farrell and Gänzle, 2012).

A major opportunity for GPG provision to improve the contribution of aid to development is to define common global interests, especially between developed and emerging economies. In addition, the concept of GPGs can also clarify ways to provide financing through different country-specific contributions. One main challenge is to foster shared agreements on GPGs. In particular, it is difficult to develop strategies for financing GPGs through global institutions that are accountable for their provision. Another challenge for the ODA component of the financing of GPGs is to ensure that these resources are additional and do not lead the de facto reduction of ODA.

A post-2015 framework for development could be a chance to promote the provision of various GPGs and identify ways to pay for them. This would depend on enhanced cooperation and coordination not only among governments but also between development and other external policies. The example of climate financing illustrates the challenge of finding the best role for ODA in addressing the global public 'bad' of climate change and enhancing the integration of development policy with other policies, both crucial for achieving development.

Development cooperation within and beyond aid: the example of climate finance

The broad consensus on the need to look beyond ODA to finance climate-change adaptation and mitigation creates opportunities for cooperation beyond aid. While there are no precise estimates of the level of climate financing required, it is clear that it vastly exceeds existing levels of ODA. The World

"The broad consensus on the need to look beyond ODA to finance climate-change adaptation and mitigation creates opportunities for cooperation beyond aid."

Economic and Social Survey 2011, for instance, estimates incremental green investment needs in order to achieve sustainable development objectives in a context of climate change and global carbon constraints at about 3% of the gross world product (UN DESA, 2011). Assuming that some 60% of such investment will be needed in developing countries, this implies a little over $1 trillion per year in additional investment, far above the current annual $130 billion in ODA. At the same time, diverting a substantial amount of ODA towards climate-related initiatives rather than to other poverty-reducing interventions might create a misalignment between global and domestic priorities in developing countries (UN DESA, 2012). To meet the need for climate financing while avoiding the risk of such misalignments political leaders agreed in the 2009 UNFCCC Copenhagen Accord to cooperate to mobilise 'new and additional' climate funds from public, private and innovative sources – although it has yet to agree how to define these resources.[90] Given budget constraints in many OECD countries and the limited commercial viability of many climate-related investments, efforts have focused on proposals for innovative climate finance.

The lack of an international agreement on implementing some of the climate finance proposals with the greatest revenue potential poses a broader challenge for cooperation beyond aid. For instance, there is still a lack of support for an international, uniform carbon tax, partly because it would depress some countries' external competitiveness (Ward and Cao, 2012). Similarly, there is no international agreement on a global carbon-trading system, in which developed and eventually emerging economies could sign up for binding emission-reduction targets. Given the lack of political support for mechanisms with large revenue potential, and tighter budgets in donor countries, it is likely that in the short term, a substantial proportion of publicly subsidised contributions to climate finance will come from ODA budgets (Kharas and Rogerson, 2012).

Despite the political challenges there are several ways to enhance cooperation and coordination to ensure that any new climate finance mechanisms support inclusive and sustainable development. Thus development policy-makers should:

1. Enhance cooperation and coordination to ensure that developing countries are adequately represented in governance mechanisms for climate finance.

2. Share knowledge about aid effectiveness. In recent years the proliferation of funds for climate finance has resulted in a highly fragmented and inefficient architecture. Sharing experiences in aid coordination could help to make climate financing more effective.

3. Collaborate to help developing countries to increase the benefits of climate finance for inclusive and sustainable development. Climate finance is likely to become a major source of external flows. Strong administrative and institutional capacities will be needed to access funds, align them with national priorities and absorb them, along with a capacity to resist intrusive conditionalities. As with other large external flows, their management will also require political capacity and strong governance (Arellano-Yanguas, 2011).

A post-2015 global framework that seeks to guide the provision of GPGs could help to ensure that the emerging architecture on climate finance supports inclusive and sustainable development. In defining

90 Brown et al. (2010) identify the following four definitions of 'additional' international public finance for climate change in the current debate: 1. Climate finance classified as ODA additional to the '0.7%' target. 2. Increase 2009 ODA levels spent on climate actions (i.e. 2009 ODA disbursements on climate change should set the benchmark, above which any new ODA finance on climate change measures can be considered additional). 3. Rising ODA levels that include climate change finance up to a specified percentage. 4. Increase in climate finance not connected to ODA (ODA should continue to be used for traditional development activities, and finance for climate change should come from non-ODA sources).

a means to reach development goals and enhance international cooperation, a new framework could encourage global agreement on international mechanisms to raise climate finance.

7.5 Conclusion

Any new global framework with a broader vision of development and cooperation will require more financial resources. It will be a challenge, however, to raise the level of development finance in the current political and economic context. Discussions on development finance therefore need to focus as much on how to make better and more efficient use of existing resources as on ways to increase their volume.

The review of opportunities offered by different sources of development finance shows that no one approach will be universally appropriate and each type will apply better in some contexts than in others (see Table 7.1 for an overview). For example, while special purpose bonds seem to be a means to tap international capital markets for projects that require significant frontloading, blending is likely to work better where the provision of grants helps projects to achieve sufficient financial return to attract non-grant financing. Enhanced SSC and domestic resource mobilisation are likely to become more important sources of development finance, although not enough to address global challenges, such as climate change, which will require more concerted strategies to finance and provide GPGs.

While there are considerable efforts to increase the potential of external development finance to support developing countries' ownership of their development strategies, the volatility of external financial flows, both public and private, risks undermining the quality of decision-making and governance of national policies more generally. Reforming the global financial system would help to reduce such volatility, but this will take time. Given that most private external flows to developing countries are pro-cyclical, public flows could limit the negative consequences of external shocks if they were provided on a counter-cyclical basis (Bigsten and Tengstam, 2012, Wolff, 2008)[91].

It remains important to increase ODA and improve its effectiveness. Yet the expansion of ODA has lost some of its appeal due in part to the failure to reach longstanding targets, the increase in non-aid financial flows and the importance of national and international policies to enhance the contribution that finance makes to development. The international community therefore needs to look at other steps it can take. For instance, this chapter has argued that if there were agreement on curbing illicit financial flows, which far exceed the value of ODA, this would also support development by increasing governments' scope to mobilise domestic resources and improving governance and reducing perverse incentives for ruling elites.

In sum, if the international community seeks to mobilise adequate financial resources in a way that contributes to development, it will be imperative to move 'beyond aid'. A broader approach to development finance will require a global partnership that encourages collective action on a number of fronts including better regulation of the international financial system and stronger political commitment to PCD, because the impact of any financial flow depends critically on the global as well as the local policy environment.

"Any new global framework with a broader vision will require more financial resources. It will be a challenge, however, to raise the level of development finance in the current political and economic context. Discussions therefore need to focus as much on how to make better and more efficient use of existing resources as on ways to increase their volume."

91 The EU's Vulnerability-FLEX (V-Flex) mechanism is a good example of one way this can be done. Agreed in 2009 as a temporary €500 million shock facility it provided emergency funding to support the most vulnerable ACP countries to close fiscal financing gaps following the global financial crisis and help them maintain priority spending, particularly in the social sectors.

Table 7.1 Selected resources of development finance and their potential

FINANCIAL INSTRUMENTS	SSC	ODA			DRM
		PBA & RBA	INNOVATIVE MECHANISMS		
			SPECIAL PURPOSE BONDS	BLENDING	
OPPORTUNITIES	• Increasing resources for development • Complements ODA • Learning from experience in horizontal partnership	• Enhanced ownership of developing countries	• Mobilisation of resources for immediate use	• Use of grants to mobilise non-grant funding	• Increasing resources for development • Increasing independence from external resources • Strengthening of local systems, governance and accountability
CHALLENGES	• Tension between domestic development needs and external development support • Lack of transparency and coordination	• Lack of experience • Persisting volatility	• Financial Sustainability • Subject to market fluctuations and volatility	• Disincentive to select high-risk projects with low financial return but high social returns • Ensuring and evaluating financial additionality	• Limitations in tax potential • Limitations in tax capacity • Limitations in sensitivity to redistributive concerns
AREA OF APPLICATION	In principle all areas, but strong focus on infrastructure, technology and productive investment	All areas	Various, current applications mainly in the areas of climate and environmental protection and health	Primarily private sector and infrastructure	All areas
COUNTRY CONTEXT	LICs, LMICs, and UMICs	Mainly LICs and LMICs	Mainly frontloading projects in LMICs, and UMICs, less in LICs	Mainly LMICs, and UMICs, less in LICs	Mainly LMICs and UMICs, more challenging in LICs
LEVEL OF RESOURCES	Increasing	Limited	Limited	Increasing	Increasing

FINANCIAL INSTRUMENTS

	SSC	ODA			DRM
		PBA & RBA	INNOVATIVE MECHANISMS		
			SPECIAL PURPOSE BONDS	BLENDING	
PREDICTABILITY	Limited	Good	Limited	Limited	Good
ALLOCATIVE EFFICIENCY	Increasing if complementarities and coordination can be ensured	Increasing if efficient monitoring and reporting can be ensured	Increasing	Increasing if resources are directed to sectors with high social benefits	Increasing if tax and fiscal systems are progressive
POLICY SPACE	Limited	Medium			Limited
POTENTIAL EU CONTRIBUTION	Efforts to achieve more coordination and harmonisation	Increase use, promotion and evaluation of mechanisms and modalities			Promote international cooperation in tax issues to curb illicit flows

CHAPTER EIGHT

8 GOODS: TRADE AND INVESTMENT

8.1 Introduction

This chapter discusses the role of trade and investment policies in a post-2015 development framework. As discussed in Chapter 1, a major limitation of the MDGs is that they failed to include dimensions of structural economic transformation or to integrate the development of productive capacities in poor countries. This means that while the MDGs address some of the social aspects of development, they do not pay sufficient attention to economic development. As a result, the long-term sustainability of the social achievements remains questionable.

> "A major limitation of the MDGs is that they failed to include dimensions of structural economic transformation or to integrate the development of productive capacities in poor countries."

The discussion is situated in the changing landscape of trade and investment and the challenges faced by marginalised, vulnerable economies, namely low-income and least developed countries (LICs and LDCs). The chapter argues that the important shifts that are taking place will shape the context for any post-2015 global framework. For instance, emerging economies now account for an increasing share of the trade and investment portfolios of LICs and LDCs. Asia has emerged as a manufacturing hub with the evolution of global value chains (GVCs) and global production networks (GPNs). This evolving global context presents both opportunities and challenges for marginalised and vulnerable economies.

Few of these economic challenges are new: the lack of production and trade diversification, dependence on commodities, small and underdeveloped markets, poor infrastructure inhibiting regional and global connectivity, shallow trade integration and weak institutional capacities, are all familiar and yet remain key issues for marginalised and vulnerable economies. The chapter argues that the lack of an effective economic dimension in the MDG framework allowed many of these challenges to persist, which in turn undermines the MDG achievements in the social sector. The overwhelming need, therefore, is for any post-2015 framework to address these existing problems in the light of the changing global economic landscape and pressing environmental challenges. The chapter calls for such an agenda to focus on helping LICs and LDCs to gain productive capacity and achieve structural economic transformation by leveraging trade and investment policies.

Notwithstanding the increasing role of emerging economies in LICs and LDCs, particularly via SSC, the EU continues to be important for them – as a market for their exports, as a source of investment and as a major donor. It therefore matters both what the EU has done to date and what it decides to do after 2015. Important EU policy changes will have major implications for LICs and LDCs and need to be factored into the discussions on the EU's role in any post-2015 development agenda. These changes relate to Economic Partnership Agreements (EPAs), reform to EU's Generalised System of Preferences (GSP), policies on commodities and investment, and climate change.

This chapter first looks at some of the limitations of the MDGs, based on a definition of development as a process of achieving structural economic transformation, and discusses the role of trade and investment in promoting it. It goes on to examine recent changes in the structure and flows of trade and investment, and the specific challenges faced by LICs and LDCs. The chapter then looks at current and future EU policies on trade and investment, and finally proposes elements related to trade and investment for a post-2015 global development agenda, focusing in particular on four key areas: (a) the promotion of modern-sector exports in LDCs and LICs; (b) reducing vulnerability to shocks; (c) enhancing productive investments; and (d) improving global coordination on investment policy.

8.2 Contours of a 'beyond-MDGs' agenda on trade and investment

8.2.1 MDG8: development without development

The roles of trade and investment feature only as sub-goals of MDG8, which is fundamentally about achieving a global partnership to generate the resources, opportunities and skills needed for developing countries to achieve the first seven MDGs. Three of its six targets (8.A, 8.B and 8.C) relate specifically to trade and investment (summarised in Table 8.1, below). MDG8 also includes indicators to monitor progress, but although target 8.A partly relates to investment issues, there are no specific indicators to monitor progress in improving the global financial system.

The MDGs are both a product and a reflection of a particular understanding of development (Nayyar, 2011). In the decades following World War II, development was defined mostly in economic terms and measured by growth in national GDP and per capita incomes (Sen, 2000). In the late 1980s and 1990s, however, several development thinkers presented a different thesis, conceptualised as 'human development' (Streeten, 1994; Desai, 1991; Sen, 1989; Haq, 1995). They argued that development must be about human wellbeing, and enlarging people's choices and freedom. According to this view, although economic growth is important, it is not sufficient. As Sen argues, 'The basic point is that the impact of economic growth depends much on how the fruits of economic growth are used' (Sen, 2000: 44).

"The MDGs are both a product and a reflection of a particular understanding of development."

Table 8.1: MDG 8 targets and indicators on trade and investment

Targets	Indicators
• **8.A:** Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. • **8.B:** Address the special needs of the LDCs. • **8.C:** Address the special needs of landlocked developing countries and SIDS.	• **8.6:** Proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs admitted free of duty • **8.7:** Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries • **8.8:** Agricultural support estimate for OECD countries as a percentage of their GDP • **8.9:** Proportion of ODA provided to help build trade capacity

"The MDGs place great weight on goals and targets in the social sector, but this begs the question of whether social development can be achieved, and more importantly sustained, without economic development."

Seeing development as 'human development' marked a swing of the intellectual pendulum. Informed to an extent by the literature on human development, the MDGs represented goals and a global contract on promoting the core principles of human development (Saith, 2006). The first seven goals relate to different dimensions of human development, and the eighth is a global contract for meeting the previous seven. This is the context against which to evaluate the achievements and limitations of the MDGs, in particular MDG8. There are two points of departure for such an evaluation. First, the accounting exercise: were the targets met? Second, were the MDGs in fact developmental?

The United Nations (UN) MDG Task Force Report (UN, 2012) found a mixed record on progress towards reaching the trade-related targets of MDG8. If progress is measured in terms of the indicators on market access (indicators 8.6–8.9), at face value the outcomes seem to 'tick the boxes'. But beneath the surface, progress is more questionable. Developed countries, and increasingly developing countries, have extended duty-free quota-free (DFQF) market access to LDCs. But the coverage is not comprehensive (the commitment in the 2005 WTO Hong Kong Declaration is for 97%), and given that LDCs have limited exports, what remains excluded makes all the difference (UNCTAD, 2010). Tariffs on agricultural exports from LDCs dropped from 3% in 2004 to 1% in 2010, but tariffs on textiles remained largely unchanged (UN, 2012). There are also differences in which countries benefit from which regimes and by how much. While preference margins[92] for LDCs are important, non-tariff barriers present greater obstacles to LDC exports. As a whole, OECD countries are reducing their agricultural subsidies in relation to their GDP. In 2011, these amounted to $407 billion, which still represents a sizeable market distortion (Cantore, 2012). Those developing countries that depend on agricultural exports will be the primary beneficiaries of reduced agricultural subsidies in OECD countries, while countries that import agricultural produce, many of which are LDCs, are likely to pay more (Ackerman, 2005; Charlton and Stiglitz, 2005). Using Aid for Trade to promote developing countries' trade capacity responds positively to the increasing demand, but will need to become much more focused and targeted in order to remain effective (Basnett, 2012).

The more fundamental concern relates to the MDGs themselves, i.e. are they really developmental? The MDGs place great weight on goals and targets in the social sector, but this begs the question of whether social development can be achieved, and more importantly sustained, without economic development. For instance, while it is important to improve literacy rates, it may be asked how it improves people's lives if there are no jobs that enable them to benefit from being more literate. Similarly, there have been impressive – largely aid-driven – improvements in and expansion of health services in many poor countries, but without economic resources, how will these countries sustain such improvements? And where an economic dimension features, for instance in the trade element of MDG8, it relates to doing more of the same. In other words, the MDG agenda seeks to help countries export more of what they are already exporting, but not to help poor developing countries move into higher-productivity activities (Chang, 2010). Hence, the MDGs represent an agenda for development, but the agenda is not necessarily developmental.

As noted earlier, the MDGs were shaped by an intellectual movement in the late 1980s and early 1990s that sought to correct the previous focus on incomes and economic measures in development thinking and practice. But in doing so it may have contributed to creating a new imbalance, in which

92 The difference in tariffs on products originating from LDCs and from the rest of the world.

social development, largely fuelled by ODA, became predominant without due regard to the importance of economic development in aid-recipient countries. This model of global development 'worked' when donor countries were experiencing sufficient economic growth to be able to transfer resources in the form of ODA to finance the social goals. However, the global financial and economic crisis and ensuing fiscal austerity in many of the donor countries, is making the model increasingly unsustainable (UN, 2010). Developing countries that have achieved economic development alongside the MDG-related social achievements are making and sustaining further progress. In many LICs and LDCs, where economic development is yet to take root, however, the future of any such achievements is precarious. The trade-related aspects of MDG8 were intended to help such countries, but they concentrate on actions to be taken in the WTO and the capitals of certain OECD countries, and not on those needed in the developing countries themselves. Correcting this focus will require another adjustment of the intellectual pendulum on development. The remainder of this chapter discusses first what this means for poor countries in general, and then what role trade and investment policies could play.

8.2.2 Conceptualising the role of trade and investment in development

This Report calls for a post-2015 global development agenda to go 'beyond MDGs' and 'beyond aid', based on an understanding of development that is both inclusive and sustainable. This sub-section discusses the role of trade and investment in promoting it.

Trade and investment played a critical role in rapid economic development and poverty alleviation in many advanced economies (Bhagwati and Srinivasan, 2002). The examples of East Asian economies, from the first tier of newly industrialised countries (NICs) – South Korea, Taiwan and Singapore – to the second tier – Malaysia, Thailand and Indonesia – all point to the role of trade and investment in achieving high levels of economic growth. Many of these economies went within one generation from being poor developing economies to high-income countries (Chang, 2010). The rapid, trade-fuelled growth of economies such as Brazil, China, India and South Africa further corroborates the importance of trade and investment to economic development and the reduction of poverty. Notwithstanding the growing inequalities, China dramatically reduced poverty through expanding trade and investment (Lin, 2011). More recently, high economic growth and poverty reduction in poorer countries such as Bangladesh, Ethiopia, Ghana and Vietnam illustrate that trade and investment can contribute to economic development across income levels and contexts.

These experiences also point to important lessons. Trade and investment policies have been most effective when they have contributed to the structural transformation of the economy (Lin, 2011; Chang, 2004; Lall, 2004). These include policies that guide the economy towards higher productivity, which in turn contributes to higher standards of living. It is impossible to overstate the importance of this because LICs and LDCs are characterised by many dependencies: on commodities, on ODA and on limited export markets or technologies. Overcoming these will require structural transformation of the economy, in which trade and investment policies are critical because they expand market opportunities, force production processes to become more efficient, and provide resources (financial and technological) to expand production capabilities (North, 1955).

Trade and investment policies in isolation do not necessarily incentivise structural transformation, which means they need to be embedded within a development strategy that is geared towards achieving it. Recognising this means going beyond simplistic assumptions that trade liberalisation is good and everything else is bad, a dichotomy that has informed trade and investment policies for development for the last two decades (Serra and

"Trade and investment played a critical role in rapid economic development and poverty alleviation in many advanced economies. The examples of newly industrialised countries point to the role of trade and investment in achieving high levels of economic growth."

> "Trade and investment policies in isolation do not necessarily incentivise structural transformation. They need to be embedded within a development strategy."

Stiglitz, 2008; Rodrik, 2010). It is wiser to think in terms of adopting a wide selection, or many recipes, of trade and investment policies on a country- and objective-specific basis (Rodrik, 2008).

The debate on what kinds of trade and investment policies produce structural transformation of the economy has re-emerged in light of contemporary experience of economic development (Lin and Monga, 2011; Lin and Chang, 2009). This debate now includes reviewing the concept of 'comparative advantage' and trade policies before concluding whether countries should pursue or alter their assumed comparative advantages.

Three prominent economists expanded the dominant view on comparative advantage: Eli Heckscher, Bertil Ohlin and Paul Samuelson (Samuelson, 1948). For them, the differences in comparative advantage between countries are due to their factor endowments. Hence, countries should specialise in the production of and trade in goods that use factors that are in relative abundance (e.g. labour). David Ricardo, the original proponent of the concept, theorised it in terms of differences in labour hours taken to produce the same thing, which in turn depended on differences in technological capability (Evans, 1976). Hence, improving technological capabilities becomes an important policy objective for increasing productive capacity, the outcome of which would alter a country's comparative advantage and set it on a dynamic development path.

The rapid growth of East Asia in the latter part of the 20th century, and the contemporary growth of emerging economies, underlines the role of technology in achieving structural economic transformation. From exporting human hair in 1963,[93] South Korea is now at the forefront of technology (Kuznets, 1988; Amsden, 1989). Singapore, which was a LIC, has also achieved remarkable transformation (Yew, 2000). While it does not produce oil, it has one of the world's largest petroleum refineries. Bangladesh, an LDC, is currently achieving rapid growth in building ships for export (Ethirajan, 2012).

These examples suggest that it matters not only *what* a country exports, but also *how* it does so. Moving on from the debate of the early 1990s, in which trade liberalisation was assumed to drive growth, this causal relationship has been redefined in recent years, with trade–growth increasingly discussed in terms of a growth–trade nexus. GDP and per capita income, as aggregate measures, are considered to encapsulate new trade aspects.[94] The more recent debate on trade and growth at the level of the firm (excluding discussion of 'zero' trade flows) not only argues that the most productive firms within an industry focus on exports, but also that they are likely to have been the most productive within an industry before exporting, i.e. exporters self-select into markets. This is because established patterns of specialisation may persist even if these run counter to comparative advantages.

The role of the state is also being considered anew and industrial policy is back on the agenda, but in a more nuanced way (Krugman and Obstfeld, 2000; Krugman, 1984). Rather than viewing the state as solely responsible for engineering structural transformation, its role is increasingly seen in terms of correcting market imperfections and overcoming market failures. States that do this are described as 'developmental states' (Woo-Cumings, 1999; te Velde, 2010). A developmental state can be seen as having a growth-enhancing governance capacity that can achieve and sustain high investment as well as the ability to implement policies that encourage

93 Human hair was South Korea's third-largest export in 1963 (Noland, 2005). Also, South Korea's remarkable improvements on human development indicators were facilitated by increasing productive capacity, economic productivity and high rates of economic growth (Lee, 1997).

94 As noted by Lall et al. (2005:6): 'the [product] sophistication measure is an amalgam of these influences and not a specific technological measure.' This paragraph is adapted from Keane (2010).

Box 8.1 Joining the flying geese

Kaname Akamatsu postulated that as economies advanced, the production of certain goods would shift to less advanced economies where producing those goods would be relatively price competitive (Akamatsu, 1962). Widely known as the 'flying geese model', it has been used to explain the experience of the industrialisation process in East Asia, from Japan to South Korea to China (Kasahara, 2004). If the 'flying geese model' holds true as a process for economic development, what spaces do late-industrialisers have to join and benefit from such formations?

Technological capacity will be a key element if LICs are to benefit when the production of certain goods moves downstream (Lall, 2004) – unless, of course, technology also accompanies the shifts in the location of production, in which case factors such as infrastructure and institutions become important. In most LICs and LDCs all three requirements (technology, infrastructure and institutions) are likely to be underdeveloped.

The case of Nepal, an LDC, provides interesting insights. Bordering the two emerging economic giants of China and India, it has not benefited from their economic growth. Pandey et al. (2012) argue that underdeveloped technological capabilities are an important factor in Nepal's inability to increase its productive capacity and integrate into regional value chains, and that market-based mechanisms, with the exception of the banking sector, have not provided for technology transfer. In Nepal's case, technologies that have increased productive capacities and transformed people's lives were transferred through what they call 'development pathways' – for example, the transfer of photovoltaic energy and bio-briquetting technologies from Japan, biogas technology from the Netherlands, high-yielding varieties (HYVs) of seed from the International Rice Research Institute (IRRI), technology for the conversion of waste agricultural biomass into energy from India, and threshing and rice-milling technology from China. Apart from these few examples, however, the field of technological capabilities and transfer in Nepal remains largely barren.

Pandey et al. (2012) point to a number of areas for encouraging technology transfer. For instance, effective coordination between the private sector, government and academic institutions in LICs can improve both the transfer and the absorption of technology. But they also highlight the limitations in the WTO rules relating to technology transfer. On the one hand, these call on developed countries to encourage their enterprises and institutions to transfer technology to LDCs (Article 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights). A study undertaken by the International Centre for Trade and Sustainable Development, which examined 79 reports submitted by developed countries between 1999 and 2010, found that business remains as usual (Moon, 2011). On the other hand, WTO rules prohibit LDCs from making technology transfer a performance requirement for foreign investors.

“The more recent debate not only argues that the most productive firms within an industry focus on exports, but also that they are likely to have been the most productive within an industry *before* exporting.”

> "Rather than viewing the state as solely responsible for engineering structural transformation, its role is increasingly seen in terms of correcting market imperfections and overcoming market failures. States that do this are described as 'developmental states'."

the acquisition and learning of new technologies (Khan, 1996). It manages state–business relations in order to achieve structural economic transformation – in other words, the state is sufficiently embedded to influence business activities, but sufficiently autonomous to avoid capture by interest groups (see Box 8.2 on Côte d'Ivoire, below).

8.3 Changes in the structure and flows of trade and investment

The changes in trade and investment patterns that will shape the integration process of the poorest countries are related to shifts in the types and quantity of flows. These shifts have brought new opportunities and particular challenges for LICs.

8.3.1 Structural shifts in global production and trade

The effect of large and rapidly growing economies on global trade and investment patterns has prompted some countries to adapt their approach to trade and development policy. The effect of the 'Asian Drivers' – the East Asian NICs including China – on global trade patterns began to enter policy discussions towards the end of the 2000s, before the onset of the global financial and economic crisis. Other concerns related to the extent to which shifts in the structure of global demand had resulted in changes in the terms of trade for manufactured goods and primary commodities (Kaplinsky, 2010). This is because structural shifts in global demand are likely to alter the potential development trajectory of late industrialisers, in addition to changes in global production patterns.

The Asian region is increasingly operating as a manufacturing hub – referred to as 'factory Asia' (Baldwin, 2008) – with other countries and regions either integrating into this international division of labour or being left out and suffering the effects of competition with their domestic industries. Relative price developments are affecting development strategies designed to reduce commodity dependence in regions such as Latin America and SSA, which are seeking to diversify their export base in order to reduce the various vulnerabilities associated with commodity dependence (Jenkins, 2010; McCormick et al., 2007).

Overall trends in consolidation across marketing and retailing nodes, which have become much more apparent in recent years, suggest that all types of trade are progressing towards more hierarchical and buyer-driven types of GVC governance structures (Keane, 2012a). The global governance of trade that is negotiated and formulated by governments influences the decisions of the private sector on production and trade. It is therefore important to develop a better understanding of the constraints that impede the achievement of economic and social upgrading at each value chain production node as well as movement from one node to another, and of the policies that can help to alleviate these constraints. The upgrading processes of LIC/LDC firms in GVCs depends not only on conventional development policies (e.g. skills, technology and investment policy) but also on the way in which firms interact across borders, which governments can influence in the interests of promoting development.

Global trade is characterised by the fragmentation of production dispersed across countries, coordinated by lead firms within GPNs and GVCs. The integration of producers within these GPNs and GVCs also entails the parallel development of trade and FDI. This is because global manufacturing is characterised by trade in tasks between countries that specialise in particular segments of a given production (or value) chain. Most international trade is in intermediate rather than final goods. In general, countries should therefore be thought of as trading in tasks, activities or processing stages of intermediate rather than final products (Grossman and Rossi-Hansberg, 2008; Hanson, 2012; OECD, 2011; WTO-IDE, 2011).

These structural shifts in the drivers and patterns of global trade call for policy to adapt accordingly. There is increasing recognition of the need for global policy-makers to acknowledge and address the structural shifts in trade flows: between nations, but coordinated by transnational and multinational firms (TNCs and MNCs), which operate on an intra- and inter-firm basis.[95] For example, a recent strategy document for the EU on formulating an integrated industrial policy for the globalisation era states that success in the intensively interacting new world economy depends on the ability of enterprises to access international markets and exploit GVCs (COM, 2010a).[96] The document also makes clear the need for an industrialisation policy that is fit for the globalisation era. This need has become more apparent since the global financial crisis. The challenge for all policy-makers is to ensure that the economic benefits derived from participation in GPNs and GVCs facilitates rather than hinders the development of productive capabilities. This in turn depends on effective governance structures, both in terms of how firms interact and in relation to how governments interact with firms.[97]

8.3.2 Changes in the investment policy landscape

The investment policy landscape is also changing rapidly. These changes are being driven not only by the move of economic power from the developed to the developing world, but also by the pressures created by recent global crises (e.g. the food price surge, energy price shocks, financial crises and the eurozone crisis). In addition, a number of key policy changes are taking place.

First, governments are renewing their interest in regulating investment. The many reasons include the fact that the global financial crisis has shown how disruptive and irrational unregulated market forces can be. As a result, more direct government intervention is increasingly seen as necessary, including within the realm of industrial policy, and state regulation is becoming apparent across certain strategic industries. For example, in the agriculture sector, entry barriers or reinforced screening procedures for foreign investors have recently been introduced, particularly in Africa and Latin America, in order to avoid excessive acquisition of land by large foreign firms and sovereign wealth funds (UNCTAD, 2012a).

Second, the so-called 'new generation' investment policies seek to put inclusive growth and sustainable development at the core of investment practices (UNCTAD, 2012b). These policies have three main characteristics: (a) they recognise the role of investment as a primary driver of economic growth and sustainable development and therefore aim to make investment policies an integral part of any national or global development strategy; (b) they aim to promote responsible investment, which recognises the relevance of social and environmental goals; and (c) they seek to overcome existing shortcomings in investment policy. In order to ensure that any new investment policy satisfies the above characteristics, UNCTAD (2012b) has produced a set of core principles or guidelines (see Annex 3).

In addition to sources of private investment, Development Finance Institutions (DFIs) have become increasingly important investors in the poorest countries and may help to promote good practice. These investments may also have positive effects on development more broadly. There is recent evidence that DFIs can help to foster investment and inclusive and sustainable growth (te Velde, 2011a; Massa, 2011b). LICs are found to benefit mainly from DFI investment in agribusiness and infrastructure, while higher-income countries

> "The structural shifts in the drivers and patterns of global trade call for policy to adapt accordingly."

95 The difference between an MNC and a TNC is that the latter operates worldwide without being identified with a national home base while the former has extensive ties in international operations in more than one country.

96 This policy includes 'every part of the increasingly international value chain – from access to raw materials to after-sales service' (COM, 2010a).

97 For further discussion see Keane (2012a).

> "FDI flows from Brazil, Russia, India and China have increased rapidly over the past decade, reaching about $100 billion in 2009."

seem to take advantage mostly of investments in infrastructure and industry.

In addition, DFIs also contribute to enhancing economic inclusion, which is a determining factor in alleviating poverty and achieving sustainable and inclusive growth. Indeed, by providing direct and indirect financial support (e.g. through financial institutions, microfinance institutions, investment funds and non-bank financial institutions), capacity-building for households and small and medium-sized enterprises (SMEs), and by supporting the development of financial infrastructure (e.g. credit bureaux and collateral registries), they contribute to making finance accessible, available and affordable (Massa, 2012). In promoting private-sector investments, DFIs can provide complementary financing in poor countries, as well as ensuring that best practices are disseminated and embedded within policy.

8.3.3 The increasing role of emerging economies as investors in LICs: new opportunities and challenges

Although most FDI flows to LICs originate from developed countries, emerging economies are increasingly important investors. In particular, FDI flows from Brazil, Russia, India and China have increased rapidly over the past decade, reaching about $100 billion in 2009 (Mlachila and Takebe, 2011). Among BRICs, China has been the biggest investor in LICs, showing a 20-fold increase between 2003 and 2009 (ibid.). Notably, although the global financial crisis weakened investment from OECD countries, FDI flows from BRICs have continued to rise steadily (Massa, 2010).

FDI flows from investors in emerging economies have been led mainly by a strong motivation to acquire new markets and gain access to natural resources, although BRICs' investment also includes infrastructure, agriculture, manufacturing and service industries. In SSA for example, Brazilian and Chinese investment is focused mainly on the oil and mining sectors, the bulk of Indian FDI is in manufacturing and services, and Russia is increasing its interest in financial services and telecommunications (Massa, 2010; Mlachila and Takebe, 2011). China also invests in infrastructure in SSA countries, a sector which is vital but which OECD donors have often neglected in favour of the social sector (Massa, 2011a; Dabla-Norris et al., 2010).

The FDI flows from BRICs are expected to become more important in the economic performance of LICs in the future. Indeed, they provide resources that can be used to build physical capital, thus directly enhancing the productive capacity of recipient countries. This FDI also brings a number of indirect benefits that may contribute to overall economic growth. For example, investment can improve local skills, promote the transfer of technological know-how, and enhance the competitiveness, performance and efficiency of domestic firms. China, for example, offers training to African professional workers[98] (Massa, 2011a).

In addition, FDI flows from BRICs have the potential to increase significantly overall levels of FDI in countries in which traditional OECD investors may be unwilling to invest because they consider them too risky or corrupt. Moreover, BRICs contribute to filling the FDI void left by OECD investors in the wake of the global economic and financial crisis, thus helping developing countries to counteract its negative effects on productive investments.

Despite some of the positive attributes of FDI from the emerging economies in poorer developing countries, it is not necessarily risk-free for recipient countries, as becomes clear from work on the drawbacks of Chinese investment in African countries (Massa, 2011a). First, unlike most

98 Between 2000 and 2006, 16,000 African professionals were trained in China; another 15,000 between 2007 and 2009; and a further 20,000 were expected to receive training between 2010 and 2012 (Massa, 2011a).

traditional donors and investors, China provides financing with (almost) no political, economic, environmental or human rights strings attached.[99] This less stringent approach has been instrumental in the Chinese penetration of markets such as Sudan and Zimbabwe, which Western investors have tended to shun. Second, since Chinese investments in infrastructure often use Chinese workers, these do not necessarily create jobs for Africans. Finally, there is a risk that African countries are seeing their natural resources drain away without extracting sufficient profit from Chinese deals. For example, there is some evidence to suggest that countries such as Angola, Congo and Nigeria are not using their resources to leverage better deals with China as a means to promote their own development (Haroz, 2011).

8.4 The challenges faced by LICs and LDCs

LICs and LDCs generally face multiple economic challenges. These tend to be production-related (low levels of technological capabilities), physical (weak infrastructure), institutional (lack of effective policies) and human (lack of skills and knowledge). As a result, these countries continue to account for small shares of economic output in relation to their population size (see Figure 8.1). The recent phase of globalisation[100] has seen some countries converge with already industrialised countries in terms of per capita income, while many LICs and LDCs remain stuck in a low-level equilibrium or poverty trap. Moreover, many LICs and LDCs remain dependent on agricultural and other commodity exports, which cannot alone sustain dynamic growth (Collier, 2007; Gore, 2009; Mitchell and Farringdon, 2006; Sindzringre, 2009). This section discusses these issues in relation to trade and investment.

8.4.1 Limited trade and investment basket

Between 2003 and 2009, LDCs as a group achieved rapid trade growth. During this period, LDC exports grew at an average annual rate of 14%, about twice the rate of growth of world trade (WTO, 2010). Much of this was driven by commodities, which accounted for about 75% of LDC exports. A few LDCs have succeeded in diversifying their exports away from commodities, mainly to clothing and tourism. There is also increasing South–South trade. In 2009, 50% of LDC exports were to Southern countries, which were also the source for a similar share of LDC imports (UNCTAD, 2011).

The total value of FDI to LICs and LDCs in 2009 was about $45.2 billion. This fell to $42.2 billion in 2010 and then rose to $46.7 billion in 2011. But for LDCs overall, and SSA in particular, FDI flows have been declining since 2009. Furthermore, the global financial crisis and the eurozone crisis have dampened overall global flows. The slow-down in FDI has been most acutely felt in LICs, although UNCTAD (2012a) notes a marginal increase to the broadly categorised 'structurally weak, vulnerable and small economies', which include LDCs, landlocked developing countries and SIDS.[101]

The flow of FDI to LDCs tends to be concentrated in a few resource-rich countries, which distorts the LDC average. In Angola alone, in 2011, large divestments and repayments of intra-company loans by investors reduced FDI inflows to LDCs overall to the lowest level in five years. Mining, petroleum and quarrying remain the three top sectors attracting FDI in LDCs, although investment in utilities, transport and storage is rising (UNCTAD, 2012a).

This means that commodities are driving much of the increase in trade and investment flows. Although the increase in global commodity prices

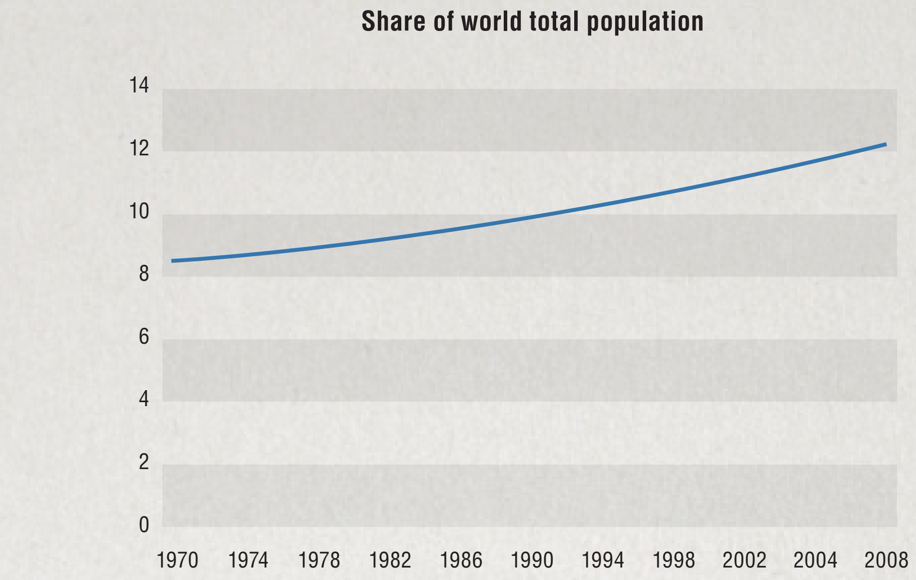
> **"Between 2003 and 2009, LDCs as a group achieved rapid trade growth. LDC exports grew at an average annual rate of 14%, about twice the rate of growth of world trade. Much of this was driven by commodities."**

99 Many developing countries prefer donors not to impose conditions.

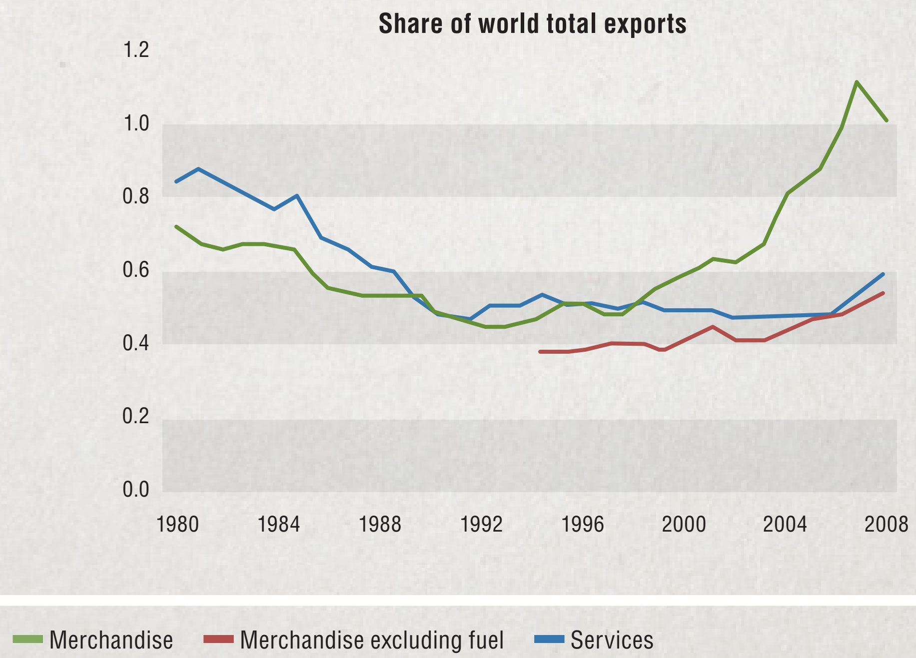
100 The most recent phase of globalisation began in the 1980s, which some authors (e.g. Fine, 2009) argue has been characterised by the more salient feature of financialisation.

101 Most of the LICs fall into one or more of these UN categories.

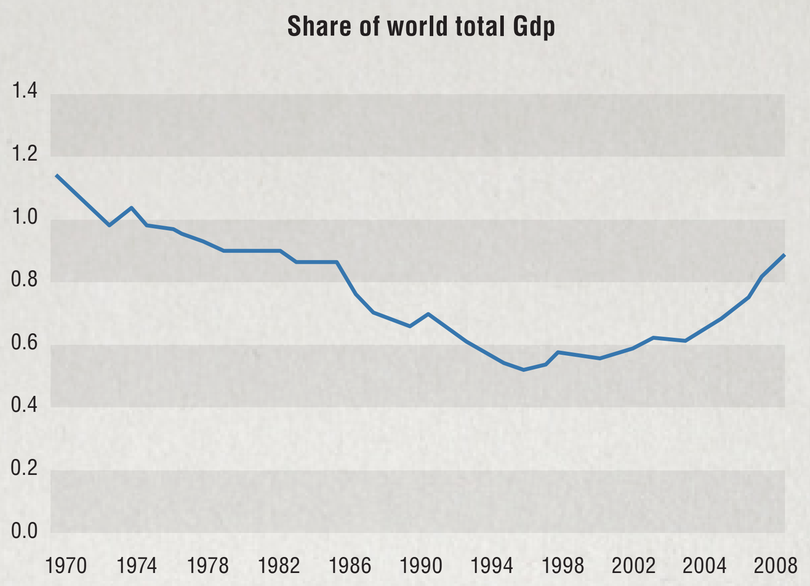
Figure 8.1 LDC share of total world population, GDP, exports and inward FDI, 1970–2008



Source: UNCTAD, 2011



Source: UNCTAD, 2011



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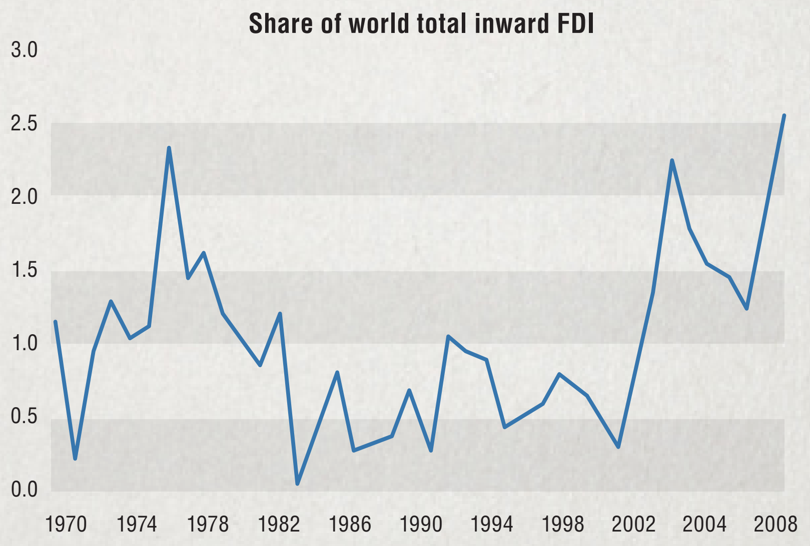


Source: UNCTAD, 2011

> LICs and LDCs continue to account for small shares of economic output in relation to their population size.

CHAPTER EIGHT

> "Volatility in global commodities prices and weak institutional capacity to manage them has contributed to LDCs' vulnerability."

has provided a somewhat more favourable context for growth for exporters, it nevertheless raises long-term concerns for the development of LICs and LDCs. Limited trade and investment diversification in LDCs have acted as the main transmission channel for the global economic crisis.

8.4.2 Economic vulnerability due to dependence on commodities

Many LDCs remain dependent on commodities. There are historical precedents of countries such as Canada, the USA and some of the Nordic countries which successfully used natural resource endowments and primary commodity exports to fuel their economic development. However, volatility in global commodities prices and weak institutional capacity to manage them has contributed to LDCs' vulnerability to their dependence on commodities (Maizels, 1994).

Figure 8.2 highlights the share of primary commodities in overall exports, and shows the degree to which LDCs' exports are concentrated in just a few primary commodities. Such levels of concentration accentuate their economic vulnerability to changes in global commodities prices (Sachs and Warner, 2001). For instance, in the 1980s and 1990s large commodity price cycles became more frequent, shorter and broader. There was also a collapse of real commodity prices in the early 1980s, following the boom triggered by the 1973–74 oil crisis and the subsequent period of very high price volatility throughout the 1970s (Erten and Ocampo, 2012). These deteriorating terms of trade for primary commodities continued throughout the 1980s and the 1990s and had a devastating impact on development in many low-income commodity-dependent countries, with many enduring 20 years of severe economic and debt crises.

The early 2000s saw a significant upturn in primary commodity prices (see Figure 8.3). After two decades of low and sometimes dwindling prices, the nominal price of many primary commodities rose markedly from 2002, reaching an all-time high in mid-2008, just before the onset of the global financial crisis, which affected all commodity groups. The marked increase in nominal prices resulted in a sharp upturn in real commodity prices between 2000 and 2010. This led many observers to conclude that commodities had entered into a new price super-cycle in the early 2000s (e.g. Kaplinsky, 2010).

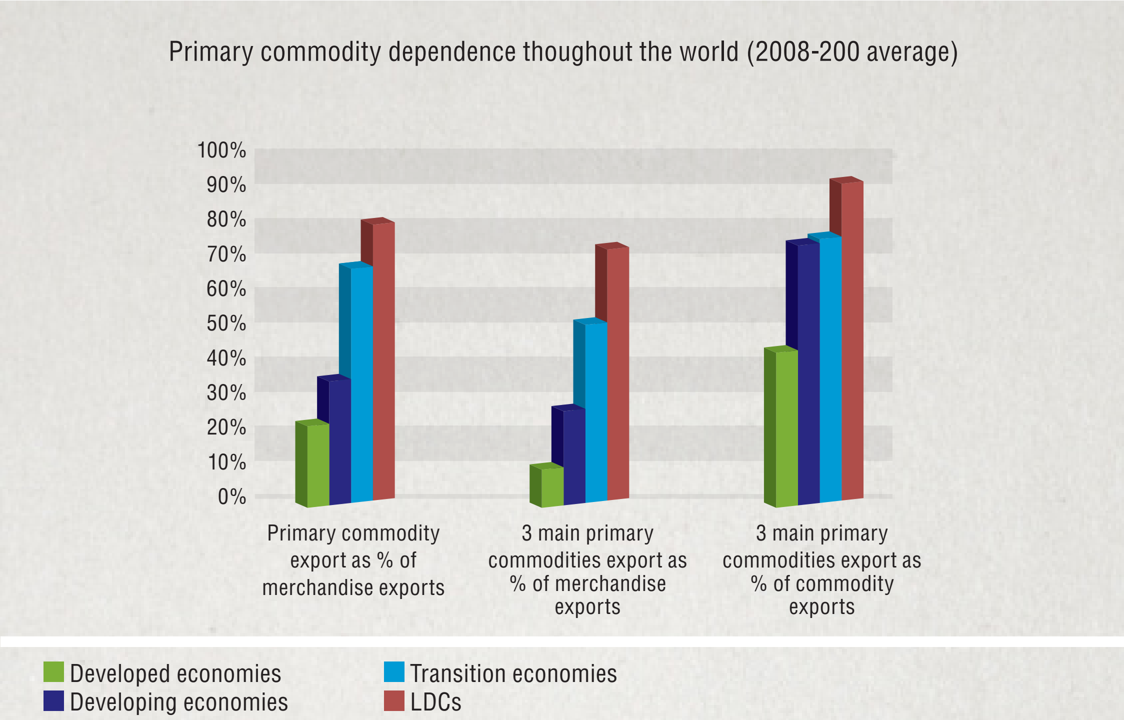
Extremely high volatility of commodity prices has been a defining feature of most recent trends. This is because, after experiencing almost free fall in the last quarter of 2008, several 'high-profile' commodities continued to experience large swings and had almost reached the pre-crisis peak level towards early 2011. Commodity prices then slumped again in connection with the sharp slowdown of the global economy and the worsening eurozone crisis. Moreover, emerging data on agricultural production suggest an imminent global shortage of food staples. Another short-term boom–bust cycle of commodity prices may therefore already be in the making, the implications of which are of concern for commodity exporters and importers and must therefore be placed high on the international policy agenda (Box 8.2).

8.4.3 Lack of integration into the global services market

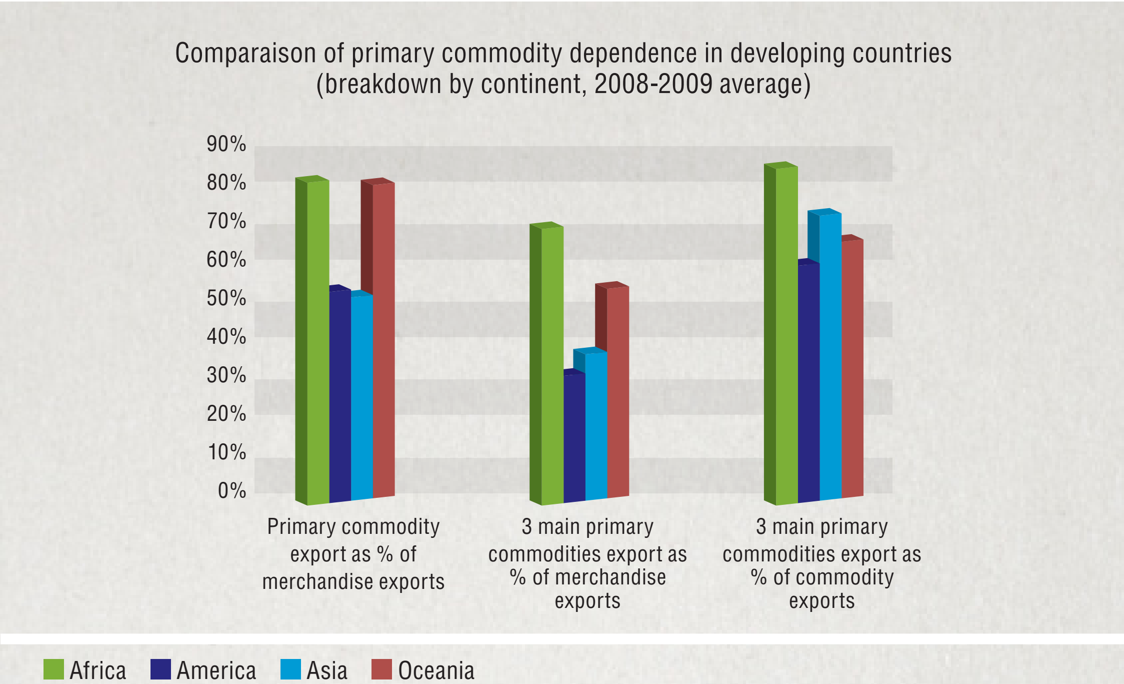
Services are one of the most dynamic and rapidly growing sectors in many LICs. The service sectors are vital components of economic growth and transformation because they facilitate transactions and increase productivity (Hoekman and Mattoo, 2008). In many LICs it is the informal economy, which largely constitutes services, that absorbs labour moving out of rural areas. The functioning of the service sector therefore has important implications for the overall economy. But while services value-added accounted for over 40% on average of LICs' GDP during the period 1990–

102 Authors' calculation based on World Development Indicators (accessed October 2012).

Figure 8.2 Share of primary commodities in exports, by country groups



Source: UNCTAD, 2011

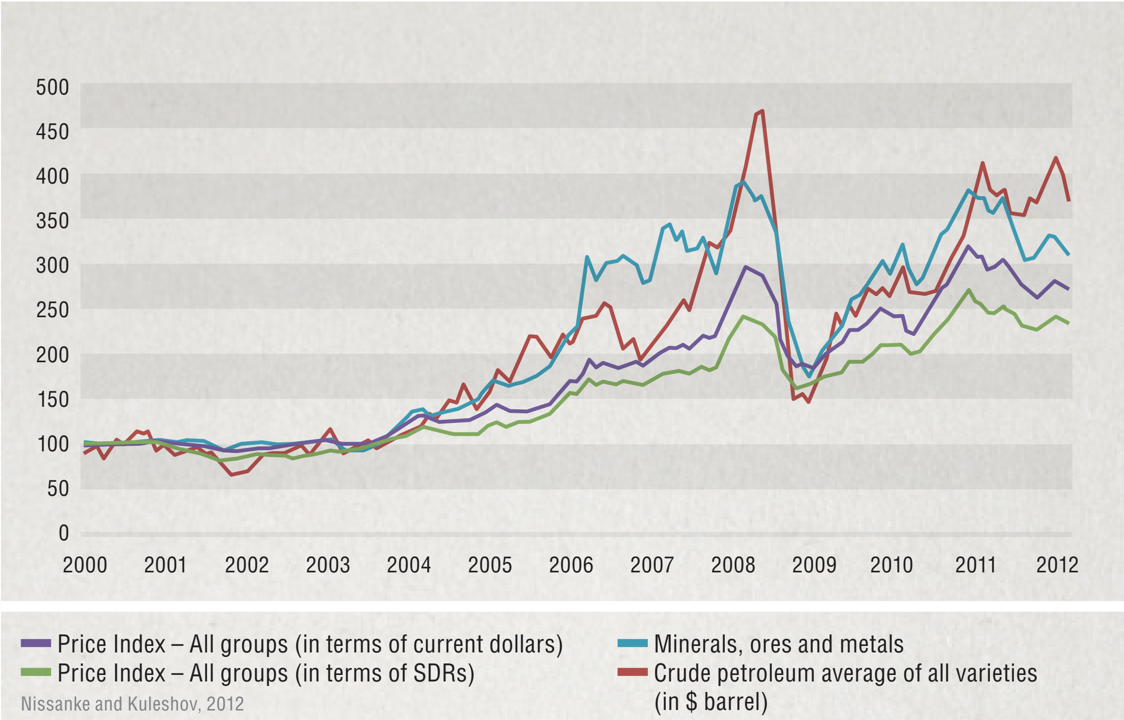


Source: UNCTAD, 2011

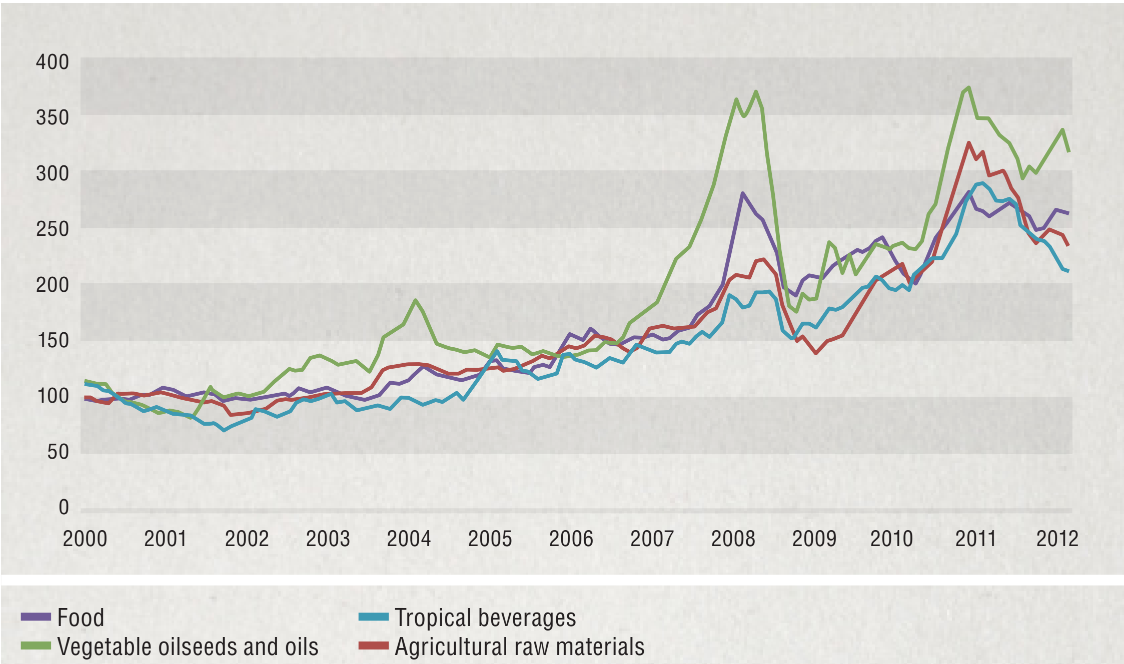
> "Figure 8.2 highlights the share of primary commodities in overall exports, and shows the degree to which LDCs' exports are concentrated in just a few primary commodities. Such levels of concentration accentuate their economic vulnerability."

"The early 2000s saw a significant upturn in primary commodity prices After two decades of low prices, the nominal price of many primary commodities rose markedly from 2002, reaching an all-time high in mid-2008."

Figure 8.3 Monthly commodity price indices by commodity group, January 2000–May 2012 (2000=100)



Nissanke and Kuleshov, 2012



Nissanke and Kuleshov, 2012

Box 8.2 Political economy of commodity dependence – the case of Côte d'Ivoire

Although cocoa is no longer as economically dominant as it once was, it continues to be a major source of livelihoods in Côte d'Ivoire, along with coffee and cotton. Its historical reliance on cocoa has had major implications for the country's economic and political development, underlining the effects of commodity dependence on development trajectories. Continuous high cocoa prices following independence in 1960 and the availability of land, led the government of Houphouët-Boigny (himself originally a cocoa farmer) to encourage immigration and internal migration to exploit the land for cocoa production, and Côte d'Ivoire experienced 15 'miracle' years.

But prices declined in the late 1970s, despite attempts to withhold stocks and curtail supply. The lack of new land for further planting, declining productivity of existing cocoa trees and spiralling debt set the scene for structural adjustment, popular protest, multi-party elections, the break-up of Houphouët-Boigny's 'grand coalition' and the divisive ethnic politics of later years. Unemployment and return migration to rural areas added to land pressure, resentment against immigrants, and the beginnings of social instability. This undermined both the economy and the political stability that cocoa rent redistribution had permitted while prices were high. Some argue (e.g. Boone, 2007) that liberalisation policies have further decentralised rents, retarding growth through a failure to centralise and use rents productively. In the more recent post-electoral crisis, the ban on cocoa exports, which meant forfeiting export tax revenues, was one of the measures that contributed to the ousting of the president.

What role, then, for trade policy in encouraging economic transformation in Côte d'Ivoire? The West African Economic and Monetary Union common external tariff was introduced in 2000 but Côte d'Ivoire's trade with its co-members did not increase due to remaining barriers to trade in the region, including additional levies, import bans and non-tariff barriers – which underscore the need for trade policy to go beyond tariff measures. The surge in trade with ECOWAS is due mainly to imports of Nigerian crude oil and return exports of refined petrol, which is not transformational. To date the interim EPA with the EU has not had a major impact on Côte d'Ivoire's trade patterns compared with the previous Cotonou regime, although the alternative of using the GSP might well have had a negative impact on trade flows. While exports increasingly include a degree of value-addition, history suggests that trade policy will have a role in promoting economic transformation only if political and economic interest groups can align on agendas that promote deeper structural transformation

> "The share of trade in services in GDP of MICs over the 1990–2011 period was about 24%. This is an indication of the extent to which trade in services could expand in LICs."

2011, trade in services accounted for about 17% on average.[102] Up to 2003, the average was 15% and much of the growth in the share of trade in services in GDP took place between then and 2007. It has been declining since 2008. Growth and then decline in trade in services could be a reflection of changes in FDI flows to LICs, particularly the financialisation of commodities and investments in extractive industries (see Section 8.3.2), although it could also be due to a high increase in GDP growth. The share of trade in services in GDP of MICs over the 1990–2011 period was about 24%. This is an indication of the extent to which trade in services could expand in LICs, with the associated increases in income and economic expansion.

Services, and in particular trade in services, are important for promoting human development, such as improvements in education and health (Cali et al., 2008). Trade in services in health and education is particularly important in SIDS, where there are few local providers (Basnett, 2008 and 2007). The potential of trade in services to promote inclusive and sustainable development remains restricted, however, mainly because of institutional (rules) and policy barriers.[103] For example, very few LICs engage in meaningful trade in services agreements that remove barriers and establish harmonised systems and standards. Existing agreements are mostly at regional or sub-regional levels, whereas best practices in the services sector are likely to be from outside the region. Similarly, national policies often place restrictions on foreign providers, either because strong interest groups can deter policy-makers from undertaking reform and/or because of the lack of capacity to understand the impact of reforms and to design regulations and safeguards.

The LDC waiver in the General Agreement on Trade in Services (GATS) agreed in the WTO in December 2011 opens the way for advanced economies to give preferential treatment to LDCs in services trade. An area that would benefit LDCs is the provision of preferential treatment in Mode IV (or labour mobility) for temporary workers originating from LDCs (see Chapter 9). The EU could take the lead in designing a preferential arrangement for trade in services with LDCs similar to the 'Everything But Arms' initiative[104] on goods.

8.4.4 Stalling at the multilateral level

The Doha Development Round of the WTO was launched in 2001. Negotiations remain at an impasse, and in view of the current lack of interest in multilateral solutions, a substantial breakthrough is unlikely to be achieved in the immediate future. Despite this, the interest of some LDCs in the DDR include securing new duty-free and quota-free (DFQF) market access across 100% of product lines in developed-country markets, agreement on trade facilitation, ensuring the adequate provision of trade-related assistance, as well as requiring some agreement on specific product and commodity lines, such as cotton. While the issue of trade at the multilateral level relates directly to the DDR and the WTO, there are other multilateral platforms for other global issues, such as climate change, that have also stalled. The fact that there has been so little progress might suggest that it is not trade multilateralism as such which is at an impasse, but rather multilateralism in general as an approach to addressing global issues.

The lack of an active multilateral framework is likely to most disadvantage and further marginalise the LICs and LDCs. A multilateral process is more likely than bilateral and regional approaches to be more inclusive and dilute power hierarchies, while the outcomes are less likely to marginalise the interests of weak economies (Keohane and Nye, 1985). But it is also important for multilateralism to address new global development challenges and

103 For a detailed discussion on constraints to trade in services in developing countries (see te Velde, 2005).

104 The EBA initiative allows LDCs to export agricultural and manufactured products to EU markets duty free and quota free (see European Commission, 2012d).

achieve results. With regard to trade, as embodied in the WTO rules and as being negotiated in the DDR, there have been some positive outcomes from the perspective of LDCs, such as the commitment to DFQF market access for all LDCs; a predictable and rule-based trading environment; a policy-making environment of equal voice, in principle, irrespective of a country's economic status; and concerted efforts to mobilise resources to help developing countries, in particular LDCs, to expand their trading capacity (the AfT agenda). But there remain problems and unfinished business, for instance: the continuation of tariff escalation on certain goods as well as 'nuisance tariffs' (very low tariffs that cost more to collect than they generate in revenue); lack of progress on agricultural tariffs; poorly defined special and differential treatment (Montes, 2013); improving trade facilitation; and the conspicuous absence of discussion on labour mobility, which could potentially do more to promote development than all the current trade proposals combined.

Given the importance of trade multilateralism to LICs and LDCs, the question is how to resuscitate it. The answer lies in part in how the WTO should evolve and in part in how the global community can attune trade multilateralism to the changing global context and make its decision-making processes more inclusive. Multilateral trade negotiations should move beyond the DDR and include borderline issues such as trade and finance, and trade and climate change (Page, 2011). They should engage with current global challenges[105] such as natural resource scarcities and food security, and help to articulate and build consensus on a trade-based response to these challenges.

In order to play such a role the WTO may need to be decoupled from its narrow agenda on trade liberalisation (Basnett, 2011b). The WTO needs to associate itself with an agenda for leveraging a broader set of trade policies to address emerging global challenges. It should remain a guardian of trade rules, norms and knowledge that support development (Hoekman, 2004), but meaningful and deeper trade integration is more likely to happen at a bilateral and/or regional level. Hence, multilateral rules and norms embodied in the WTO should seek to consolidate bilateral and regional experience (Wignarajara, 2011). This raises the issue of how to ensure that trade liberalisation at lower levels of operation is consistent[106] and how to protect the voice and interests of developing economies. The latter is important because power hierarchies and relations can be acute at bilateral and/or regional levels.

8.5 Current and future EU policies on trade and investment

Europe is already an important and stable trading partner for LICs (COM, 2012a and 2012b). It is one of the most important destinations for their exports, accounting for more than Canada, China, Japan and the USA. It already has preferential trade and development instruments for LDCs, such as the EBA. Given the countries eligible for EBA, it is also a relatively good proxy of EU trade policy towards LICs.[107]

In 2000, the value of exports from LICs to the EU totalled €11.4 billion, which had increased to €19.5 billion by 2011. Imports from LICs as a percentage of total EU imports have varied from a high of 1.3% in 2001 to a low of 0.9% in 2008; in 2011 they represented 1.1%. Most of the growth in LIC exports to the EU has been driven by Bangladesh (26%), Cambodia and Kenya (11% each). The relative importance of the EU as a market for LIC exports is therefore heavily influenced by Bangladesh, which

> "The lack of an active multilateral framework is likely to most disadvantage and further marginalise the LICs and LDCs."

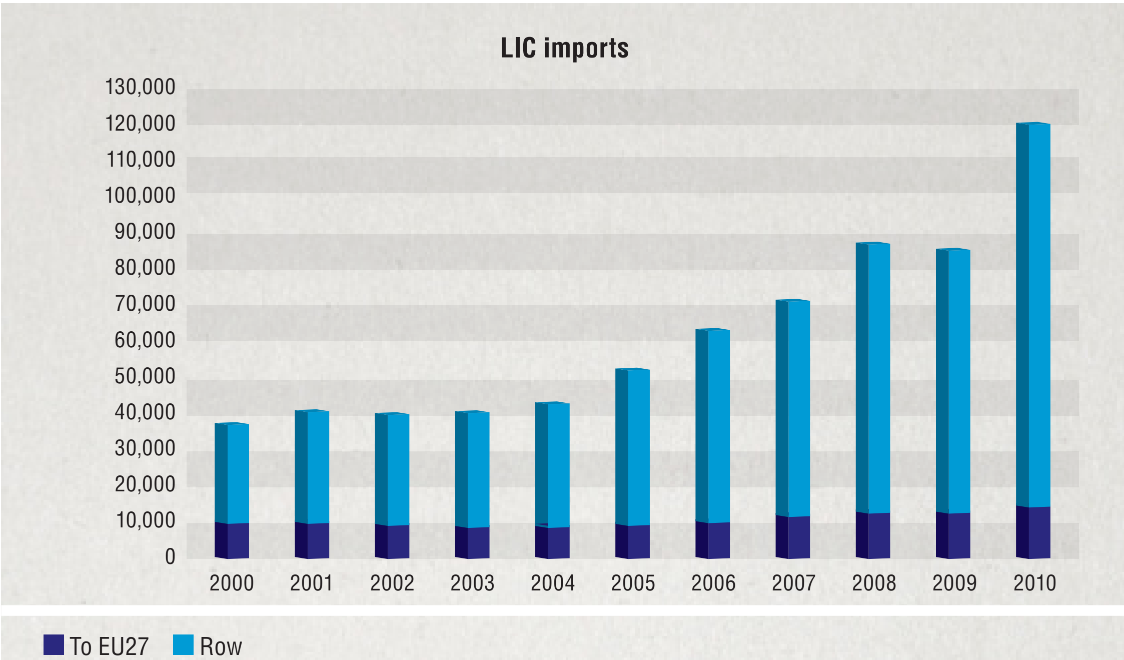
105 For further discussion see te Velde, 2011b and te Velde, 2012a.

106 In particular, concerns relate to the welfare implications of bilateral and regional trade agreements, and whether they create or divert trade.

107 Albeit with some exceptions, notably Kenya. For more detail, see Stevens (2012).

> "While LICs' trade with rest of the world has increased over the last ten years, their trade with EU has remained stable (Figure 8.4). This also suggests that trading partners besides the EU are becoming more important for LICs, a trend that is likely to continue."

Figure 8.4 Value of LIC global and EU exports and imports



Note: In all years 'LICs' = the 36 countries so classified by the World Bank in July 2012.

Source: UN COMTRADE database (value of trade with EU27 and all countries which have reported their trade values in each year).

in turn is highly dependent on EU preferential trade arrangements for the import of textiles and clothing.

Europe is also an important trading partner for LICs' imports, accounting for €9.8 billion of the total value in 2005 and €19.3 billion in 2011. While LICs' trade with rest of the world has increased over the last ten years, their trade with EU has remained stable (Figure 8.4). This also suggests that trading partners besides the EU are becoming more important for LICs, a trend that is likely to continue.

The European Commission's most recent communication on trade and development (COM, 2012c) recognises that the landscape of trade and investment has changed dramatically in recent years. In response, it has proposed major reforms to its trade and development instruments. The changes to EU trade policy between now and 2015 may serve either to reinforce or undermine achievement of the MDGs, as well as LICs' existing patterns of production and trade.

8.5.1 Economic Partnership Agreements and the post-2015 development agenda

It is particularly important for the non-LDCs to enter into EPA negotiations if the African, Caribbean and Pacific (ACP) countries are to retain a level of market access similar to what they enjoyed under the trade-related aspects of the Cotonou Partnership Agreement (CPA) (2000–2020). It is argued that EPAs provide more liberal and predictable market access for ACP countries (COM, 2012c). In the Cotonou agreement, the EU and ACP agreed to negotiate regional EPAs between ACP regions and the EU. As a result, since the end of the Lomé Convention trade regime and the WTO waiver that allowed it to continue under the CPA until 31 December 2007[108], some ACP have either initialled or signed reciprocal free trade agreements (FTAs) known as ACP–EU EPAs[109], while others are yet to do so. Some have also been granted non-reciprocal preferential market access under the GSP or the EBA (all the LDCs).

Regional economic integration has been one of the cornerstones of the EPA negotiations (Bilal et al., 2009). The European Commission recognises that regional economic integration would expand market opportunities for ACP producers, facilitate investment and broaden development possibilities (COM, 2012c). While EPAs have fostered integration in some regions (for example in the Caribbean with the CARIFORUM), in other regions opinions are divided on whether its impacts have been so positive. There are concerns, for instance, about regional economic communities (RECs) that are customs unions, and the impact on them if some members sign EPAs while others do not. For instance, in the case of ECOWAS, only Ghana and Côte d'Ivoire have initialled EPAs (cf. Côte d'Ivoire case study). If these interim EPAs would start to be applied, this will require internal adjustments in order to implement the Common External Tariff, which may impact the anticipated economic and political gains from integration (Walker, 2009). By 2015, there is likely to be important trade liberalisation in ACP countries through the EPA process, which will affect regional integration in some RECs.

8.5.2 Reform of the EU's GSP

The current EU trade preference includes three important arrangements for developing countries with differing trade, development and financial needs. The benefits come in the form of reduced to zero customs tariffs on imports of goods. These are: (1) Everything but Arms, exclusively for LDCs; (2) general arrangement for all developing countries; and (3) special incentive arrangement for

> **"The changes to EU trade policy between now and 2015 may serve either to reinforce or undermine achievement of the MDGs, as well as LICs' existing patterns of production and trade."**

108 The ACP-EU Cotonou Partnership Agreement (CPA) continues until 2020.

109 Since 2007, 36 of the 76 ACP states that took part in the EPA negotiations have initialled an agreement, and most of these have gone on to sign either full or interim agreements.

"The new GSPs will come into effect in 2014 and so will run parallel to any post-2015 global development framework, acting as a backdrop to whatever global partnership arrangements it agrees."

sustainable development and good governance[110] (COM, 2012c). There is evidence of the beneficial impact of the EU's GSP on stimulating developing countries' trade and investment patterns. Preferences can help to increase LDC exports, their adoption rates are typically high, and LDC exporters tend to benefit from the preference margins (CARIS, 2010). The growth of trade and investment with the EU in recent years has been higher for preference-receiving countries than for non-beneficiary countries, ranging from just over 10% for the ACP countries to nearly 30% for the GSP+ group (Stevens, 2012).

As the current 10-year cycle of EU's trade preferences is due to end in 2013, the preferences are being reformed in order to benefit the countries most in need of them. The recent reform of the EU's GSP will also focus on such countries, reducing the number of beneficiaries from 176 to 89 (COM, 2011a): 49 LDCs and 40 LICs that have no other preferential arrangements (typically FTAs) to access the EU market. Although 87 countries will no longer benefit from the scheme, 67 of these are not affected since they already enjoy alternative arrangements.[111] The negative impacts on these countries' exports are expected to be typically marginal (total exports fall by less than 1%) (COM, 2011b). These countries remain 'eligible', which means that should they no longer be classified as HICs or UMICs they will again be beneficiaries of the scheme.

The new GSPs will come into effect in 2014 and so will run parallel to any post-2015 global development framework, acting as a backdrop to whatever global partnership arrangements it agrees. The reforms will expand market opportunities for countries still benefiting from the GSP.[112] The RoO provide new opportunities and regional cumulation has also been enhanced. Derogation from RoO has been simplified, including the possibility of swift decisions in the event of, for example, natural disasters. Important practical changes include simplifying the process for acquiring certificates of origin and establishing a helpdesk for exporters in developing countries. The aim to focus preferences on those countries most in need is a step in the right direction.[113] But for it to be effective in influencing their structural economic transformation, the GSPs will need to be complemented with measures to increase their productive capacities by improving the supply-side capacity and competitiveness. The latter is likely to make all the difference to which countries benefit from the reforms, and by how much.

There is also scope for enabling policies for demand-side measures (e.g. GSPs) and supply-side measures (AfT). For example, many of the goods on which there will be new graduation are ones that poor and uncompetitive countries cannot supply (Stevens et al., 2011). Moreover, it is possible that most of the growth in exports from LICs and LDCs due to GSP reform could be in natural resources. A preliminary analysis undertaken by CARIS (2011) concluded that for the LDCs that benefit from the EBA regime that already offers DFQF market access, the evidence is mixed. There is a need for more creative policies to tackle the structural problems that lock-in LDCs' export capacities, for example in primary commodities, rather than incentivising structural economic transformation.

There is evidence of some changes to the EU's preferential regime that incentivise building

110 These are extended to vulnerable economies in their effort to implement the International Convention on Human Rights and Sustainable Development (COM, 2012c).

111 In practice, preferences will no longer be available for 20 partners: eight HICs (Bahrain, Brunei Darussalam, Kuwait, Macao, Oman, Qatar, Saudi Arabia and United Arab Emirates), and 12 UMICs (Argentina, Belarus, Brazil, Cuba, Gabon, Kazakhstan, Libya, Malaysia, Palau, Russia, Uruguay and Venezuela).

112 Despite the potentially significant effect of this reform on existing trading patterns and the LDCs in particular, there are relatively few impact evaluation studies in this area.

113 See also Bilal et al. (2011) for further commentary on coherence between the GSP and the EU's overall trade and development objectives.

productive capacity through value-addition and integration into global supply chains (Stevens, 2012). For example, LDCs can now make use of non-originating imports such as cloth, which puts them in the same position as beneficiaries of the USA African Growth and Opportunity Act. The new regimes apply multiple RoO criteria rather than only, for example, value-added thresholds.[114] This means that exporters from developing countries may face different rules for different types of product across different sectors.

8.5.3 Commodities policy

Current EU policy on addressing some of the vulnerabilities associated with LICs' commodity dependence is limited to the ACP countries, but changes to the CPA trade regime have introduced a degree of uncertainty about how a new regime or mechanism might develop. The previous policy had issues about how to define commodity dependence and the associated vulnerabilities (Nissanke and Kuleshov, 2012).

For example, the most recent EU Action Plan on commodities states that the term Commodity Dependent Developing Countries (CDDC) is used for convenience and refers to countries that are particularly exposed to price variability in international agricultural commodity markets and thus share certain development challenges (COM, 2004). A more analytically rigorous definition could provide a sounder basis for identifying countries that require assistance in relation to commodity-specific issues (Nissanke and Kuleshov, 2012). There is a need to update the EU's current action plan on commodities in several respects to address two areas of difficulty:

- The lack of a commonly agreed measure of commodity-related vulnerability; and
- Implementation challenges: Strategies have effectively amounted to market surveys and generic agricultural development recommendations, lacked detail and have been difficult to implement. A focus on competitiveness has not significantly improved outcomes.

It will be important for EU policy to move towards interventions aimed at preventing the emergence of vulnerabilities at a more macro level. This goes beyond ensuring that there are adequate resources for shock facilities, as discussed in the EU's most recent communication on trade and development (COM, 2012c). For example, the European Commission has already introduced various shock-absorbing schemes, most recently the FLEX, Vulnerability FLEX (V-Flex) (see Chapter 7) and Food Facility initiatives.[115] Building on the V-FLEX, which was set up in 2009 to mitigate the effects of global food and financial crises on ACP countries, the EU 'will work to set up a new shock-absorbing scheme focusing on broader exogenous shocks with a cross-country dimension' (Griffith-Jones and te Velde, 2012). However, the EU could be more ambitious in enhancing resilience building efforts in the broader field of programmable aid, in addition to some reform of shock facilities and their operationalization. This is with a view to designing effective ex-ante rather than just ex-post interventions.

> "It will be important for EU policy to move towards interventions aimed at preventing the emergence of vulnerabilities at a more macro level."

8.5.4 Investment policy

As discussed in Section 8.3, LICs are experiencing rapidly changing investment patterns. The EU has also seen some major changes arising from the Lisbon Treaty, in particular it now has exclusive competence[116] in FDI as part of the Common Commercial Policy, although there are questions about how principles of inclusive and sustainable development will be integrated into EU investment policy. There is, for example, rather limited discussion in the EU's most

114 Value-added thresholds can be defined in terms of the maximum percentage of imported inputs in total inputs or the value of the product, or in terms of the minimum percentage of the value of the product that must be added in the country of origin.

115 These have been assessed recently by te Velde et al. (2011).

116 'Exclusive competence' indicates that policy in the specified area is formulated at the EU rather than at the individual Member State level.

> "In calling for a focus on structural transformation in a post-2015 development agenda, this chapter has placed the accent on marginalised economies."

recent communication on trade and development or how sustainable development principles will be integrated into investment policy.

Thus, although investment may be included within FTAs negotiated by the EU, the provisions related to social and environmental standards may be lower or less stringent than those under the GSP's special incentive arrangement for sustainable development and good governance (the so-called GSP+). The provisions of the new FTAs agreed with some countries and regions, such as Central America, compare poorly with those that have to date applied to EU trade (Stevens, 2012: 11).

Although there is some endorsement of policies such as the EU's raw materials initiative (RMI), this policy assumes that there is a 'level playing field' across commodity markets. Moreover, the blanket restriction placed on the use of export restrictions does not take into account CDDCs' efforts to mitigate their vulnerability (Nissanke and Kuleshov, 2012). The substantial funding dedicated to promoting the EITI in order to increase the transparency of government revenues (taxes, profits, royalties) is essentially relying on a private voluntary initiative and standard as a means to exert indirect influence on achieving development objectives. Such reliance to some extent highlights other issues concerning the ability of LICs to tap into investment flows related to their integration within GVCs and GPNs. The real problems that growing trade may bring are increasingly outside government control. This is an area where specific instruments such as AfT may assist producers and governments to upgrade and meet standards, as we discuss in the next section.

8.5.5 New challenges

The EU's recent communication on trade and development fails to consider the relationship between trade and climate change, despite this being a trade challenge that LICs will face beyond 2015. This absence is surprising given the moves to channel resources to LDCs for this purpose. For example, the EU is currently a major purchaser of certified emissions reductions (CERs) obtained through the Clean Development Mechanism (CDM). All developing countries supply this market. However, from 2013 only CERs obtained via the CDM will be permitted.[117] This represents a new source of finance for investment in mitigating and adapting to climate change in LDCs. However, there are also considerable obstacles in making such investments, including capacity constraints.

8.6 Trade and investment elements for a post-2015 global development agenda

A post-2015 global development agenda should address the shortcomings of the MDG framework, particularly the lack of an economic dimension. Historical experience suggests that developing countries that achieved structural economic transformation also reduced poverty and maintained higher standards of living. The economic dimension, therefore, should entail achieving structural transformation, as called for by the Istanbul Programme of Action for LDCs. This section discusses how trade and investment policies can help to achieve this and what the global community can do to facilitate such outcomes. The EU is used to illustrate how these policies might be implemented in practice.

In calling for a focus on structural transformation in a post-2015 development agenda, this chapter has placed the accent on marginalised economies. Disregarding certain overlaps, these include LICs, LDCs, landlocked countries and SIDS,[118] all categories that the UN regards as facing particular development challenges. Many of these

117 See Keane (2012b).

118 See Text Box 10.4 on SIDs in Chapter 10.

economies are structurally marginalised from global production processes, vulnerable to external shocks and lack the capacity (institutional, human and physical) to deal effectively with development challenges. As a result, poverty affects a sizeable proportion of their population, and external support will not be effective and sustainable without transforming the economies on which people depend. A new global development agenda should mobilise all countries to focus on helping marginalised and vulnerable economies.

This chapter has discussed the trade and investment challenges faced by such economies, including the fact that many of them continue to depend on a handful of commodities. While this increases their vulnerability to external shocks, the volatility it invites also has far-reaching implications beyond trade and investment. At the same time, in a virtuous circle, commodities can also present opportunities and resources for economic development. The real need is, therefore, to increase production capabilities in marginalised economies. In a context of pervasive market and coordination failures, who will champion such policies? The overwhelming evidence points to the role of a developmental state (see Chapter 2).

While trade and investment policies for achieving structural transformation will have to be tailored to each national situation, the global context will be equally important. This is because of increasing interdependence, which means that the global context must enable marginalised economies to adopt appropriate policies. For instance, this chapter has argued that the stalling of multilateral trade talks, with a corresponding proliferation of regional and bilateral approaches, is likely to marginalise the weaker economies. Despite that caveat, it is also acknowledged that developmental regionalism that involves using regional approaches to integrate into the global economy is important (e.g. regional approaches to addressing trade-related infrastructure, harmonising standards, and improving cross-border movement of goods, services and people).

Changes in global trade and investment flows and policies will set the backdrop for any post-2015 development agenda. There is a notable shift in trade and investment flows from North–South to South–South. These shifts are re-orienting the global division of labour, with the emergence of Asia as the manufacturing hub (Section 8.3.1). Most Asian LDCs, but not all (e.g. Nepal and Myanmar), have actively integrated into these new production networks. Once they are in the network, many have strategically picked up production processes as they moved downstream to maintain price competitiveness. This is not happening to the same extent among LDCs in Africa, where most continue to trade in commodities.

> “Changes in global trade and investment flows and policies will set the backdrop for any post-2015 development agenda.”

This suggests that for trade and investment policies to contribute to structural economic transformation needs the international community to support marginalised and vulnerable economies: (1) to promote modern-sector exports; (2) reduce vulnerability to external shocks; (3) enhance productive investments; and (4) improve global coordination on investment policies. The following section elaborates on these in turn and discusses what specific roles the EU could play.

8.6.1 Promoting modern-sector exports

As this chapter has shown, poor countries are currently marginalised from more dynamic forms of trade, with rather limited integration into GVCs and GPNs. The experience of countries that have successfully transformed their economies – within an unprecedentedly short time – shows the central importance of promoting modern-sector exports as part of an overall strategy for growth and structural transformation, alongside a favourable trade policy environment.

The adverse potential macroeconomic effects of commodity dependence, as well as ODA flows

> “One element of a post-2015 agenda for LICs should be the promotion of modern-sector exports.”

more generally (Montes, 2013), strengthens the case for trade preferences. Given this, one element of a post-2015 agenda for LICs should be the promotion of modern-sector exports within an overall growth and development agenda centred on achieving structural transformation. Although there are various ways in which to achieve this objective, there is a role for trade policy at the global and regional levels. This could include (a) making trade preferences more effective (b) trade facilitation and (c) policy dialogue which can also be valuable. The EU, as a major global trading partner for developing countries, provides a good example to illustrate what might be done in all three areas. Other major global traders could of course also take similar measures.

(a) Making trade preferences more effective

Well-targeted trade preferences can incentivise investment in building productive capacity. The ability of producers to benefit from the preferential tariff rent depends on how it is distributed through various channels and levels of the value chain within which they trade, which includes across producers, traders, transporters, retailers and consumers, according to power relations (Stevens, 2012: 35). A number of measures could make trade preference more effective, including the improvement of the RoO as well as the inclusion of non-tariff issues and trade in services.

Developed and developing countries could make various adjustments to RoO to help LICs and LDCs make better use of the available formal preferences – for instance by allowing more imported inputs and making it seamless to do so. As most LICs and LDCs import most of their inputs, liberal rules on cumulation[119] would help them integrate into global supply chains. With the innovation of less onerous RoO for LDCs in the GSP and for EPA signatories, the EU, for instance, has already accepted the principle of such fine-tuning. Furthermore, RoOs in global FTAs need to be far more development-oriented by incentivising the integration of LDCs and LICs into the supply chain.[120]

The EU is the largest provider of tariff preferences to developing countries. Its recent reform process to the GSP rightly focuses on LDCs and those countries most in need, but this should not distract attention from countries with the largest share of people in poverty, i.e. certain LMICs and MICs (Bilal et al., 2011). Moreover, targeted preferences to LMICs and MICs could play an important role in helping LDCs and LICs integrate into dynamic global supply chains[121]. But preferences alone may not be sufficient and will have to be complemented with adequate supply-side measures (Aid for Trade) to boost the productive capacity of LDCs and LICs.

Trade preferences need to include both tariff and non-tariff measures. The value of tariff preferences is rapidly declining as MFN rates move towards zero. For instance, the MFN tariff on most of the goods Afghanistan exports to EU is already zero, so having access to tariff preferences under EBA provides little additional value (CARIS, 2010). But for others, for example countries that export textiles and shoes to the EU, such preferences are of vital importance because MFN rates remain substantial. Hence, the margin of preference is more important than the absolute value of preference, and the margins are falling. So, trade preferences need to lower barriers that

119 Cumulation allows imported inputs from some sources (often a regional trade partner) to count towards meeting the requirements for export under the preference. It is seldom used, partly because its provisions are so restricted.

120 The AGOA innovation of light-touch RoO on clothing helped countries like Lesotho. The success needs to be replicated for a broader range of products – and cumulation as part of differentiated RoO is one way to achieve this.

121 One of the things that differentiate many Asian LDCs/LICs from those in Africa is that the former are actively participating in value chains led by Japan, South Korea, and now China. As the lead economies heat up, those in the lower hierarchies are picking up those tasks (see also Text Box 8.1), and they are able to do so competitively because of their involvement in those value-chain in the first place. Hence, if trade preferences are to be 'developmental' they need to be dynamic and in some cases not just restricted to those at the bottom of the value chain.

impede exports to EU, which are increasingly non-tariff in nature. There is also huge scope for improving the field of services trade, which remains subject to many barriers, including labour mobility (under WTO Mode IV).

With the rapid rise of emerging economies, the G20 will become a more important forum on global trade and investment policies and their impact on LICs and LDCs. This suggests the need to mobilise the G20 to promote the integration of LICs and LDCs within emerging production networks in a demonstrable and measurable manner. For instance, recent efforts by the emerging economies to grant preferences to LICs and LDCs (Laird, 2012) are welcome, but need to be monitored – both what is provided and the ultimate impact.

(b) Providing trade facilitation

The emergence of GVCs as a dominant feature of world trade means that there are new opportunities for firms that cross national borders and that also reduce the costs of importing and exporting in global markets (Newfarmer, 2012). In this sense there is a role for trade policy, for instance in relation to the reduction of tariffs between countries integrated within production networks, but also in relation to the harmonisation of non-tariff measures to facilitate producers' integration into regional and global production networks. This is essentially because although GVCs may offer late industrialisers new opportunities for fast growth, this type of trade also raises the penalties for maintaining inefficient border procedures; since this inefficiency may also reduce the relative competitiveness of trading partners within GVC countries, and the firms within them, they will share a common interest in reducing policy-induced delays and border inefficiencies.

For its part, the EU can do more to help LIC producers make competitive exports that meet EU sanitary and phytosanitary and technical trade requirements. In this sense, the proposals in the European Commission's 2012 Trade and Development Communication are to be welcomed. But they need to be put into practice. The ability to produce according to specifications of quality, cost and delivery is a key criterion for multinational manufacturing firms in selecting business partners and subcontractors.[122] Good logistics enable manufacturers to ensure the quick delivery of inputs and finished products, reduce transport costs and shorten production lead-times, all of which help to make firms more competitive. These are the essential conditions for attracting investors, especially those firms that produce high-value products in response to changing customer demands. The ability to perform these tasks to the standard required determines whether the supplier can become part of the GVC (Kimura and Obashi, 2010).

(c) Ensuring policy dialogue

Mechanisms to ensure dialogue between businesses and governments take time to establish and embed within policy-making processes. A post-2015 framework should therefore consider how the private sector engages with government, and how the latter can support the private sector to achieve specific development objectives. In view of recent shifts in trade and investment patterns, the latest phase of globalisation requires a reconsideration of the role of industrial policy. It also arguably requires a new form of dialogue between trading partners and countries.

For example, in relation to the provision of trade facilitation, the EU may assist LICs to engage in GVCs for which the EU is a market; this could include assistance to producers in such countries, thereby helping to overcome technical and other obstacles to trade at the border. Such investments would also exert an indirect influence on the ability of LICs to engage with emerging production networks in other regions. As discussed in Section

> "The proposals in the European Commission's 2012 *Trade and Development Communication* are to be welcomed. But they need to be put into practice."

122 This includes zero defects, low cost, and on-time delivery (Ohno, 2009).

> “An important element of any post-2015 framework should be to reduce vulnerabilities to external shocks since these can retard structural transformation, while macro-economic instability can undermine export-diversification strategies more broadly.”

8.5, the EU's assistance could also address issues behind the border that could contribute to promoting inclusive and sustainable development.

This would mean a shift in the current approach that relies on, for example, businesses' adherence to voluntary initiatives, such as the EITI, towards ensuring an appropriate domestic regulatory framework. The EU attempts to bring indirect influence to bear on changes in the domestic regulatory framework across trading partners through the sustainability impact assessments (SIAs) it undertakes as part of the process of FTA negotiations. At present, the SIA process often stops as negotiations conclude. Better aligning these processes may help to more clearly identify needs and situate these within a credible trade and development strategy, given the demand-driven nature of the provision of AfT.

The process of undertaking SIAs as negotiations begin should continue as negotiations proceed and beyond their conclusion, as the basis of a continued dialogue with trading partners, including those, such as LICs, with the most severe capacity constraints. Ensuring that this process changes in a post-2015 framework, including in relation to current negotiations with the ACP countries (as discussed in Section 8.5) is one way in which the EU could influence sustainable and inclusive growth. The EU could help to mitigate any adverse consequences for LICs as a result of new FTAs, and to take steps to reduce and mitigate vulnerabilities that may arise from closer trading relations, as well as exogenous shocks more broadly.

8.6.2 Reducing vulnerabilities to external shocks

The post-2015 environment facing LICs will include not only new opportunities related to expected shifts in trade and investment patterns but also challenges related to new uncertainties and potential scarcities. In this sense, an important element of any post-2015 framework should be to reduce vulnerabilities to external shocks since these can retard structural transformation, while macroeconomic instability can undermine export-diversification strategies more broadly.

Owing to the changes in the way in which commodities are traded there is a need to focus policy interventions on preventing the vulnerabilities associated with rapid changes in commodity-generated incomes (or expenditures) (Nissanke and Kuleshov, 2012; Nissanke, 2011). This would entail more macro-level and differentiated interventions. This is because the multitude of problems and issues related to commodities across the ACP group necessarily leads to the fragmentation of individual actions, and calls for greater differentiation among different types of commodity exporters and importers. In this sense, the fragmentation of the ACP group as discussed in Section 8.5 is viewed rather more positively.

In this section we identify and discuss three policy areas where action could be taken to reduce the vulnerability of LICs to external shocks and therefore assist in the process of achieving the structural transformation of their economies. Again, the EU is used simply to illustrate how these measures might be implemented.

(a) Moving towards targeted interventions

A focus on the specific challenges producers face within particular countries, as opposed to more generally across the ACP group, will necessarily entail movement from generic policies towards more targeted interventions. It is in this sense there is a need to reconsider existing instruments such as the EU's Raw Materials Initiative (RMI), which proposes blanket-type policy coverage across commodity exporters, as discussed in Section 8.5. This is because the RMI focuses on a list of 14 critical mineral commodities, where the policy towards third countries is aimed at securing a 'level playing field' in access to raw materials. This is based on the assumption that the current global trade system offers fair access to and equitable distribution of benefits from trade to all participants, which is not the case.

Addressing the economic vulnerabilities associated with commodity dependence will require combining the advantages of leveraging the power of commodity markets while also addressing its underlying causes. Since commodity prices are determined in world commodity exchanges, it is critical to examine the factors behind price dynamics before designing policy responses to counteract any negative impacts on development. These include two interrelated phenomena: (a) structural changes affecting demand–supply fundamentals; and (b) the increasing financialisation of commodity markets. Based on analysis of the available evidence of these factors as determinants of the types of vulnerability associated with commodity dependence, both for exports and imports, two potential areas for policy measures are:

- Schemes to reduce excessive price volatility in world commodity exchanges; and
- Contingent facilities for mitigating income shocks from volatility in commodity prices.

The EU, along with other international actors, could play both a direct and an indirect role regarding such measures. Indeed, the EU could use its formidable weight at the multilateral level as a means to engage other relevant actors. Since such issues are also related to investment and finance, the EU and other development actors should consider such trade-related and macroeconomic vulnerabilities within the broader context of existing fragilities that need to be addressed in the current globalisation process.

(b) Reducing price volatility

In order to dispel 'excess' volatility from markets by inducing a swift change in trading behaviour away from destabilising 'noise' trading by purely financial investors, a new generation of schemes could include, for example, a virtual reserve holding of individual commodities or a multi-tier transaction tax. These are referred to here as 'virtual' interventions since they relate to commitments made by a global public agency to contest moves by noise traders either by entering into counterbalancing contracts in futures markets or by imposing a finely differentiated transaction tax in light of market development. These and other innovative schemes to counter the costs of global commodity market volatility would require political will and strong government commitment to achieve the more sustainable development of commodity markets.

Recent discussions in this respect include the need to create the right investment frameworks and incentives to channel finance from commodity markets into the productive sector. Some proposals under discussion and being led by the Common Fund for Commodities (CFC) include a public–private initiative on market volatility intended to 'address the sustainability impact of commodity derivative trading'. Some of the agreed principles emerging from this process include recognition[123] that (a) investment remains the only sustainable way to address the fundamental causes of global volatility in commodity markets; (b) there is considerable scope for banks to be involved in improving the coordination and effectiveness of international measures to support poor people affected by volatility in commodity markets; and (c) banks have the instruments and experience necessary to make financial resources available for investment in physical commodity-production capacity.

These principles to some extent refine the policy debate on how to address the issue of financialisation in commodity markets. They recognise that futures markets are by definition financial, which means that the question is not the penetration of financial

> Since commodity prices are determined in world commodity exchanges, it is critical to examine the factors behind price dynamics before designing policy responses to counteract any negative impacts on development.

123 Taken from CFC UN Commodities Project Context and Scope for Agreement, available at: http://www.common-fund.org/uploads/tx_cfc/CFC_UN_Commodities_Project_Context_and_Scope_for_Agreement_Final.pdf.

> "Addressing externalities, and therefore seeking to address volatility in commodity markets, is motivated by concerns about food security, which are particularly relevant for commodity importers and exporters. This is an area in which the EU could play a direct and indirect (influential) role in addressing governance failures and shaping the trading and investing environment for LICs post-2015."

capital in commodity markets as such, but the externalities involved in the process. Addressing these externalities, and therefore seeking to address volatility in commodity markets, is motivated by concerns about food security, which are particularly relevant for commodity importers and exporters. This is an area in which the EU could play a direct and indirect (influential) role in addressing governance failures and shaping the trading and investing environment for LICs post-2015.

(c) Developing more effective and responsive global shock facilities

Based on the evidence and discussion presented in this chapter, there is still a strong case for creating more effective global facilities for LICs at times of balance of payment (BOP) crises triggered by sharp movements of commodity prices. Nissanke and Kuleshov (2012) discuss several proposals for ways to design efficient, flexible debt contracts that incorporate a contingent clause. These include state-contingent facilities that are tied to debtor's capacity to pay. The design of incentive-compatible, state-contingent debt contracts would allow sovereign debtors automatic access to contingency financing when they are hit by adverse unforeseen events, and help to overcome many of the limitations of existing EU policy instruments for dealing with commodity price shocks. The best solution is to prevent such vulnerabilities from emerging in the first place, which means that interventions should be ex-ante rather than ex-post.

8.6.3 Enhancing productive investments

(a) Using AfT to address binding constraints

There is increasing agreement on the need to ensure that ODA is directed to the productive sectors such as agriculture and manufacturing that will provide the most effective route to accelerating growth and distribution (Asante and Fosu, 2012). Many developing countries have welcomed the advent of AfT as a use of ODA that directly addresses the problems they face in integrating into the world economy. The effectiveness of AfT depends on aid-recipient countries having credible strategies for trade and regional economic integration, which international partners can then support.

While AfT has helped to improve trade performance in many developing countries, a number of limitations reduce its impact. The design of AfT interventions does not always align with the trade-related binding constraints of the recipient country or region. There are coordination failures that inhibit the design and implementation of AfT investment programmes (Basnett, 2011a), and the feedback loop for drawing lessons is constrained by the design of monitoring and evaluation (M&E) approaches that only loosely connect interventions with desired impacts.

AfT will remain a valuable way to assist LICs and LDCs to foster inclusive and sustainable development, provided it focuses on (Basnett et al., 2012):

- Helping to address the binding constraints to inclusive and sustainable growth;
- Seeking to reduce the cost of trading;
- Achieving effective coordination between donors and recipients in the design, implementation and evaluation of AfT programmes;
- Selecting AfT instruments and delivery approaches that can address trade-related constraints at the transnational and regional level;
- Designing realistic M&E systems so that the achievement of objectives can be linked to results, based on the collection of baseline data, and drawing lessons that can improve the design of future programmes.

Since the EU is one of the largest AfT donors it is well placed to mobilise AfT to help LICs and

LDCs to foster trade growth and achieve structural economic transformation. In 2010, the total volume of contributions from the EU and its Member States accounted for about 40% of global AfT flows (Basnett, 2012). At the global level, the EU could also help to focus the AfT agenda on reducing the costs of trading and addressing the binding constraints to growth in LICs.

The EU currently provides more AfT to UMICs than to LICs, and proportionately, it provides less AfT to LICs than do other donors (Stevens, 2012). This needs to change in order to align the EU's trade policy in the GSP (to favour LMICs and LICs over UMICs) and its positive support to trade (which favours UMICs over LICs). Given that supply capacity (including infrastructural constraints and a poor policy framework) is a major obstacle to increasing LIC and LDC exports, which cannot be offset by trade preferences, it could be argued that the EU has it the wrong way around. Greater support to increasing supply capacity in LICs would reduce the claimed need to increase tariffs on imports from UMICs in order to help poorer states.

(b)Investing in inclusive and sustainable development

There are significant changes underway in the national and international investment landscape. For example, emerging economies – in particular BRICs – are increasingly large investors as their outward FDI represents about 30% of world FDI flows (UNCTAD, 2012a). Sovereign wealth funds are increasingly significant investors, and although they still account for only a small share of global FDI they have the resources to assume a greater profile. State-owned enterprises (SOEs) are also major investors, with their overseas investments accounting for about 11% of global FDI flows (UNCTAD, 2012b). This proliferation brings new opportunities but also poses new challenges, since it becomes harder to achieve the dual objective of maximising investment inflows while also providing a regulatory environment that ensures that the benefits accrue to society. The significant increase of Chinese investment is often in the extractive industries, which typically have large social and environmental externalities.

At the same time governments are becoming more active in determining investment policy. Just to provide a few examples, and as reported by UNCTAD (2012b), they are promoting more investment regulations, encouraging job-creating investments (especially to counteract the effects of the current global economic and financial crises), exploiting investment promotion activities to support the integration of domestic companies into GVCs, and also favouring the quality rather than the quantity of investment. Again, these tendencies underline the difficulties of finding the right balance between promoting and regulating investment.

A post-2015 framework should take into account these changes in the investment landscape in order to ensure that investment helps to promote inclusive and sustainable development. To this end it is important:

- **To encourage investment in LICs and LDCs.** The country case studies on Nepal and Rwanda call for creating tax incentives for investments destined for LICs and LDCs. The Nepal case study argues that a post-2015 framework should also include targets that encourage developed countries and emerging economies to provide incentives (such as subsidised credit or tax breaks) to encourage their enterprises to make development-friendly investments in LDCs. The case study stresses that indicative targets should be at least 2% of FDI flows and at least 1% of all greenfield investments.

- **To integrate investment policy in development strategy.** Investments should be directed to areas that could encourage growth, productivity and structural transformation. This may also help lessen the impact of external shocks. There should also be greater coherence between

"There are significant changes underway in the national and international investment landscape. The post-2015 framework should take into account these changes."

"For LICs, the issue is to increase both the quantity and the quality of FDI."

investment policy and other policies aiming to promote development (e.g. those aimed at job creation).

- **To incorporate sustainable development objectives in investment policy.** Environmental, social, governance, and ethical issues should be considered in investment practices, which means encouraging investment that generates both financial and sustainable value (i.e. responsible investment).

- **To enhance institutional quality.** In order to ensure the relevance and effectiveness of investment it is imperative to create high-quality institutions, particularly in view of the increasing role of governments in investment policy.

8.6.4 Improving global coordination on investment policy

The current investment policy environment is highly fragmented. There are thousands of treaties including bilateral investment treaties, regional agreements and FTAs with investment provisions; numerous ongoing negotiations; and several dispute-settlement mechanisms (UNCTAD, 2012b). This leads to many challenges, including inconsistencies, ambiguities and overlaps. Such a highly fragmented system is also at odds with the increased economic, financial and social interconnections among countries and with the global nature of the current crises, which require a coordinated response. There is also a gap between investment policies and trade, environmental, and financial policies.

Basic economic principles suggest that FDI will travel in search of higher returns. For LICs, the issue is to increase both the quantity and the quality of FDI. To achieve this it helps to think about policies or actions in terms of host-country factors (production capabilities), home-country factors (economic relations with the host country) and international agreements (bilateral, regional and multilateral provisions on investment) (te Velde et al., 2012). While measures in the home country as well as participation in international agreements can help to reduce risks and uncertainties, FDI flows will largely depend on production capabilities and opportunities at the host-country level. The concentration of FDI in the extractive sector in LICs is a reflection of commercially profitable possibilities. To make a qualitative difference to this picture will require shifting the production base and capability, where rents from natural resources could be a vital source to do so (North, 1955).

This implies that a post-2015 development agenda should focus on creating a more coordinated investment policy system and enhancing coordination between investment policy and other policy areas. This is important to prevent duplication of effort and ensure an effective and collective response to global challenges such as economic and financial crises, climate change and food security. For example, in the context of the continuing financial and economic crisis, cooperation on investment policy may help avoid a dangerous rise in investment protectionism.

8.7 Conclusion

This chapter has discussed the role of trade and investment policies in a post-2015 global development agenda. It has argued that expanding trade and investment capabilities and opportunities are the main ways to increase the income and living standards of households in LICs and LDCs as well as helping countries to reduce their dependence on ODA. The chapter has argued that while MDGs played an important role in mobilising global support and resources on some of the most pressing issues such as poverty, health and education, the absence of an inclusive and sustainable economic development agenda has made their achievement aid-dependent. This Report considers how a post-2015 framework could go 'beyond aid', and this chapter has discussed the role for trade and investment policies in fostering inclusive and sustainable development.

Drawing on historical and contemporary experiences of economic development, this chapter has argued for gearing trade and investment policies towards achieving structural transformation of the economy in LICs and LDCs. While the majority of people living in poverty are likely to be in MICs, the chapter has focused on LICs and LDCs because institutions in such countries are weaker, their production base smaller, their range of exports limited, and they lack connections to global markets. In addition, a higher proportion of the population of LICs live in poverty than is the case in MICs. From the perspective of trade, the chapter has shown that most LICs and LDCs are dependent on exporting commodities, which renders them vulnerable to global price cycles. For this reason, the chapter has called for help for LICs and LDCs to expand their production base and diversify their trade portfolio.

In keeping with the focus of this Report on what global development framework would best enable LICs and LDCs to achieve their development objectives, this chapter proposes a number of elements on trade and investment for a post-2015 global development agenda. These include:

(1) **Promoting modern-sector exports**, for instance by increasing the breadth and depth of preferences (e.g. reforms to RoO to allow LICs and LDCs to participate in GVCs); by providing support to increase their ability to meet non-tariff barriers such as sanitary and phytosanitary standards; and by continuing policy dialogue on domestic regulatory frameworks with LICs and LDCs.

(2) **Reducing vulnerabilities to external shocks** through targeted measures, including innovative schemes to reduce excessive price volatility in world commodity exchanges and contingent facilities for mitigating income shocks from such volatility. There is also a need to develop more effective and responsive global facilities to prevent and absorb shocks.

(3) **Enhancing productive investments:** AfT should be used to help LICs and LDCs address trade-related binding constraints and increase productive capacity. There is also a need to increase investment in inclusive and sustainable development, which could be done by incentivising investment in LICs and LDCs, integrating investment policy in development strategies, and incorporating sustainable development objectives in investment policy.

(4) **Improving global coordination on investment policies:** The current investment policy environment is highly fragmented, and there are insufficient linkages between investment policies and trade, environmental, or financial policies. There is a need to create a more coordinated investment policy system as well as enhancing coordination between investment policy and other policy areas, such as financial crises, food security and climate change.

These are broad elements to which the global community could positively contribute. The chapter has highlighted elements in which the EU in particular as the world's largest trading block could do more and/or better, though other global traders will also have to do their share. Against the backdrop of the changing landscape of trade and investment flows and especially the growth of South-South trade, the EU will continue to be an important player, but there will be other non-traditional actors as well who will influence and shape the new landscape. What forms of cooperation emerge will have important implications for poor, developing economies. The chapter has sought to present the contours and the elements of what would most help LDCs and LICs enter into a dynamic process of structural transformation and economic development and that could be integrated into into a post-2015 framework.

“Against the backdrop of the changing landscape of trade and investment flows and especially the growth of South-South trade, the EU will continue to be an important player, but there will be other non-traditional actors as well who will influence and shape the new landscape. What forms of cooperation emerge will have important implications for poor, developing economies.”

CHAPTER NINE

9 PEOPLE: LABOUR MIGRATION

9.1 Introduction

> "The facilitation of international labour mobility could bring about substantial economic gains, estimated at between 50% and 150% of global GDP."

Referring to migration as 'the Millennium Development Goals' plan B', Lant Pritchett (2003) argued that if the MDGs were not achieved by 2015, migration would need to become central to the concept of development, dominated to date by the focus on ODA. Although migration and mobility do not feature in the MDGs, the International Organization for Migration (IOM) regards them as fundamental in the challenges and opportunities they present for achieving the goals (IOM, 2010a). Migration can potentially transform people's lives, but can have negative and positive effects on human development, often simultaneously. Migration is one of the most difficult areas for governments to regulate and many try to counteract it rather than responding to it through more effective governance. From the standpoint of inclusive and sustainable development (ISD), migration is most beneficial when individuals and their families can choose when and to where they wish to move. To date such choice effectively remains the privilege of citizens from OECD countries, who generally face less restriction on their movement. The United Nations Report to the Secretary-General presented by the UN system task team on the post-2015 UN development agenda (UN, 2012) mentions 'fair rules to manage migration' as an enabling factor for ISD. Any post-2015 framework will need to go beyond aid. Migration is one means to do so, since it can potentially benefit receiving and sending countries[124] as well as migrants. This chapter explores how labour migration could contribute to a post-2015 framework.

The facilitation of international labour mobility could bring about substantial economic gains, estimated at between 50% and 150% of global GDP (Walmsley and Winters, 2003; Clemens, 2011). This chapter focuses on the mobility of low-skilled[125] labour, since 'global gains from unskilled labour mobility exceed those from skilled labour mobility, essentially because the workers lost to developing country production as a result of the mobility are so much less productive in the former case' (Winters, 2003:4). Moreover, low-skilled migration tends to involve people who are living in poverty and is therefore most relevant to achieving the MDG targets, but is also the most difficult area of concession for migrant-receiving countries.[126]

124 We use the term 'receiving' if on average there is more inward than outward migration and 'sending' for the reverse.

125 We use the OECD (2008) definition of low-skilled: 'those whose educational level is less than upper secondary. By definition, trades people and artisans with upper secondary education or with higher vocational training are excluded from the low-educated group'.

126 Higher-skilled migration also affects poverty reduction and development, but for reasons of space this Report choses to focus on the area of labour migration that has most impact on reducing poverty.

Labour migration produces remittances, which play a key role in reducing poverty. In 2010, it is estimated that people living in developing countries received a total of $325 billion in recorded remittance flows, 6% more than in 2009. In 2009, recorded remittances were nearly three times greater than total ODA and almost as large as FDI flows to developing countries. It is estimated that informal remittances are at least 50% higher than recorded flows (World Bank, 2011; Ratha, 2012). In addition to the effect of remittances on reducing poverty, labour migration may also be a means to respond to the demographic shift that is taking place in some regions, where life expectancy is rising while fertility rates are declining.

The Universal Declaration of Human Rights (UDHR) states that 'everyone has the right to leave any country, including his own' (Article 13), but this does not confer the right to enter another. To date, although there are international standards on the protection of human rights and the rights of labour migrants, governments have been unable to agree on a global framework to regulate international labour movement. The current system depresses regular mobility and in some cases deprives migrants of their rights. In many countries, migrants are entirely dependent on their employers because their residence permit is linked to a specific job (Hart, 2006). The international rights framework for the treatment of migrants is seldom observed. A commitment to inclusive and sustainable development should however imply that governments recognise an ethical imperative to observe migrants' rights. Doing so may also have other positive effects such as increasing economic productivity and achieving better social cohesion in receiving countries. The lack of agreements on international mobility encourages irregular migration.[127] Current immigration policies generally discourage circular migration[128] and tend to force migrants into permanent settlement. In the absence of international agreement on whether and how to increase mobility in ways that observe migrants' rights, the UN (with the support of regional organisations) is currently the only body that can potentially stand for all labour migrants' interests. Equally it is an entity with the authority to identify problems in how governments may limit migrants' access and rights and suggest ways in which to address them.

In 2010, South–North and South–South migration was broadly similar (74 million versus 73 million). Between 1990 and 2010, the number of Southern migrants living in richer countries rose by 85% (from 40 million to 74 million), while South–South migration grew by 18% (from 60 million to 73 million) (UNDESA, 2012) (see Figure 9.1). Since South–South migration is often undocumented, the true figures may be much higher. In poorer regions, migrant workers usually move to a bordering country (World Bank, 2009), and most international migrants in Africa (81%), Asia (75%) and Latin America and the Caribbean (60%) were born in the same region. A post-2015 global development framework thus needs to address both South–North migration and South–South migration, including the expansion of free movement in regional economic cooperation agreements.

To complete the picture, internal migration[129] is also increasing, particularly from rural to urban areas. As Chapter 6 notes, the global urban population is expected to rise by 2.6 billion between 2011 and 2050. Finally, since the 1970s, the number of independent women migrants has

"Labour migration produces remittances, which play a key role in reducing poverty. In 2009, recorded remittances were nearly three times greater than total ODA and almost as large as FDI flows to developing countries."

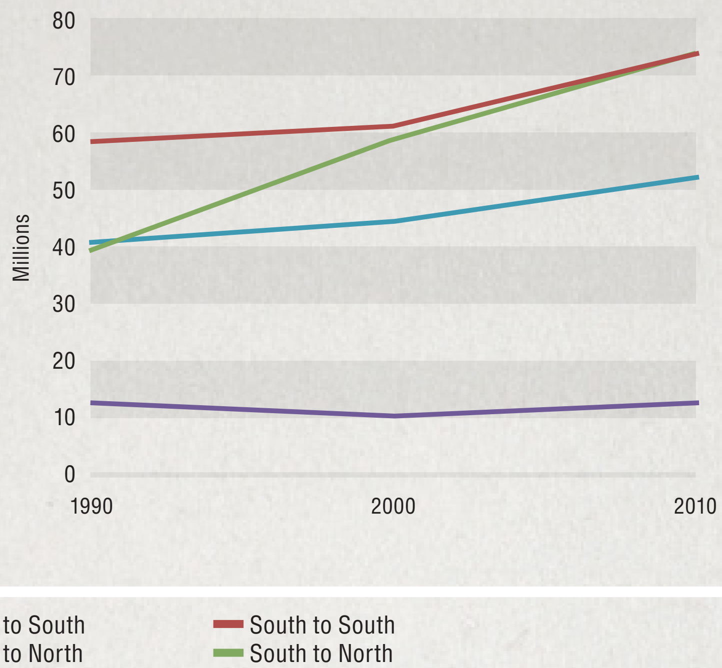
127 We use the term 'irregular' rather than 'illegal', which is associated with a political agenda and criminalises migrants. Irregular migration is generally an administrative rather than a criminal offence. The IOM glossary restricts the term 'illegal migration' to cases of smuggling and trafficking.

128 The European Commission defines circular migration as 'a form of migration that is managed in a way allowing some degree of legal mobility back and forth between two countries' (COM, 2007)

129 We do not discuss internal migration since this Report is focused on a post-2015 global framework to which external actors can contribute. Aspects of internal migration such as urbanisation are discussed elsewhere in this Report.

"In 2010, South–North and South–South migration was broadly similar (74 million versus 73 million)."

Figure 9.1 International migrants by origin and destination, 1990–2010



Source: UNDESA, 2012

risen, particularly from Asia to the Middle East and within Asia (Castles and Miller, 2009).

Any post-2015 development framework will need to take into account new factors influencing migration. For instance, environmental change will affect the economic, social and political motives for migration (Foresight, 2011). In addition, estimates suggest that the labour force in developing countries will increase from 2.4 billion in 2005 to 3 billion in 2020 and to 3.6 billion in 2040. With employment expected to stagnate in many less developed regions, often due to the impact of intensive agriculture and industrial restructuring, the growing labour force is likely to result in rising unemployment and may widen the economic gap between richer and poorer countries. This will lead to a growing demand for access to labour markets in richer countries (Khoser, 2010:310) even though unemployment has risen in OECD countries following the global economic crisis. At the same time, changes in the global economy could mean that countries that are currently poorer may be competing for labour with today's richer countries in the next 20–30 years. China, for example, is likely to want to attract international migrants given that its population is ageing and its labour force is beginning to decline, while its economy is growing. Countries in the Americas, Asia, Europe, North Africa and elsewhere are reaching fertility rates of zero population growth, and so will face population ageing and declining workforces within the next ten to 20 years.

The 2008 global financial crisis led to a fall in the rate of South–North migration. Labour immigrants were hit particularly hard by the crisis as they were often the first to lose jobs both because of their more precarious contractual arrangements, and because they frequently work in sectors more prone to business cycles (OECD, 2009). Since then, migration to OECD countries has picked up again (OECD, 2012). Many migrant-sending countries have seen declines in their labour emigration[130]. Nevertheless, remittance flows have been relatively resilient during the crisis, providing a lifeline for many households and becoming more important as source of external finance (Mohapatra and Ratha, 2010:3).

This chapter argues that migration and its cross-sectoral effects, such as on employment and population, should feature prominently in any post-2015 framework. Governments, sending or receiving, often avoid adopting 'migration-friendly' policies either because they fear the political consequences or because they know too little about the effects of migration. Observing migrants' rights and increasing options for low-skilled migrant labour have many positive effects from the macro to the micro level. This suggests that governments should review the effects of migration and how these are communicated. International and regional organisations can assist in filling the knowledge gap and support governments in finding ways to reduce the negative and enhance the positive effects of labour mobility.

9.2 The impact of labour mobility on sending and receiving countries

9.2.1 The impact on poverty reduction and achieving the MDGs

There is strong evidence that international mobility and migrants' remittances have a significant impact on the reduction of poverty (Adams and Page, 2005; Acosta et al., 2008). Findings from Nepal, where international remittances are a major source of household income in a context of stagnant economic growth, confirm this: 'almost 20 percent of the decline in poverty in Nepal between 1995 and 2004 can be attributed to work-related migration and the resulting remittances sent back home' (Pandey et al., 2012:39). It is not only South–North migration that brings these benefits. The growing importance of South–South labour migration and the remittances that migrant workers send to their family back home have reportedly helped to reduce poverty and improve household welfare, health, nutrition and general living conditions (Nguvulu, 2011:29; de Haas, 2009). South–South or regional migration is often less costly and thus more accessible for poorer workers, although such migrants are 'likely to be living in less favourable circumstances than most South-North migrants, in terms of income, housing and legal protection' (Bakewell, 2009: 53) and may be more prone to exploitation and mass expulsions. It also tends to cost South–South labour migrants more to send remittances through formal channels than it does for South–North migrants – although delivering money in person and remitting through informal channels is relatively widespread (Bakewell, 2009).

Since labour migration enables households to diversify their sources of income, such movement and the transfer of remittances can provide insurance against events such as a natural disaster (Ratha et al., 2011a: 69; Mohapatra et al., 2009; Ratha, 2010).

Labour mobility and the MDGs

In addition to helping to reduce poverty, international labour migration and remittances are linked to the achievement of the MDGs on education, health and gender equality. The scale of any such impact may depend on how remittance

"This chapter argues that migration and its cross-sectoral effects, such as on employment and population, should feature prominently in any post-2015 framework."

130 For instance, emigration from Bangladesh in 2009 was nearly half the rate in 2008.

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> "In addition to helping to reduce poverty, international labour migration and remittances are linked to the achievement of the MDGs on education, health and gender equality. The scale of any such impact may depend on how remittance income is used."

income is used. There is growing evidence that it tends to be spent mostly on education and health rather than on everyday consumption (Ratha et al., 2011b; GDN/IPPR, 2010).

Latin American countries have seen a positive impact of remittances on **education** spending, school attendance, girls' education and literacy (Calero et al., 2009; Adams and Cuecuecha, 2010; Hanson and Woodruff, 2003). There are similar findings for Asian countries (Yang, 2008) and for Africa (Ratha et al., 2011a: 65). While some research shows a negative impact of international migration on educational achievements (McKenzie and Rapoport, 2010), the overall evidence suggests that migration and remittances contribute to household spending on education and can positively influence its quality, although greater expenditure on education does not necessarily affect the years of schooling in migrants' households (GDN/IPPR, 2010).

There are also positive links between international remittances and **health**-related MDGs, such as reducing child and maternal mortality, and there is some evidence that international remittances and diaspora investment have increased expenditure on health infrastructure (UNECA, 2006; Chauvet et al., 2009). Remittances can enable households to invest in health and medical support, and better diets (IOM, 2010a) and are associated with better access to formal health services (Drabo and Ebeke, 2010). These positive findings are, however, compromised by at least three factors. First, many lower skilled labour migrants work in hazardous conditions but do not have access to health services (Lee et al., 2011). Second, migration, and especially circular migration, seems to contribute to the spread of HIV and AIDS (UNAIDS, 2008; IOM et al., 2008). Third, the achievement of health goals in migrant-sending countries could be undermined by the migration of health professionals or 'brain drain', but since this phenomenon generally concerns high-skilled migration it is not the focus of this chapter.

Concerning the promotion of **gender equality**, if men migrate, women may take a more prominent part in decisions at the community level and be more autonomous in the household (Deshingkar and Grimm, 2005; Pandey et al., 2012:81). Although women may be empowered by taking on new or non-traditional roles, improving their status and their social recognition, male migration may also increase women's workload (OSCE, 2009). In Nepal, for example, in the absence of men, women often assume more responsibilities and perform tasks over and above their conventional household duties (Pandey et al., 2012:63). Elsewhere, such as in parts of rural Mexico, remittance income has enabled women to reduce the time they spend in low-paid and informal employment (Amuedo-Dorantes and Pozo, 2006). The social impact on **children** when a close family member migrates will vary according to their particular circumstances and the wider national context. Children may benefit if their family is wealthier but could be more vulnerable if a parent has migrated.

Some countries report a growing number of independent women migrants (UN-INSTRAW and SAIIA, 2007). This can be viewed as a form of empowerment, as women can support themselves and their households and have more control over their income, which can enhance their self-esteem (OSCE, 2009). All migrants are potentially vulnerable during the migration process. Women migrants are more likely than men to work in social and welfare professions and in domestic service, which tend to be less regulated and may not be covered by labour legislation (OSCE, 2009; Timothy and Sasikumar, 2012). Women migrants with secondary or tertiary education or vocational training often end up working in low-paid and low-skilled jobs (OSCE, 2009; Gaye and Jha, 2011). The lack of international focus on the promotion of legal and safe channels for women migrants has led to an increase in their undocumented and irregular migration, for example in South Asia, which intensifies existing vulnerabilities (Timothy and Sasikumar, 2012:2).

Macro-economic impact

International labour migration also has macro-economic effects on the sending countries, with further potential to reduce poverty through multiplier effects. Three factors affect the balance of migration and development at the macroeconomic level: (a) the impact of remittances on the economy; (b) the impact of international migration on productivity in the domestic economy; and (c) the impact of migration on domestic labour supply (IOM, 2008: 330).

Empirical findings on the impact of remittances on **GDP growth** are highly mixed (Catrinescu et al., 2009; Chami et al., 2003). The impacts are ambiguous because remittances can be spent on consumption without leading to economic transformation, may reduce the pressure on governments to improve policies and institutions, increase inflationary pressures or create effects similar to the Dutch disease[131] (Ebeke, 2012; Pandey et al., 2012; Ratha et al., 2011b). On the other hand, remittances can provide capital for businesses and enterprises (Woodruff and Zenteno, 2007), reduce the number of working poor (Combes et al., 2011), promote global financial development (Gupta et al. 2007; Aggrawal et al., 2006; Ma and Pozo, 2012) and improve capital allocation (Giuliano and Ruiz-Arranz, 2009). Many research findings confirm that the economic conditions and institutional settings influence how remittances are used and their overall impact. The influence of institutions in channelling remittances as a key source of income and thus potential investment 'is as instrumental as it is in terms of the impact of trade, FDI and other forms of investment' (Catrinescu et al., 2009:82).

Recent evidence suggests that remittances are associated with larger tax revenues due to increased consumption. In combination with positive effects on the possibility of sovereign borrowing from capital markets, this may enable governments to expand. Higher tax revenues are more likely than ODA to lead to sustainable growth in the public sector (Singer, 2012). Since remittances do not directly expand production capacity, however, and against the background of mixed results on GDP growth, it is not certain that remittances provide a sustainable source of finance for the expansion of the public sector. Nor can it be assumed that tax-driven expansion benefits society as a whole.

The costs and benefits of international labour migration and remittances can change the incentive structures and motivations of key actors and stakeholders in relation to political accountability and corruption. Yet their effect on corruption and governance is disputed (Tyburski, 2012; Abdih et al., 2010; Grabel, 2008) and may depend on existing governance structures and conditions (Ebeke, 2012).

Effect on labour markets

Labour markets and wages in migrant-sending countries can be affected by labour migration in two ways: directly through changes in labour supply and indirectly through remittances. First, in a simple economic labour supply–demand framework, the drop in labour supply resulting from migration should lead to an increase in wages. Empirical evidence from Poland, where there was considerable emigration of mainly mid-level to higher-skilled workers between 1998 and 2007, shows an increase in average wages of non-migrants. Disaggregated results reveal, however, that the impact on wages of non-migrant low-skilled workers was slightly negative (Dustman et al., 2012). There have been similar observations in Honduras (Gagnon, 2011) and in Nepal, where high levels of migration and a shortage of agricultural workers have led to an increase in agricultural wages compared to other sectors (Pandey et al., 2012:24).

"Recent evidence suggests that remittances are associated with larger tax revenues due to increased consumption. In combination with positive effects on the possibility of sovereign borrowing from capital markets, this may enable governments to expand. Higher tax revenues are more likely than ODA to lead to sustainable growth in the public sector."

131 This describes real exchange-rate appreciation through high levels of capital inflows leading to resource movements that favour the non-tradable sector at the expense of tradable goods, which may result in loss of export competitiveness and a growing trade deficit.

“An important question is the degree to which international labour migration and remittances are inclusive.”

At the household level, depending on the migrant's previous contribution, there may be a need to replace forgone production in order to maintain the same standard of living – the so-called 'lost labour effect' (OECD, 2011:89). This may be especially pertinent where livelihoods depend on agricultural labour. But, as argued earlier, lost-labour effects are generally more than offset by remittance income (OECD, 2011: 92) as migrant workers in richer countries tend to earn far more than their 'identical' counterparts in poorer countries (Ruhs, 2013).

Second, remittance income can act as a disincentive for members of recipient households to participate in the labour market (Ratha et al., 2011b), although there may be more demand for labour when remittances are used for productive purposes (Combes et al., 2011: 6; Lucas, 2008: 8). Labour migration can thus increase the opportunities and demand for non-migrant workers. A poverty-reducing effect on non-migrant low-income workers has been observed by Combes et al. (2011), who show that international labour migration and remittances seem to have substantially reduced the share of workers living on less than $2 a day. This of course mainly depends on the characteristics of the domestic labour market (Lucas, 2008; OECD, 2011; World Bank, 2006).

Inequality issues

An important question is the degree to which international labour migration and remittances are inclusive. Research shows significant variation in the impact of remittances on income inequality in migrant-sending countries (Black et al., 2006). In some cases, such as Ghana and Nicaragua, international migration seems to have exacerbated income inequality (Adams et al., 2008; Hobbs and Jameson, 2012). In general, the poorest do not migrate because they seldom 'have the resources to bear the costs and risks of international migration' (UN, 2006:13). This means that remittances do not flow to poorest households or to the poorest countries (UNDP, 2009:72) and are often concentrated in specific regions within countries. In Nepal, however, international labour migration has equally become a livelihood strategy for poorer families (Pandey et al., 2012:106). The fact that poorer workers tend to migrate within the region contributes to the fact that international as opposed to cross-border or regional migration may have different effects on income inequality in the sending country. In Burkina Faso, for instance, international migration tended to increase household income inequality whereas regional migration seemed to have had the opposite effect (Wouterse, 2008).

The effect on income inequality in sending countries could change over time and become more inclusive as a result of network effects (McKenzie and Rapoport, 2007). Low-skilled migration is more likely to reduce the severity of poverty and inequality in the sending countries than is migration of the higher skilled (IOM, 2008; Ebeke and Le Goff, 2009). The increased possibility of labour migration for poorer households, access to labour markets as well as a reduction in the costs of mobility would help to ensure greater equity in any potential benefits for labour migrants as well as the sending countries.

The effects of labour migration on income inequality in sending countries are by no means the only aspect of inequality. The impact of labour migration plays out at different levels and can have profound implications for households and ruling elites and also between countries. Remittances from diaspora organisations, for example, can support local elites and reinforce established power structures as has been observed with some London-based Nigerian diaspora.[132] Such contributions may entrench 'traditional authority', power imbalances and socioeconomic inequalities in the country of origin (Lampert, 2012).

132 Diaspora organisations are often made up of higher-skilled migrants, and the Nigerian diaspora organisations based in London are male-dominated (Lampert, 2012).

Social impact and psychological wellbeing

Relatively few studies examine the psychological and social implications of labour migration for 'transnational' families. In Nepal, the predominance of male labour migration is associated with an increase in cases of divorce and elopement (Pandey et al., 2012). Concerns have especially focused on the psychological welfare of the children of migrants and on the social consequences for families and youth. In the Philippines, where international labour migration is a long-established phenomenon, there seems to be no major difference in the psychological wellbeing of the children of migrant or non-migrant parents. In other Asian countries, such as Indonesia or Vietnam, negative effects have been observed. This is not to argue that non-migrant families represent an ideal, but that parental migration may have long-term implications that social policies may need to take into account. Cultural and social norms and how labour migration is perceived, as well as whether there are adequate support structures for those left behind, are factors that influence the effect of parental migration (Graham and Jordan, 2011).

In sum, while the findings depend on the socioeconomic circumstances in the sending country, the costs of migration and the question of who can migrate, and although the costs and risks should not be downplayed, overall the impact of labour migration seems generally positive for the migrants and their families. In particular, the negative economic impacts for migrants and sending countries tend to be small and are often outweighed by the positives of higher income and remittances. Thus, creating more opportunities for low-skilled workers to migrate, facilitating their access to labour markets and reducing the associated costs, could provide immense gains for the labour migrants and their families as well as through wider macroeconomic effects. These measures would also make the gains from labour migration more inclusive, although policies to govern labour migration should seek to avert the potential negative social implications.

9.2.2 The impact of labour mobility on receiving countries

Political debates in migrant-receiving countries often focus on the perceived economic burden of immigration, characterised by a loss of jobs, lowering of wages, strains on public services, social tensions and increased criminality (UNDP, 2009). This is particularly true at times of economic downturns. Yet empirical findings show a more nuanced picture of the impact of labour migration on host economies and societies, and strong contextual variations. Although there are some negative aspects, many of the concerns and fears are based on misconceptions. At the same time it is important to acknowledge that while there can be economic gains for receiving countries, these are not equally distributed and that the immigration of low-skilled workers may benefit some people but disadvantage others. First, the effects of labour migration on the labour market, especially on wages, depend on the skill structures of migrant and local workers (Dustman et al., 2008) and on whether there are policies to regulate migrants' working conditions. The 'inflow of low or semi-skilled workers to a developed country might reduce the real wages of its own low-skilled workers, [yet] their presence might at the same time be to the advantage of highly skilled workers and the economy more generally, as both stand to benefit from lower prices for goods and services provided by the migrant workers' (IOM, 2008:43). In economies with relatively flexible wage structures, such as the USA, there is some evidence that the additional labour supply depresses the wages of workers with the same broad level of education (Borjas, 2003). This can also be the case when migrants do not complement the existing workforce (Muenz et al., 2006). Where wages are less flexible, as in much of Europe, the impact of migrant labour tends to translate into higher unemployment (Muenz et al., 2006). These negative impacts often most affect existing migrant workers (Brueckner, 2012), particularly youth. The exact impact on real wages is strongly disputed,

> "Political debates in migrant-receiving countries often focus on the perceived economic burden of immigration. Yet empirical findings show a more nuanced picture of the impact of labour migration on host economies and societies, and strong contextual variations."

> Achieving a positive outcome depends on a good match between the distribution of skills and the needs of the labour market.

however, with some even arguing that migrant labour tends to push up average wages (Card, 2007; Ottaviano and Peri, 2006) and lead to greater wage equality (Docquier et al., 2011). Empirical studies on the effects of immigration on labour markets are highly sensitive to the assumptions, hypotheses and estimation methods used and are thus not necessarily comparable. Overall, while having distributional effects, the aggregate impact on average wages and employment in destination countries seems negligible (UNDP, 2009) compared to other factors (Somerville and Sumption, 2009). The same observation applies to net fiscal impacts, which depend on the skill level of migrant workers and the rights they are granted, and tend to be relatively small (UNDP, 2009:89). Nevertheless, these aspects often shape immigration policies in rich destination countries.

For destination countries in the South, there is some limited empirical evidence concerning the macroeconomic impacts of immigration that quantifies the impacts on wages and labour markets. Again, the effect of South–South migration on local wages seems to be negative but also very limited (UNDP, 2010; Ratha and Shaw, 2007; Athukorala and Devadason, 2011). In Thailand, where low-skilled migrants work in the agricultural, fisheries and construction sectors, there are clear distributional effects. The presence of low-skilled migrants is estimated to depress the wages of less educated Thai workers (primary school education or less), while the wages of higher skilled Thai workers seem to have risen. Effectively, low-skilled migrant workers have enabled Thai nationals to find better employment opportunities by taking up the 'dirty, difficult and dangerous' (3-Ds) jobs and positively contributed to Thailand's growing GDP (Martin, 2007).

Labour immigration can boost economic activity, contribute to GDP and create more or better jobs. Such arguments are often used to refute suggestions that labour migration pushes up unemployment. The country case study of Côte d'Ivoire (Kouadio et al., 2013) shows that during the period of economic growth from 1960 to 1978, migrant workers from neighbouring countries were needed for jobs in cocoa and other crops, thus enabling the economy to grow at a rate of 7% annually until cocoa prices began to fall in the 1980s. Their presence also enabled many Ivorians to leave farms and move to urban areas encouraging the development of a more educated and prosperous middle class (CIRES, 2012). In the EU, third-country labour migrants have tended to work in low- and semi-skilled occupations and have contributed to output growth and innovation. Although more highly skilled migrants seemed to have had a greater positive impact, the lower skilled also played an important role (Brueckner, 2012; Venturini, 2012). Effects may vary over time. A study (Gross, 2002) on high- and low-skilled migration in France found that it slightly increased short-term unemployment, but lowered unemployment in the long run. Achieving a positive outcome depends on a good match between the distribution of skills and the needs of the labour market. In all countries that now have net immigration, both low-skilled and highly skilled immigrants tend to play a significant role in boosting productive capacity while also placing pressure on other areas such as health systems (UNDP, 2009). As noted above, the overall fiscal impact is small and often positive, since migrant workers generate income and pay taxes, which can cover their share of demand on services.

Second, the perceived negative impacts of immigration, whether substantiated or not, are often propagated and manipulated. They may also be often associated with racial prejudices, which exacerbate social tensions and can undermine social cohesion. The debates on labour immigration tend to be framed in terms of the negative distributional effects rather than the potential global net gains. Anti-immigrant sentiments are at times exploited for political purposes. In Côte d'Ivoire, return migration to rural areas after the boom years increased pressure on land, and caused resentment against migrants who had performed agricultural labour during that period. This provided a basis for the political manipulation of ethnic tensions (Kouadio et al., 2013). In developed countries, especially as a response to the global financial crisis, immigration and debates on multiculturalism have become major political issues and there are rising concerns about anti-immigrant views. Opinion polls in a number of European countries show a consistent increase in public hostility towards migration following the economic downturn. It needs to be noted, however, that factors such as inequality and poverty, rather than ethnic diversity as such, may be more significant in relation to social cohesion (Demireva, 2012; Saggar et al., 2012). These issues pose real obstacles to improving the impact of migration on development, and often translate into reduced access for labour migrants.

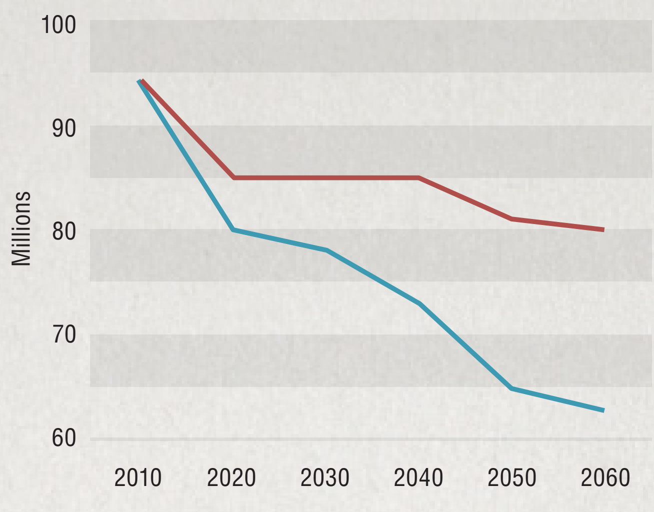
Third, immigration could potentially be part of a policy package to address ageing populations and the declining labour force as well as the risk of growing imbalances in the financing of social protection. For example, Europe currently has the world's lowest share of young people (see Box 9.1).

"Immigration could potentially be part of a policy package to address ageing populations and the declining labour force as well as the risk of growing imbalances in the financing of social protection."

Box 9.1 EU and non-EU youth in Europe

By 2050 the youth population in Europe could fall by 14 million. According to the European Commission (2012) immigrants typically arrive when they are aged between 25 and 35 years. They contribute to rejuvenating the populations they join because they are relatively young and are also likely to have children.

Projected youth population (aged 15-29) with and without migration, EU-27, 2010-2060



Youth population (aged 15-29)
including migration — without migration
Source: Eurostat 2010

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> "Developing countries seldom include migration in their national development and poverty-reduction strategies, and when they do so the focus is mainly on remittances."

There will be a need for labour at all skill levels, which will call for policies to match migrants' skills with future demand (BEPA, 2010).

Europe is not alone as countries such as China and Russia are also expected to experience major labour deficits, in which case international labour mobility will be an increasing factor for sustained economic activity (Bruni, 2011; Iontsev and Ivakhnyuk, 2012). At the same time, as shown in the demographic trends presented in Chapter 6, a youth 'bulge' will soon be entering the labour market in many developing countries. In light of the discussion on social cohesion, achieving positive ISD outcomes for migrant workers, as well as for receiving and sending countries, will call for attitudinal change and an open and informed discussion on the gains and potential trade-offs in opening labour markets to certain skill groups and on policies to counter any negative effects in receiving countries. Essentially, this will depend on matching labour demand and supply.

9.3 Positions and policies on migrants' rights and promoting migrant access to labour markets

This section analyses the reactions of sending and receiving countries to the effects of labour mobility discussed above.

9.3.1 Sending countries

Governments in South and Southeast Asia in particular have taken steps to support potential labour migrants and the Philippines and Sri Lanka have proactive mobility policies for low-skilled workers (IOM, 2005). In contrast, African migration to the North, primarily Europe, is still widely perceived as a problem (Bakunda and Mpanga, 2011). Most African countries have a policy of non-intervention on emigration, although some have tried to curb it and to foster the return of labour migrants (Spaan and van Moppes, 2006). More recently, several African governments have created ministries for nationals abroad or diaspora units based in their foreign affairs ministries.

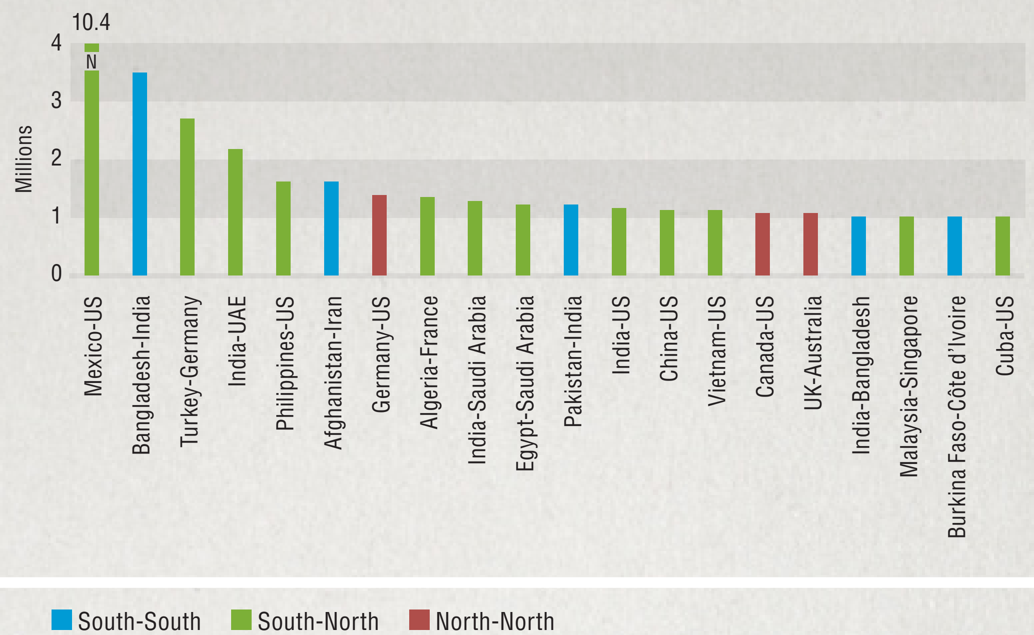
A study by de Haas and Vezzolli (2011) found a general interest among developing countries in the departure of low-skilled migrants who are likely to send remittances. The study also notes that 'often, emigration is simultaneously seen as an opportunity to export surplus labour and get rid of intellectuals […], decrease poverty and unemployment, generate remittances, stem domestic political unrest and maintain the political status quo […]' (de Haas and Vezzolli, 2011:16). Figure 9.2 provides an overview of the top 20 migration routes in 2010.

Some sending countries take steps to protect their migrant workers. Several Asian countries offer pre-departure seminars, welfare funds and reintegration assistance, although labour-sending agencies are not always adequately regulated. Box 9.2 describes Nepal's efforts to incorporate migrants' rights in foreign employment laws. In some instances, migration is banned to certain countries – for example, Nepal banned migrant workers from going to Afghanistan and Iraq because these countries were deemed unsafe – but these bans tended to push migrants into irregular channels and increased vulnerability (Ruhs, 2013).

Developing countries seldom include migration in their national development and poverty-reduction strategies, and when they do so the focus is mainly on remittances (Wickramasekara, 2011a). The references to migration in African Poverty Reduction Strategy Papers (PRSPs) largely refer to the negative aspects of the migration and development nexus (Black and Sward, 2009). Pandey et al. (2012) stress that, despite the prominence of labour migration in Nepal, very few development agencies have made migration a priority.

The inadequate international governance of labour mobility is to the disadvantage of migrants and sending countries, or as Betts (2011:22) puts it:

Figure 9.2 Top 20 Migration routes (excluding the former Soviet Union), 2010



Source: Ratha and Shaw, 2007

"After Europe and the USA, the Gulf Cooperation Council (GCC) states receive the highest volume of migrant labour."

Box 9.2 Nepal: Provisions of international rights in foreign employment laws

Nepal has incorporated the provisions of international rights and conventions on labour standards in its foreign employment laws, e.g. provisions of the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), the ILO Convention on Discrimination (Employment and Occupation) Convention, the Minimum Wage Fixing Convention and the Convention on Minimum Age. Clearly, no country can exercise extraterritorial jurisdiction to protect its migrant workers or prosecute foreign individuals or organisations abusing them. In addition, not all migrant-receiving countries are signatories to the relevant conventions (Pandey et al., 2012). Many other sending countries share these problems.

"Some sending countries take steps to protect their migrant workers."

> “The financial crisis has resulted in stricter controls being applied in most migrant-receiving countries.”

‘In the absence of formal regulation, receiving states are the implicit “makers” of migration governance, and sending states are the “takers” of migration governance’. Although there are limits to what they can do, Asian countries have been the most active in using their policy leeway to support and/or protect their low-skilled migrants. Most governments in the sending countries still do not view labour migration as part of a development strategy.

9.3.2 Receiving countries

An international study on the political economy of immigration (Facchini and Mayda, 2009) concluded that restrictive policies are broadly consistent with voters’ positions on migration, whereas more liberal policies can be explained by the influence of special interest groups.

There is limited literature and statistics are generally poor on migrant-receiving developing countries. Klugman and Pereira (2009) found that, as in other receiving countries, there is a preference for (temporary) high-skilled rather than low-skilled workers but overall a greater openness to the lower skilled than in developed countries. As in developed countries, more rights are conferred on higher skilled than on less skilled migrants, and compliance with migrants’ rights remains a serious challenge (Klugman and Pereira, 2009; Ruhs, 2012a; CIRES, 2012).

In the African context, labour migrants are frequently seen to compete for jobs and public services (schools, clinics) and are blamed for crime, and most electorates thus support stronger immigration control. In 2005, only 11 African countries had policies to support the integration of migrant workers, and stricter African immigration policies respond as much to public demands as much as to external pressure (Bakewell, 2009). Member States of the EU have taken a ‘carrots and sticks’ approach to countries in North and West Africa to manage migration more strictly, which affects both inward and outward migrants.

Recent responses of developed countries to low-skilled migrant workers fall broadly into two categories. With some exceptions, the governments of OECD countries have sought to restrict low-skilled migration, whereas the Gulf States and Singapore have adopted a strict system of low-skilled migrant rotation rather than outright rejection. Migrants enjoy very few rights in the latter countries – they cannot obtain permanent residence and there are strict conditions for family reunion – but after Europe and the USA, the Gulf Cooperation Council (GCC) states receive the highest volume of migrant labour (IOM, 2008). Most receiving countries prefer bilateral agreements because these allow them to choose which issues are covered and may, for instance, include cooperation on migration prevention and control.

The financial crisis has resulted in stricter controls being applied in most migrant-receiving countries. Despite the lack of comprehensive evidence on the impact of the crisis on labour markets, only a few months after the onset of the crisis new entry restrictions for migrants or changes to their terms of employment were adopted (Khoser, 2010). In some cases this was to the detriment of local employers, such as in Thailand where crackdowns have led to a shortfall in agricultural workers (OECD, 2011:26).

The European Union

The EU’s regional mobility scheme is part of the basic principles of its economic integration, although there are some restrictions in place. Member States may limit access to their labour market by nationals of new accession countries. Currently 15 Member States are applying these restrictions to Romanian and Bulgarian nationals, and this period may be extended to 2014 (COM, 2011). Such restrictions may also apply to nationals of Croatia once it joins the EU.

For workers from third countries, EU Member States use policies such as quotas and labour-shortage lists to regulate labour mobility. Temporary migration programmes (TMPs) are usually the only legal means by which low-skilled workers can come to Europe. Some European countries experimented with forms of TMP (e.g. UK sector-based scheme, Dutch Blue Birds programme) but many of these were later dropped. Sweden's labour immigration reform is a notable exception. There has been considerable research into TMP best practice (e.g. IOM, 2008; Ruhs, 2003, 2006; Dauvergne and Marsden, 2011; Martin 2003; Abella, 2006), but few of the lessons[133] are applied, presumably due to political pressures not to be (or appear) lenient on (particularly low-skilled) labour migration. For example, the UK sector-based scheme introduced in 2003 allowed only one-year work permits, and concern about over-stayers led to its closure after a few years (Ruhs, 2013).

An IOM (2010c) study argues that mechanisms adopted by EU Member States are often inflexible and fail to reflect labour-market needs. As the process of admission of labour migrants is time-consuming, complex and costly, employers and migrants alike are pushed towards irregular channels. According to the World Migration Report 2010 (IOM, 2010b) certain sectors in Europe already rely on cheap, unprotected migrant labour, to which governments may turn a blind eye (Hanson, 2009). The Bureau of European Policy Advisers (BEPA, 2010) overview of the policies of EU Member States on low-skilled migration shows that these vary considerably. It observes that 'despite [the need for low-skilled workers] none of the 27 Member States has specific institutional or legislative systems in place addressing their access to the labour market' (BEPA, 2010:8–9).

Europe regards itself as adhering to rights. A reason frequently cited for not signing the UN Convention on Migrant Workers (CMW)[134] is that existing European legislation goes beyond its provisions (Khoser, 2010). The Bureau of European Policy Advisers (BEPA, 2010) finds that low-skilled migrants rarely enjoy the protection of even minimum labour standards and are prone to exploitation[135]. This may be due to the fact that under most existing TMPs in Europe, migrants have 'neither the right to free choice of employment nor the rights that citizens and legal long-term residents typically enjoy' (Ruhs, 2013: 14). In 2011, the EU adopted a Directive (Directive 2011/98) on a single application procedure for a single permit for third-country nationals to reside and work in the territory of a Member State and on a common set of rights for third-country workers legally residing in a Member State. Its provisions oblige Member States to ensure equal treatment for migrant workers in employment-related areas (e.g. working conditions, social security including pensions, recognition of diplomas, taxation, access to services). The single permit excludes certain categories of labour migrants, such as seasonal workers and, although a step in the right direction, it has been described as having only a 'very low harmonising effect' for a narrow set of rights (Pascouau and McLoughlin, 2012).

There is no harmonised EU policy on low-skilled migrants. It remains a challenge for the Commission to encourage Member States to agree to new standards and regulations on this issue (planned since 2005, the 2010 proposal for a

“There is no harmonised EU policy on low-skilled migrants. It remains a challenge.”

133 Some lessons are: the circular movement of workers helps to limit the incentive to violate the arrangement by overstaying; cost-sharing by employers reduces the financial burden on the government; programmes need to be commercially viable to ensure that they are driven by the private sector and reflect market conditions rather than filling quotas; ensure protection of migrants' rights by making work permits portable within certain sectors/occupations and after a certain period of time; provide a mix of incentives and enforcement measures to facilitate the return home of migrants whose temporary work permits have expired; provide for a small minority of temporary migrant workers to upgrade into permanent residence status based on a clear set of rules and criteria.

134 The full name of the convention is the United Nations International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (CMW).

135 This finding is also supported by the Impact Assessment for the Seasonal Employment Directive, European Commission 2010b [SEC(2010)888]

"Europe will be a credible international voice on facilitating low-skilled labour mobility and strengthening the rights of migrants only when labour mobility becomes one part of a package of responses to its demographic challenges."

directive on seasonal employment (COM, 2010) has yet to be agreed) (see Box 9.3). Migration remains a shared competence between the Commission and Member States[136] and labour migration/mobility is an area where governments are not prepared to cede sovereignty despite considerable secondary legislation adopted in this area.[137] In the absence of the political will to expand legal routes for migrant workers, the Commission's hands are tied. Given the economic and financial crisis, the access of low-skilled workers to labour markets is a particularly divisive issue, as exemplified by the problems in honouring the 'mobility' component offered as part of the '3 Ms' (money, market access, mobility) to the 'Arab Spring' countries. Europe will be a credible international voice on facilitating low-skilled labour mobility and strengthening the rights of migrants only when labour mobility becomes one part of a package of responses to its demographic challenges.

The European Commission developed the Global Approach to Migration in 2005, which became the Global Approach to Migration and Mobility (GAMM) in 2011. The GAMM provides a rather balanced, 'migration-friendly' approach to all aspects of migration policy and stresses the importance of cooperation[138]. The Commission has used structured dialogue and Mobility Partnerships to implement the GAMM. These are intended to ensure that migration is well governed and permits greater mobility. Before the GAMM was revised in 2011, some observers (e.g. Carrera and Sagrera, 2009) maintained that the Partnerships were being used in return for re-admission agreements. To

Box 9.3 The proposal for a Directive on Seasonal Employment

The proposal for a Directive on Seasonal Employment (COM, 2010) is currently the most important EU-level initiative concerning low-skilled migrants even if it only targets seasonal employment and not all 'low-skilled' work. The latter falls within the scope of the Directive 2011/98 ensuring migrants' rights but allowing Member States to set the admission rules. The seasonal proposal acknowledges that there is a more permanent need for seasonal labour within the EU and aims to improve access procedures once Member States have decided to let such workers enter. It also seeks to protect migrants' rights and to ensure equal treatment across the EU. The proposal foresees a multi-seasonal permit. In a debate in Council in July 2010 several ministers questioned whether the rights accorded to third-country nationals should be equivalent to those enjoyed by EU nationals, in particular in relation to social benefits. Other delegations questioned whether the proposal on seasonal workers was in line with the principle of subsidiarity (European Parliament, 2010). In its comments on the proposal, the ILO criticised the absence of references to equal treatment with nationals (ILO, 2010).

136 A common legal framework on immigration and asylum has gradually emerged in recent years. Member States have committed to a 'common EU immigration policy', which includes a common European Asylum system, partnerships with countries of origin and transit and the fair treatment of third-country nationals. Although the Lisbon Treaty extends qualified co-decisions based on majority votes in the area of migration and asylum, the right of Member States to determine how many third-country nationals it admits is not affected.

137 Directive on long-term residents (Directive 2003/109), on family reunification (Directive 2003/86), on highly qualified employment (Directive 2009/50), on researchers (Directive 2005/71), on students (Directive 2004/114) and on Migrant workers' rights in general (Directive 2011/98).

138 The EU's GAMM is based on four pillars of which the first three deal with migration processes (legal migration and mobility; irregular migration and trafficking and international protection and asylum) while the fourth seeks to maximize the development impact of migration and mobility that addresses issues such as remittances, the engagement of diaspora in development, mitigating brain drain, capacity building for national policies on managing migration, the social costs of migration and mainstreaming of migration in development policy.

date, four Mobility Partnerships have been agreed (Moldova, Cape Verde, Georgia and Armenia), with the EU (represented by the Commission) and Member States as signatories. The number of participating Member States varies, from four (Cape Verde) to 16 (Georgia). Negotiations are underway on Mobility Partnerships with Morocco and Tunisia. Lavenex and Stucky (2011) argue that in the area of labour mobility, countries with which there is such a partnership may push the EU towards a more unified position on legal labour migration or at least to greater coordination on the issue. Achieving this would depend on establishing Mobility Partnerships with larger migrant-sending countries and more EU Member States.

9.3.3 Regional mobility frameworks

Since a significant part of international migration takes place within regions there is a need for stronger regional frameworks to allow for greater mobility and to improve the treatment of migrants. Regional migration tends to involve less distance and fewer costs than South–North migration. The regional integration of labour markets could, as well as linking supply and demand, assist many thousands of migrants and help to reduce poverty. One constraint is that many labour markets have a high degree of informality, which makes it harder to protect labour rights. As noted earlier, there are seldom any policies focusing on the social integration of labour migrants (Melde, 2011).

“Since a significant part of international migration takes place within regions there is a need for stronger regional frameworks.”

Box 9.4 Regional migration: access and treatment

In *Africa*, ECOWAS and EAC have taken steps towards facilitating the free movement of labour. ECOWAS' Protocol on Free Movement of Persons also calls for the recognition of migrants' fundamental human rights. The lack of full economic integration constrains the free movement of labour (Adepoju, 2006; Addy, 2005). Basnett (forthcoming) shows that EAC's Protocol also falls short of its aspirations for the free movement of workers as it uses a work-permit regime, has a bias towards highly skilled workers, fails to provide preferential access and rights for regional workers, and has inadequate provisions for mutual recognition of qualifications and experience.

In *Asia*, several ASEAN members have signed bilateral labour agreements, notably covering domestic workers. In 2007, ASEAN issued a Declaration on the Promotion and Protection of Rights of Migrant Workers. The Declaration has been criticised for not referring to ILO Conventions and applying only to legal workers (Kneebone, 2010) as well for its lack of impact on practices in member states (OECD, 2011).

In *Latin America*, the Andean Community adopted a revised Instrument for Labour Migration in 2003. While it covers many rights (MacLaren, 2008), neighbouring countries have made only limited efforts to permit freedom of movement as contemplated in the Instrument (Santestevan, 2007).

> "Given their size and potential, it is important to strengthen regional mobility frameworks and maximise their development impact. However, they alone will not resolve the failure to observe the global rights framework."

There are currently regional mobility agreements in some 13 regions[139] (see Box 9.4), setting out their own standards on migrants' rights and access to labour markets. These are the most advanced in regions that are undergoing extensive economic integration, as in the EU or between Australia and New Zealand. At present, only a few regions allow the free movement of low-skilled labour, although further economic integration may lead to greater labour mobility (MacLaren, 2008).

Regional consultative processes (RCPs) (called 'regional' although some include countries from more than one geographic region) have existed since the 1990s. RCPs have focused on building trust rather than international policy convergence (Koehler, 2011). Achieng (2012) questions whether they have laid the foundations for greater global governance, but some initiatives show that RCPs do influence migration governance in general (e.g. the Colombo Process helped to establish research units on labour markets in member countries). RCPs overlap with RECs geographically and thematically but several countries oppose closer cooperation and institutionalising links between different regional fora (IOM, 2010d; Achieng, 2012).

Some initiatives on regional labour mobility have also originated from the Global Forum on Migration and Development, such as a new taskforce to enhance Intra-African Cooperation on regional labour mobility involving six African countries[140] (GFMD, 2012).

Given their size and potential, it is important to strengthen regional mobility frameworks and maximise their development impact. However, they alone will not resolve current restrictions on international labour movement and the failure to observe the global rights framework. Although facilitating intra-regional migration may help migrants who lack the financial means to move further away, it does not address the global asymmetries that cause South–North migration, where migrants' economic gains are usually higher.

9.4 Global framework on migrants' rights

The following sections discuss the existing multilateral rights framework international efforts to promote labour mobility and future options.

Three main conventions form the basis of the multilateral framework on rights and treatment of migrant workers:

- The United Nations International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (1990)
- ILO Convention 97: Migration for Employment Convention (1949), which introduces the principle of equal treatment for domestic and migrant workers
- ILO Convention 143: Migrant Workers (Supplementary Provisions) (1975), which advances rights to equal opportunities and integration of migrant workers, and covers irregular migrants.

In total, 86 countries have ratified at least one of these binding conventions. The decision to draw up a non-binding Multilateral Framework on Labour Migration (MFLM) (ILO, 2004) stemmed from the concerns raised by what the International

139 These include: Andean Pact, Association of South East Asian Nations (ASEAN), Caribbean Community (CARICOM), Central America Integration System (SICA/CAIS), Common Market for Eastern and Southern Africa (COMESA), Commonwealth of Independent States (CIS), East Africa Community (EAC), Economic Community of West African States (ECOWAS), Eurasian Economic Community (EAEC), MERCOSUR, South Asian Association for Regional Cooperation (SAARC), Southern African Development Community (SADC) and the European Union (EU)

140 Ghana, Kenya, Liberia, Mali, Mauritius and Nigeria.

Labour Organization (ILO) refers to as a rising global trend in work-related migration, such as growing irregular migration in the face of rising cross-border barriers to labour mobility, problems with the protection of human and labour rights and migrants' exposure to abuse and exploitation. The Multilateral Framework draws on the ILO's flagship programme on decent work (Basnett, 2012) and is based on standards already contained in ILO Conventions. Monitoring mechanisms on migrants' rights of treatment include the ILO Committee of Experts on the Application of Standards and Recommendations (CEACR), which supervises the ILO Conventions, and the UN Committee on the Protection of the Rights of All Migrant Workers and Members of Their Families.

9.4.1 United Nations Convention on the Rights of All Migrants

The United Nations International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families (CMW) establishes universal economic, social and cultural rights and certain civil and political human rights pertaining to migrant workers and their families. It dates back to 1976, when the United Nations' Economic and Social Council (ECOSOC) raised concerns about illicit and clandestine labour migration and the discriminatory treatment of migrant workers in host countries (Basnett, 2012). While reaffirming core human rights, the convention also recognises rights that are specific to the context of migrant workers and their families.[141]

Its effectiveness in upholding the rights of migrant workers has been constrained by slow ratification – only 46 out of a total of 193 countries have done so (Basnett, 2012). Countries that have ratified are mostly sending countries, while respect for the rights of labour migrants is likely to be more important in receiving countries. A number of the latter have opted against ratification because of the convention's breadth and complexity, the technical and financial obligations, the view that it either contradicts or adds no value to existing national legislation, and a concern that it provides rights for migrants (especially those with irregular status) that are not found in existing human rights treaties (Khoser, 2010). None of the EU Member States has ratified, for example. Nonetheless, the CMW sets certain norms on which governments and others advocating for the rights of migrant workers can draw (Ruhs, 2013).

9.4.2 ILO Conventions and the Multilateral Framework

In addition to the ILO Core Conventions, which aim to advance core labour standards for all workers, ILO Conventions 97 and 143 focus specifically on the rights of migrant workers. Only 48 and 23 countries respectively have ratified them, which is very modest compared to of other ILO conventions and in relation to the total number of member states (Ruhs, 2013). Some countries are reluctant to ratify these conventions because certain provisions conflict with national laws, for example the right to seek another job in the host country if a migrant worker is made redundant, and require governments to assist migrant workers and ensure equal treatment with nationals in areas such as remuneration, social security, cultural rights and access to employment (Kuptsch and Martin, 2011). Even if national labour laws already comply with the substance of the ILO conventions, migrant workers may still be denied effective remedy in the case of violations (Kuptsch and Martin, 2011: 38) unless there are adequate enforcement mechanisms. Nonetheless, all international labour standards

> "The ILO's non-binding Multilateral Framework on Labour Migration contains 15 principles for promoting the rights and welfare of labour migrants and their families, providing 'guidelines for a rights-based approach to labour migration."

141 For instance, Article 26 recognises the right of migrant workers to join and take part in the meetings and activities of trade unions. Article 23 establishes recourse to the protection and assistance of the consular or diplomatic authorities of their country of origin. Article 18 states that 'migrant workers and members of their families shall have the right to equality with nationals of the State concerned before the courts and tribunals', and Article 22 (1) states that 'Migrant workers and members of their family shall not be subject to measures of collective expulsion. Each case of expulsion shall be examined and decided individually' (UN, 1990).

> "Monitoring – and ultimately enforcing – the the rights to decent treatment are a key element of inclusive development and could generate improved productivity and greater social integration and cohesion."

are applicable to all migrant workers, except in the few cases where they are explicitly excluded. The Committee of Experts on the Application of Conventions and Recommendation monitors compliance with the ratified conventions.

The ILO's non-binding Multilateral Framework on Labour Migration contains 15 principles for promoting the rights and welfare of labour migrants and their families, providing 'guidelines for a rights-based approach to labour migration'. The principles include, for example, 'the opportunity to obtain decent and productive work in conditions of freedom, equity, security and human dignity as well as the recognition of fundamental rights at work, an income to enable people to meet their basic economic, social and family needs and responsibilities and an adequate level of social protection' (ILO, 2004).

The Multilateral Framework has been helpful in informing the development of national policies on labour migration, often acting as a reference point. While it has played an important role in setting standards, its non-binding nature means that governments can select which principles and recommended policies they wish to apply to migrant workers (Basnett, 2012; Wickramasekara 2011b). There is no robust monitoring mechanism to evaluate how these principles are being enforced.

9.4.3 Strengthening the monitoring of rights of treatment

Paragraph 25 of the Millennium Declaration calls for a resolve 'to take measures to ensure respect for and protection of the human rights of migrants, migrant workers and their families' (UN, 2000). To date, the international community has made little progress in granting migrants their rights in line with the UN Convention and ILO Multilateral Framework. However, monitoring – and ultimately enforcing – the rights to decent treatment are a key element of inclusive development and could generate a number of positive effects, including improved productivity and greater social integration and cohesion.

The UN and the ILO have been stepping up efforts to support reporting on international migrant rights. Countries that have ratified the CMW are obliged to submit regular reports[142] to the Committee on the Protection of the Rights of All Migrant Workers and Their Families, convened by the Office of the High Commissioner for Human Rights. The reports detail how the rights set out in the CMW are being honoured. The Committee examines these before issuing its 'concluding observations'. The Committee monitors only those countries that have ratified the CMW, which many migrant-receiving countries have not. In addition, the delay in submitting country reports has compromised the effectiveness of this monitoring system (Ruhs, 2013).

The ILO also has a system to monitor the implementation of ILO conventions by countries that have ratified them. Again, reports on Convention 97 and Convention 143, which are of particular relevance to migrant workers, are submitted every five years. The CEACR assesses to what extent the country's legislation and practice complies with its obligations. Additional information can be submitted by organisations representing employers and workers. The CEACR publishes its observations and requests to the respective governments.

The work of the UN Special Rapporteur on the Human Rights of Migrants covers countries irrespective of whether they have ratified relevant UN or ILO conventions, also contributes important information on labour migrants' rights and implementation. The Special Rapporteur's country reports review the conditions of migrant

142 Reports are to be submitted one year after ratification of the CMW and thereafter every five years.

workers, point to areas of concern and make recommendations. These reports are presented to the United Nations Human Rights Council (UNHRC). The work of the Special Rapporteur is somewhat impeded by a small budget, a limited number of staff and the fact that country visits can take place only at the invitation or request of the government concerned. NGOs concerned with labour migrants' rights may provide input to the review process by documenting human rights violations and producing shadow reports (Ruhs, 2012a, b). Despite these efforts, more effective and comprehensive monitoring of migrants' rights is thwarted by the lack of an official international comparative index of rights to provide readily available information on rights in law and in practice.

An index covering migrants' rights could meet this need for better data. The Migrant Integration Policy Index (MIPEX[143]) – an EU co-funded project – uses a mix of legal and outcome indicators to measure how far EU Member States and selected non-EU countries comply with EU legislation, directives and recommended best practice in six areas relating to the treatment of labour migrants. It would be helpful to establish comparable data on a global scale. Such a database should be comprehensive irrespective of whether a country has ratified the relevant international conventions. It should also include legal indicators as well as rights in practice. Data should be disaggregated according to the skill levels, age and sex of migrant workers, to facilitate the analysis of patterns, determinants and effects of restrictions of migrants' rights. A number of questions could be analysed, such as (Ruhs, 2013):

- How do restrictions of rights vary across different rights, groups of migrants and countries? Which rights are most commonly restricted? How do restrictions change over time?
- Why are the rights of migrant workers restricted? How do these restrictions relate to labour markets, welfare states and admission policies?
- What are the effects of restricting the rights of migrants on the migrants, and on the sending and receiving countries?

Such a database would strengthen the evidence available to UN specialised agencies, other international organisations, and CSOs including trade unions, and thus facilitate international monitoring. It could also support the enforcement of migrants' rights by creating public pressure and providing a means to make sending and receiving countries accountable. This is exactly where the political difficulty lies. Some governments may fear the repercussions of receiving a poor ranking, while others may not want the electorate to perceive them as 'too open' and too supportive of migrants. An independent research institute may thus be best placed to create and maintain such an index (Ruhs, 2013). Although such research may provide a better basis for policies to support the rights of labour migrants, it would not resolve the political issues underlying non-compliance with the comprehensive body of rights for migrant workers.

> **"More effective and comprehensive monitoring of migrants' rights is thwarted by the lack of an official international comparative index of rights."**

9.5 Positions and policies on migrants' rights and promoting migrants' access to labour markets

Various UN specialised agencies, the World Bank and the WTO all deal to some degree with labour mobility and migrants' rights because these are cross-cutting issues. There has been a recent proliferation of agencies and organisations engaging in work on migration, partly in response to stronger evidence on the links between migration, development and trade. To improve coordination

143 The MIPEX was first published in 2004 as the European Civic Citizenship and Inclusion Index. The MIPEX II, led by the British Council together with the Migration Policy Group was launched in 2007. It is co-financed by the European Union. The data is available under www.mipex.eu.

> “Considerably less importance is attached to labour than to goods, despite the fact that many WTO members (including migrant-receiving and migrant-sending countries) derive substantial benefits from labour mobility.”

on migration issues, in 2007 the UN created the Global Migration Group (GMG). This section looks at some of the main organisations involved in promoting access to labour markets for (low-skilled) labour migrants and dealing with migrants' rights. It explores ways in which to improve this system, which as Betts (2010:13) notes, 'is not based on rational institutional design aimed at addressing realities of migration but a product of incremental historical adaptation to new circumstances'. It also describes ideas for creating an international agency to match labour supply and demand.

9.5.1 UN agencies, World Bank and IOM

The ILO is the only UN specialised agency with an international mandate to protect labour rights. Its tripartite structure (representatives of governments, employers and workers) adds a unique value to the international debate on labour migration (Kneebone, 2010). The ILO contributes to negotiating, implementing and monitoring the international framework for rights of migrants but does not engage in debates on whether and how to increase (low-skilled) mobility.

The World Bank is increasingly active in the area of migration and development and has conducted major research on remittances. The Bank encourages more migration of low-skilled labour as a means to reduce poverty via remittances. It has been involved in designing programmes like New Zealand's Recognised Seasonal Employer programme and Australia's Pacific Seasonal Worker Pilot Scheme (Betts, 2011; Ruhs, 2013). It has proposed to combine the temporary migration of low-skilled workers with incentives to return (Betts, 2010), but is less concerned with the agenda on migrants' rights.

UNDP's 2009 Human Development Report (UNDP, 2009) focused on human mobility and development, advocating for greater labour mobility and better implementation of the rights framework.

The IOM (which is not part of the UN system) provides services to governments and has assisted the negotiation and implementation of bilateral agreements on TMPs. While it has not been particularly outspoken on migrants' rights, it has at times been a co-signatory to Memoranda of Understanding (e.g. between Guatemala and Canada) (Betts, 2010).

The creation of the GMG,[144] which includes the IOM and World Bank among many other bodies, was intended to lead to a more effective and coherent UN response to migration issues. The GMG is currently under review, however, as it has failed to live up to expectations. Betts (2010) argues that the expectations were unrealistic since the GMG was not meant to be a comprehensive coordination mechanism, while Newland (2010) maintains that the participating agencies were not fully committed to coordinating their migration-related work.

New types of thematic coordination mechanisms (Betts, 2010) may lead to a more systematic approach to topics and the necessary follow-up. A number of sub-groups could deal with different migration-related themes. For example, one might focus on labour migration/mobility, ideally covering migrants' rights and promotion of labour mobility. Another might address issues such as the future shortage of workers in some regions, and propose remedies. These thematic sub-groups would combine operational and technical cooperation, including capacity-building, research, policy analysis and development, and the collation and analysis of migration-related data and information. In 2005, the Global Commission on International Migration suggested that a new agency on labour migration should assume such functions.

144 Members of the Global Migration Group are: ILO, IOM, OHCHR, UN Regional Commissions, UNICEF, UNCTAD, UNDP, UNDESA, UNESCO, UNWOMEN, UNHCR, UNITAR, UNODC, UNFPA, World Bank and WHO.

9.5.2 Mode IV in the WTO

The WTO's Mode IV in the General Agreement on Trade in Services allows member countries to stipulate provisions on market access for migrant workers.[145] Few have scheduled any commitments under Mode IV, and the commitments to date have been limited to intra-corporate transfers and/or highly skilled personnel. The World Bank estimates that Mode IV accounts for less than 2% of total trade in services (World Bank, 2004). Countries that have made Mode IV commitments have undermined them by including an excessive number of limitations (Chanda 2004; Hanson, 2009). In this sense GATS has done very little to remove barriers to labour migration. This is linked to the fact that the comparative advantage of many LICs lies in offering medium- and low-skilled labour-intensive services (Winters, 2003).

There have been proposals to improve Mode IV (WTO, 2000a;b, WTO, 2001 a-d), but structuring it under GATS has stifled the debate on labour mobility. Considerably less importance is attached to labour than to goods, despite the fact that many WTO members (including migrant-receiving and migrant-sending countries) derive substantial benefits from labour mobility (Basnett, 2012).

In 2011 WTO members agreed to provide a Least Developed Country waiver on GATS, which opened the gateway for expanding Mode IV for workers from LDCs. The WTO operates on the principle of Most Favoured Nation (MFN), which implies that its members will not discriminate against each other. The waiver allows a country to extend preferential treatment to a country or a group of countries without having to extend the same treatment to the entire membership. The LDC waiver has been agreed only in principle, so it is too early to comment on its implications for LDC members in the WTO, in particular whether it will expand cross-border mobility for workers from LDCs. Once it is operational it is very likely that LDCs will seek to expand access to labour markets for their workers.

The WTO waiver on GATS for LDCs is a step in the right direction. But the expansion of labour mobility in the WTO will still remain constrained – both for LDCs that benefit from the waiver and for the rest of the membership, particularly other developing countries (Basnett, 2012). As labour mobility in WTO is a sub-set in the GATS, the extent to which labour mobility is expanded will be determined by which service sectors are included in a member's commitment. The selected sectors may have little scope to benefit workers from LDCs. Hence, the benefits for LDCs will depend on what service sectors are included and the types of commitment made by WTO members.

9.5.3 Creating an agency to match labour and jobs

If a number of countries were willing to establish a new organisation, a labour-jobs matching agency could provide a means to exchange information and databases on migrant workers and could streamline supply and demand (De Buil and Siegel, 2012). It could be particularly useful for small migrant-receiving countries that lack the resources or capacity to assess labour options from a range of sending countries. Potential migrants could benefit because it could both expand the pool of destinations and lower the costs of obtaining information, and may improve labour standards.

"If a number of countries were willing to establish a new organisation, a labour-jobs matching agency could provide a means to exchange information and databases on migrant workers and could streamline supply and demand."

144 GATS, which came into existence in 1994, allows members to define terms of market access under four modes of supply for trade in services. These include: Mode I (cross-border supply), Mode II (consumption abroad), Mode III (commercial presence) and Mode IV (presence of natural person). Although GATS concerns trade in services, Mode IV can be viewed as extending market-access provisions for temporary labour mobility. Mode IV concerns service providers contracted in their home countries to provide services abroad. Each of these modes of supply is formulated under specific trade in service areas, e.g. construction, hospitality, banking. Mode IV then becomes one of the means of supplying those services. For instance, in trade in banking services Mode I would involve a foreign bank setting up operations, while Mode IV would involve foreign individuals providing banking expertise to clients. The WTO thus addresses the right of access, albeit for a very limited number of migrants because workers must already be employed by the company that is sending them.

> “In view of the evidence on the link to global poverty reduction as well as the ageing population in many countries, the UN will need to take a stronger lead on migration-related issues and find ways for the 214 million migrants worldwide to have a voice.”

The agency should provide services to members of the UN, although placing it outside the UN structure might avoid excessive bureaucracy and political interference. The agency would be accountable to the participating governments. In cooperation with the private sector, the governments of migrant-receiving countries would establish where and how many migrant workers were required and for what period of time. De Buil and Siegel (2012) suggest that such an agency would:

- Assess the value of qualifications (creating equivalency scales) around the world.
- Ensure that job contracts satisfy minimum labour standards and monitoring them.
- Match potential migrants with offers of jobs. Time-limited labour contracts would be issued but could be renewed if appropriate.
- Facilitate the issuing of visas.

Clearly, the agency would have to address issues such as how to choose between similarly qualified migrants, and how to assess each migrant’s skills, which would also have to be transferable across participating countries.

9.6 The future framework

9.6.1 Migration unit in the Office of the Secretary General

The last 20 years have seen several reports making recommendations on how to fill the global governance gap on migration. Owing to the limited political will for substantial changes, the Global Forum on Migration and Development (GFMD) was created in 2007. It is a government-led, voluntary, non-binding and informal consultative process. Since its first meeting, the range of issues discussed has broadened and participation has increased (the USA sent its first senior official in 2009), although some governments resist the establishment of a GFMD secretariat (Newland, 2010). Beyond government consultations, the GFMD also provides a platform for exchange among CSOs. According to Betts (2010), the weaknesses of the GFMD are that it is (a) not permanent; (b) outside the UN; (c) informal; and (d) theme-based, which leads to little continuity or follow-up, e.g. the work on migration and development excludes issues such as human rights. In addition, it is attended mainly by representatives from interior ministries rather than from the ministries of foreign affairs, employment or development.

Following the 2013 High Level Dialogue on International Migration and Development, it may be decided to establish a migration unit within the Office of the Secretary-General, with high status and expertise (Newland, 2010). This would ensure that the cross-cutting nature of migration and its effects on other sectors could be taken into account at a high level. Influential governments have not supported the creation of a new migration institution. In view of increasing migration flows and the evidence on the link to global poverty reduction as well as the ageing population in many countries, however, the UN will need to take a stronger lead on migration-related issues and find ways for the 214 million migrants worldwide to have a voice. The unit would act as an internal think tank for policy development (Newland, 2010) and work in close cooperation with the GMG, e.g. in the case of labour mobility, it would draw on the expertise of the relevant GMG sub-group and lead agencies. One of its key functions would be to assess, with input from governments, regional and international institutions and non-governmental stakeholders, how to improve (labour) migration governance, facilitate mobility and provide greater protection for migrants. In coordination with the GMG, the unit might help to clarify and define mandates on labour mobility/migration among various international organisations. The Office could also assume some of the functions of a GFMD secretariat.

9.6.2 What a post-2015 framework should say about labour mobility

The UN Task Team (IOM and UNDESA, 2012) has proposed to mainstream migration as a cross-cutting issue into a post-2015 framework and to acknowledge the links between migration and issues like employment. The IOM and UNDESA also propose to examine the potential contribution migration could make to meeting specific development goals. In line with this, UNDESA, GFMD, the GMG and the EU-UN Joint Migration and Development Initiative call for better mainstreaming into development planning. These organisations have also published several handbooks and guidelines on these issues. Streamlining migration has only recently been on the agenda of UN and other organisations but it will soon need to move from rhetoric to reality. The proposed institutional changes, a streamlined process of matching labour supply and demand as well as readily available data in form of an index on migrants' rights could assist the process of mainstreaming labour migration into development planning.

The post-2015 should acknowledge migrants' rights and the opportunities that greater global labour mobility could offer. It should make clear that governments should encourage and facilitate labour mobility as one means to reduce poverty and address demographic change. The framework could underline that all countries are responsible for mitigating the negative effects of labour mobility, and mention the role of regional organisations, the UN and other agencies in developing better policies and programmes. The framework might also refer to the relationships between migration and other sectors (e.g. climate change and employment), and stress the importance of collecting better data on migration and monitoring compliance with formal rights. It could also address the different characteristics of South–North and South-South migration.

9.6.3 What could the EU do?

The EU should exert influence within the UN to ensure that labour migration and its effects are incorporated in any post-2015 global development framework. This is clearly also in its own interest given that the EU already relies on labour mobility and will continue to do so. Furthermore, it should consider supporting the creation of a high-level migration unit within the Office of the UN Secretary-General. The European Commission could explore the possibility of earmarking funding for this unit, as well as a newly organised GMG coordination mechanism. The EU already supports data-gathering initiatives on migration, particularly at the regional level, and might consider funding an international index on migrants' rights. It could also offer technical support to countries that have ratified the relevant ILO conventions to help them to meet their monitoring requirements.

As outlined in its Agenda for Change, the EU can and should "assist developing countries in strengthening their policies, capacities and activities in the area of migration and mobility" through its development cooperation. That being said, the EU's actions on migration in other regions and at the international level will be more compelling if the EU demonstrates its serious intention to create a system for managing low-skilled migration within its own borders. Until it does so, the EU, just as much as other donor countries, may be accused (e.g. Bakewell, 2008) of supporting regional migration in order to keep migrants out of the EU.

> **"The EU should exert influence to ensure that labour migration and its effects are incorporated in any post-2015 global development framework."**

9.7 Conclusion

The current system of international labour mobility means that many are losing out, in particular low-skilled workers from poorer countries who have the most to gain by working abroad. Workers lack access to foreign labour markets and are often denied their rights. Sending countries lose because the system means that there are far fewer

> "A post-2015 global development framework will need to take migration issues into account, and regional and international organisations will require support in designing mechanisms to strengthen the enforcement of migrants' rights and promote mobility."

remittances than there might be if there was greater mobility. Developed countries may see themselves as winners, by imposing entry conditions through bilateral agreements or unilateral programmes, but their economic performance may suffer from a lack of low-skilled workers who could take on basic jobs, while demographic change will create an even greater need to fill such jobs. An important part of the electorate in developed countries fears or dislikes the idea of more immigration, although such attitudes are often based on a lack of or misleading information.

Migration is also perceived as a threat in several migrant-sending countries as they stand to lose their most mobile, determined and hardworking people. Despite the economic benefits migration can create, the difficulties experienced by families left behind may be destabilising. South–South and South–North labour migration are set to rise in the coming years. It should thus be in the common interest to have an informed public debate on migration, which addresses its positive and negative effects and the need for adjustment measures.

While most governments would seek to discourage irregular migration and to respect the rights of migrant workers, achieving this will call for a change in attitudes to labour migration. A post-2015 global development framework will need to take migration issues into account, and regional and international organisations will require support in designing mechanisms to strengthen the enforcement of migrants' rights and promote mobility. Migration should be treated as a cross-cutting issue in the UN, and its specialised agencies and other organisations need to determine how they can best contribute. The EU could help promote the incorporation of labour migration in the post-2015 framework, promote the enforcement of labour migrants' rights, fund these regional and international initiatives to better manage migration and support partner countries to maximise the development impact of migration. Ultimately, however, its contribution will be assessed on whether it practises what it preaches.

CONCLUSIONS AND RECOMMENDATIONS

This concluding chapter identifies a number of main messages both on the possible content of a post-2015 framework (the 'what') and on the instruments and mechanisms that could be deployed to achieve that vision (the 'how'). This chapter also considers how a post-2015 agreement might be established and the implications for the EU (Chapter 10).

CHAPTER TEN

10 CONSTRUCTING THE POST-2015 AGENDA

> "The Millennium Declaration remains relevant and its implementation through the MDGs has set a widely acknowledged standard of international collective action."

10.1 Introduction

The preceding chapters suggest four key conclusions on the formulation of a post-2015 global development framework:

- **A transformative agenda is vital:** The international community should pursue a wider and more transformative approach to development than was captured in the MDGs, if poverty is to be eradicated. This calls for economic and social transformations that emphasise creating employment, addressing inequality and finding sustainable solutions. Poverty should remain a core focus of this agenda, but the objective should be to tackle its causes by adopting a model of development that is more inclusive and sustainable.

- **National ownership is key:** A new framework should pay more careful attention to how global goals relate to national policy needs and targets, respecting domestic policy space and linking national and international efforts in a mutually supportive and flexible manner. It may help to opt for some form of 'mixed-design' framework that allows for both global and national goals, as well as targets and broad principles.

- **Scale up global collective action:** Richer countries, such as those in the EU, should strengthen their support for a new framework by extending collective action to areas important to development, such as international financial regulation, trade, migration and climate change; by enhancing the coherence of all policies with international development, in line with the principle of Policy Coherence for Development; and by continuing to increase both the level and effectiveness of their aid.

- **A new framework should be about instruments as much as about goals.** The temptation in considering a successor to the MDGs is to focus only on the goals and human development targets to be achieved. Yet some of the areas where progress has been least promising, such as MDG8, has been precisely in making better use of the instruments identified for international cooperation, such as official development assistance (ODA), as well as other resources, international agreements and regimes. A new framework should therefore clearly highlight the instruments to be used and the targets set for their use.

This final chapter brings together the different strands of the arguments made throughout this Report, and demonstrates how these build up to these four key conclusions. In the process, it identifies a number of main messages on both the possible content of a post-2015 framework (the 'what') and on the instruments and mechanisms that could be deployed to achieve that vision (the 'how'). This chapter also considers how a post-2015 agreement might be established and the implications for the EU.

10.1.1 Building on the Millennium Declaration

A first conclusion of this Report is that the Millennium Declaration remains relevant and that its implementation through the MDGs has set a widely acknowledged standard of international collective action. Moreover, this momentum should be maintained in what might be seen as a second implementation phase. Views expressed in the four case studies conducted for this Report and in the academic literature, public debates, and in national and international fora all point to the continued relevance of the Declaration and the need for further implementation. The basis on which to build a new global development framework thus remains remarkably strong.

The central proposition of the Millennium Declaration is to ensure that *'globalization becomes a positive force for all the world's people'*. The same clause (Art. 5) refers to the need to make globalisation inclusive and equitable and calls for global policies and measures that will address the needs of developing countries and economies in transition. The Declaration affirms the need for a participatory approach to formulating and implementing such policies. This resonates with more recent demands for the conduct of the current debate on a post-2015 development framework. The major section of the Declaration that is focused on development and poverty eradication is what inspired most of the MDGs, including the 2015 target date (Art.19) for halving extreme poverty and hunger and providing safe drinking water.

The Declaration also contains other major sections on peace, security and disarmament, and on protecting the environment and shorter sections on human rights, good governance, protecting the vulnerable and the special needs of Africa, as well as a final page on strengthening the UN. Its broad vision can be encapsulated as *inclusive and sustainable development*, although the term itself has come into common usage only since the Declaration. The sections on development, the environment, rights and protecting the vulnerable present a vision that easily fits this term. These sections also refer to some of the key themes explored in this Report: trade (Arts. 13 & 15), investment and international finance (Art.13), finance for development (Arts. 14 & 15) and migrants' rights (Art.25).

The elements of the holistic vision articulated in the Declaration are less visible in the MDGs, which make minimal references to the environment and focuses on the poorest rather than expressing a broader concern with inclusiveness. As this Report has shown, the implementation of the MDGs became focused still further on the social sectors as a means to reducing income poverty, and little was achieved on environmental sustainability, on reducing inequalities or indeed on the all-important issue of economic transformation through fairer global systems to encourage and regulate trade, investment and finance.

The decision to distil the broad vision of the Declaration into a small number of specific goals as a means to focus attention and resources on achieving identifiable targets was essentially pragmatic – but key parts of the integrated approach envisaged in the Declaration were inevitably sacrificed in the process. This Report argues that it is essential to revisit this broader agenda to see whether some of the elements that the MDGs left aside could be integrated into a second phase of implementation of the Declaration. For this post-2015 development framework, it is crucial first to recognise the importance of a transformative agenda that focuses much more on the roles of economic production and employment in development and poverty eradication. Second, it is clear the agenda needs to be far more explicit and purposeful about tackling both inclusiveness and sustainability.

"Achieving the vision of the Declaration requires going further than the MDGs."

> "For the post-2015 development framework, it is crucial to recognise the importance of a transformative agenda that focuses much more on the roles of economic production and employment in development and poverty eradication. And the agenda needs to be more purposeful about tackling both inclusiveness and sustainability."

In sum, what is clear from the research that has informed this Report is that the overall vision of the Declaration remains very relevant and that it is important to continue to pursue its implementation beyond 2015. It is an agreed foundation that commands wide international support. In addition, the MDG formula has in many ways shown its value as a tool for pursuing this agenda, and it is therefore appropriate to continue to use a similar approach in building on its momentum. At the same time achieving the vision of the Declaration requires going further than the MDGs.

10.1.2 Anchoring the global framework in reality: the country case studies

A prime consideration for a new global framework is that it must support the efforts of developing countries to promote development and eradicate poverty. This Report has drawn on four commissioned country case studies (Chapter 2). Two of these countries – Peru and Côte d'Ivoire – are MICs, although the former is a UMIC and the latter a LMIC, while the other two – Nepal and Rwanda – are both LICs and LDCs. All four countries have experienced periods of fragility and conflict over the past 15–20 years. Although it would be impossible to generalise based on such a small sample, between them, these countries provide a set of different cases that do to some extent characterise the range of circumstances that a new global framework should expect to address.

From a country perspective, it is clear that the MDG framework and the increased ODA it has brought have been very important for Nepal, Rwanda and also for Côte d'Ivoire; although, in the latter case, it was more as a factor that enabled the government to normalise its governance arrangements and consolidate external support.

- In **Nepal**, the government has lacked stability and, without a strong national consensus, it was less able to steer the country's development. The MDGs are espoused but not effectively pursued. Donors have focused on the social sectors, keeping the reins firmly in their own hands, and the private sector has been reluctant to invest. As a result, the government has little policy space. With stagnant economic growth providing few employment prospects, substantial migration has created sufficient remittance revenue to boost the country's performance against the MDGs.

- The government of **Rwanda** has pursued a strong developmental path that clearly integrates the MDGs. This has been well supported by donors largely aligning behind its policies and tending to use more predictable forms of funding that allow the government greater policy space, though recent differences with donors demonstrate how even this predictability has its limits. Growth has been promising and the government has started to mobilise more domestic resources.

- **Côte d'Ivoire**, with a tradition of an open and liberalised economy, has been damaged both by the fall in commodity prices affecting its major exports and by government instability. Although it has maintained important levels of fiscal revenue throughout these crises, continuing donor support has also been needed to fill the resource gap and help restore confidence. Government planners continue to see the MDGs as a useful framework, in part because they provide a degree of continuity and help to ensure donor support through a troubled period. Inequalities and major social and ethnic divides are serious concerns alongside the urgent need to restore confidence and growth.

- **Peru**, after a period of internal conflict in the 1980s and 1990s, has built a national consensus for development and pursued a clear developmental path. The MDGs came after this national consensus was already established and so do not figure much in the government's thinking. Growth has been built on commodity exports, so world market prices and terms of trade are fundamental. Although there is still some donor funding, the country is more interested in knowledge exchange, technology and other forms of international cooperation. A key concern is persisting inequality.

A first conclusion from these four snapshots is the vital importance of international cooperation. The poverty agenda of the MDGs is clearly most important for the poorest countries and for the governments that are actively pursuing a developmental path, but the MDG framework and the donor support it brings have also been valuable in periods of instability and fragile governance. For Peru, now firmly on a path of stable growth and development, the MDGs are largely irrelevant, but international cooperation remains valuable and the pressing issue now is to find the knowledge and expertise to help the government cope with persisting social inequality. Although Rwanda supports the MDGs, the government is thinking beyond them and looking at a broader range of challenges.

All four countries are to various degrees all actively engaged in the global economy, albeit in very different ways. For Nepal, remittances are a key source of income and the country has found it hard to attract FDI, while FDI is increasing in Rwanda. Both countries need to increase and diversify their exports. For Côte d'Ivoire it is vital to restore stability in order to attract FDI, as is diversifying exports away from its two staple agricultural commodities. Peru also remains over-dependent on commodity exports, but FDI is coming in, migrants are returning and the country is now starting to attract European labour migrants.

Despite the different ways in which the MDGs were experienced and used in the four countries, the case studies found that they were seen as a valuable means to mobilise international efforts towards a common goal and that a post-2015 framework would thus be welcome. There was also a clear message that any new framework must be more broadly relevant to a wider range of national circumstances. In other words it should be designed in such a way that it covers the needs of middle-income Peru and Côte d'Ivoire just as much as low-income Nepal and Rwanda.

This quick sketch of some key issues arising from the four case studies shows that to be relevant to widely diverging national situations, the agenda for a post-2015 global development framework should be able to adapt and evolve both in terms of the goals it pursues and the tools it uses. Furthermore it should be sufficiently diversified and flexible to provide support for very different types of national needs and circumstances.

10.2 The case for a post-2015 framework

Main Message 1: A new global development framework is needed

The MDGs have been instrumental in mobilising global support for development, while the vision behind the Millennium Declaration remains highly relevant. A new development framework should build on these efforts. The scale and urgency of the challenges and opportunities facing developing countries also provide a strong rationale for a post-2015 agreement. Given their intrinsic international nature, the new framework would need to cover a range of global issues that affect development outcomes such as climate change and consumption patterns.

- For post-2015, world governments should agree on a new development framework that builds on the MDG endeavour and takes further the core objectives of the Millennium Declaration.

"In the four case studies, there was a clear message that any new framework must be more broadly relevant to a wider range of national circumstances. In other words it should be designed in such a way that it covers the needs of middle-income Peru and Côte d'Ivoire just as much as low-income Nepal and Rwanda."

CHAPTER TEN

> Any post-2015 framework for development will emerge in a world that has changed considerably since the MDGs were conceptualised.

The approaching 2015 deadline raises questions about what should replace the set of goals and targets embodied in the MDGs. Despite intense debate on the possible content and design of a new development framework, the international community should not take for granted that either the MDG timeframe will be extended or that a new framework will be agreed. Hence, it is important to be clear about the need and rationale for a new global development framework to succeed the MDGs.

10.2.1 Lessons from the MDG experience

There are several very positive lessons to be drawn from the MDG experience (Chapter 1). Above all the MDGs provided the first common and comprehensive framework to **monitor** global progress on a range of human development issues. Indeed, the monitoring of the Millennium Declaration commitments was one of the key objectives behind the creation of the MDGs. They implicitly recognise that economic growth is an important but insufficient measure of human progress, an insight that should be valued and retained.[146] The MDGs gradually gained currency in policy statements, programme documents and in research, and are now recognisable worldwide. They have become a key reference point on development issues. Arguably, the MDGs have also contributed to improving data collection and analysis. Without the MDGs, it would be harder to make the now standard observations of development progress at the global, regional and national levels. This is a strong case for retaining a framework to monitor progress on a range of fundamental development issues.

Of course, the MDGs are more than a monitoring tool. They were also created with a view to promoting concerted **global action** on key areas of human development. In that sense, the MDGs aimed to influence the policies and actions of developed and developing countries alike, albeit in different ways. Most notably, they have had an impact on donors. Levels of ODA increased substantially following the adoption of the MDGs (Chapter 7), with these additional resources largely concentrated in a few MDG-related sectors. The MDGs have not been nearly so effective in creating a positive momentum around other international cooperation policies. For instance, the Doha Development Round, which began in 2001, remains incomplete (Chapter 8), and migration policies did not even feature. While it is difficult to assess the precise impact on domestic policy-making, there is evidence to suggest that the MDGs have played an important role in certain cases. The four country case studies corroborate this view.

On the whole, the MDGs have had a positive impact on policy and practice, which substantiates the argument for a new global agreement. In fact, the current deadline provides an opportunity to correct some of the weaknesses of the MDG approach and attempt to better reflect the Millennium Declaration's vision of inclusive and sustainable development (UN, 2012).

10.2.2 Future challenges and opportunities

Any post-2015 framework for development will emerge in a world that has changed considerably since the MDGs were conceptualised. Global power is shifting and prominent new actors expect to be fully involved in the negotiations. The distribution of poverty has also evolved and social, economic and environmental trends pose new challenges.

Countries such as Brazil, China and India are now important economic and political forces (Chapter 4), while OECD countries have suffered economic setbacks. Many countries in Africa have experienced several years of sustained growth and as a group of nations Africa is now better organised to express its views internationally. A post-2015 framework will need to recognise the interests these different actors have in any successor to the MDGs and the contributions they can make to

146 In fact, the UNDP's Human Development Reports have made this insight explicit since their inception in 1990.

tackling global challenges. While some countries are already benefiting from stronger South–South relations, integrating this positive movement into a coordinated effort with the ODA approach of traditional donors requires new thinking and adjustments. Global economic imbalances may re-emerge in the absence of improved global coordination and thus threaten economic stability.

The graduation of LICs to middle-income status over the past 15 years means that in absolute terms there are many more people in MICs who are living in poverty (Chapter 5). At the same time and despite recent improvements, extreme poverty remains pervasive in SSA and particularly in fragile states, including in countries making more overall progress while vulnerable groups remain a shock away from falling back into poverty. In MICs, with their growing middle classes, income inequality is typically high and constitutes a key obstacle to faster progress on a range of development issues.

Over whatever timespan might be agreed, a post-2015 global development framework must expect to cater for various rather different sets of circumstances: continuing to support the poorest countries, where the eradication of extreme poverty may still be the main challenge, and fragile states with their own specific problems, but also supporting those countries that need to tackle the challenges of relative poverty and persistent inequality.

Future demographic, economic and environmental **trends** provide a stark reminder of the enormous challenges the world confronts (Chapter 6). Global demographic pressures are intensifying, and population ageing potentially threatens living standards in advanced and some emerging economies. The youth bulge in SSA can be seen as either a golden opportunity or as a destabilising threat. The outcome will hinge on whether the right enabling conditions are in place, such as the provision of high-quality education and the existence of productive employment opportunities. Similarly, fast urban growth in SSA and Asia presents significant opportunities, because it can facilitate service delivery and stimulate economic activity. However, it may also have negative effects if people cannot find decent work and public services cannot respond to increased demands (e.g. for decent and affordable housing and utilities).

Perhaps most important of all, various environmental 'planetary boundaries' will be breached if current consumption patterns persist, especially in the wealthier economies. Climate change and resource scarcity will severely undermine the prospects for the world economy and may create the conditions for social and political instability (ERD, 2012). While commodity prices might be a blessing for resource-rich countries, the resulting revenues need to be invested in diversifying the economy and promoting structural transformation (Chapter 8). Unless such global challenges are tackled urgently they will have knock-on effects in other areas and may well reverse achievements in reducing poverty. Inclusive and sustainable development implies an overall vision of what needs to be achieved in all these circumstances, but the way in which this vision is articulated and addressed will necessarily vary according to the specific circumstances.

The evidence gathered in this Report relating to the MDG experience and the future challenges facing developing countries thus provides a robust case for a **new global development framework**. The largely positive experience with the MDGs suggests that there is significant value in having a framework to monitor development progress and harness global support around a set of common objectives. Moreover, the growing threats and potential opportunities facing developing countries, especially the poorest and most vulnerable among them, underline the need for a resolute and progressive post-2015 agenda. Recent stakeholder surveys also suggest that in many developing countries there is considerable support for a post-2015 development framework (Vandemoortele, 2012).

“The largely positive experience with the MDGs suggests that there is significant value in having a framework to monitor development progress and harness global support around a set of common objectives.”

10.3 Beyond MDGs: the content of a new framework

This Report started from the premise that it was important to look at both the objectives that might be included in a post-2015 global agenda and the instruments that might be used to implement it. These two axes to the enquiry were schematically portrayed in the matrix diagram entitled *Beyond MDGs and Beyond Aid* (Introduction, Figure 1). Here the Report focuses first on the Beyond MDGs dimension of goals with a series of three key messages that are then explained in more detail.

Main Message 2: The new framework should promote inclusive and sustainable development

Poverty eradication remains a central objective, but its achievement and protection will require development strategies that are both inclusive and sustainable because social provisions are not enough to eradicate poverty in the long term. Economic growth is key but it needs to be socially inclusive and environmentally sustainable in order to eradicate poverty decisively. Exclusion and growing inequalities undermine sustained economic and social progress, while those living in poverty tend to be disproportionately affected by environmental degradation and adverse climate change.

- The design of a new framework should more clearly incorporate dimensions of inclusiveness (e.g. inequality, productive employment) and sustainability (economic, social and environmental). These dimensions should be clearly reflected in the targets and indicators.

Main Message 3: The framework must build on an updated understanding of poverty

A post-2015 framework will have to tackle absolute poverty and deprivation both from an income and a non-income perspective, thus relating to concepts of multi-dimensional poverty. It will also need to address issues of relative poverty, which incorporate aspects of social inclusion and inequality.

- The new framework should go beyond the $1.25 a day poverty definition to target better those who are deprived and those at risk of falling into income poverty.
- National poverty measures should be taken into consideration, since they are more relevant to country contexts.
- Other non-income poverty aspects should be better incorporated to capture a more varied picture of the multi-dimensional nature of poverty and better reflect poor people's experiences of deprivation.
- Inequality – both among individuals and social groups – needs to be addressed both to facilitate eradication of poverty and to promote inclusive forms of growth.

Main Message 4: A transformational development agenda is essential for this vision

A stronger emphasis on promoting structural transformation and particularly job creation will be crucial to foster sustainable economic and social development. This may entail a fundamental reconsideration of the current development paradigm to ensure greater coherence of global action. A transformational agenda will require a greater emphasis on processes and transition paths. For instance, a focus on productive employment would support those economic, social and political transformations, which in turn would promote greater inclusiveness and sustainability.

- A new framework should make explicit the need to complement investments in the social sectors (health, education, social protection) with investments in key infrastructure and the productive sectors in order to bring about essential structural changes.

10.3.1 Poverty eradication as part of inclusive and sustainable development

The MDGs were not conceived as a prescriptive global agenda for human development, even if they were sometimes interpreted as such (Vandemoortele, 2012). Nonetheless, there is a growing expectation that a post-2015 framework will have to articulate an ambitious and comprehensive vision for development. In that case, a new framework will have to reflect a purpose that goes well beyond the MDGs, as well as adapt to a changing global context.

This Report has highlighted several potential elements of a post-2015 development agenda. Some issues that were neglected or underplayed in the MDG framework include the multi-dimensional nature of poverty, inequality, economic growth and the production sectors, employment and environmental sustainability, among the many others included in the Millennium Declaration (Chapter 1). In order to better reflect a vision of inclusive and sustainable development, a post-2015 agreement should incorporate these aspects. In particular, the need for a broader understanding of the multiple dimensions of poverty notwithstanding, the fact that poverty eradication should remain central. A greater focus on inclusiveness will be critical to tackling horizontal and vertical inequalities, which often undermine progress and threaten stability. Environmental sustainability needs to be reconsidered, especially in its links to sustained economic growth and poverty reduction. Finally, the achievement of this vision will require a fresh and bold transformational agenda. The following paragraphs provide a brief rationale for their inclusion in a post-2015 framework. It is, however, beyond the scope of this Report to propose a list of potential development goals, targets, or indicators.

Poverty eradication remains an imperative for the international development community, although the understanding of poverty needs to be reconsidered. The $1.25 a day measurement of extreme poverty provides a useful benchmark for evaluating living standards since it allows for international comparisons across countries and over time. It also has important drawbacks. As highlighted in Chapter 5, in many parts of the world, such a low poverty line is of limited relevance. While there is some value in retaining internationally comparable poverty lines, there is also a rationale for complementing them with national poverty lines that can better capture local contexts.

Poverty lines also tend to create artificial divides between people with identical living standards who are just below or above the line. This tends to mask vulnerabilities, and can be particularly misleading if there is a high concentration of people just above the poverty line. Poverty is also a dynamic phenomenon, with many people moving in and out of poverty over the course of their lives, often frequently. It is thus important to consider multiple and differentiated poverty lines in order to obtain a more complete and accurate picture of the nature of poverty.

Greater inclusiveness requires not only the eradication of extreme poverty, but also a reduction in relative poverty, since both are indicative of economic and social exclusion. Relative poverty matters for social justice, as it is closely linked to inequality, but also because it undermines people's ability to participate fully in society. Given recent trends in the reduction of extreme poverty, relative measures have become much more important in many contexts.

Non-income dimensions of poverty should also be considered. While income is an important means to achieve decent living standards, it is not an end in itself. In fact, because low incomes often do not correlate well with other dimensions of deprivation, such as capabilities, it is important to also consider non-income measures of poverty. A

“Poverty eradication remains an imperative for the international development community, although the understanding of poverty needs to be reconsidered.”

> Economic growth and poverty eradication cannot be sustained without regard for the environment. A post-2015 framework must consider the environmental, economic and social dimensions of sustainability.

multi-dimensional perspective of poverty (Section 5.3.1) that better reflects the experiences of those concerned provides a better understanding of the root causes and suggests a more nuanced array of entry points to tackle the multiple deprivations people living in poverty often face.

Poverty eradication should thus remain a central focus of a post-2015 development framework, without which it is impossible to realise a vision of inclusive and sustainable development. In particular, the eradication of extreme poverty should be an urgent priority. At the same time, a new global framework must be relevant to different national realities. For instance, while extreme income poverty remains a considerable challenge in SSA and South Asia, and parts of other regions, relative income poverty appears to be a better reflection of the concerns in many emerging and transition – and indeed advanced – economies. In addition, there is a growing recognition that income-based poverty measures fail to capture the full extent of deprivation and exclusion. Hence, concepts of multi-dimensional poverty and wellbeing are critical to changing how poverty is understood, measured, and tackled.

Inequality should be explicitly tackled in a post-2015 framework. The MDG targets have often been criticised for focusing on average indicators, which mask the different rates of progress between countries and among different groups of people. In fact, the evidence suggests that those who have not benefited from progress towards achieving the MDGs tend to be from vulnerable social sectors – such as the poor, women, youth, and ethnic minorities. Growing in-country inequality thwarts people's ability to participate actively in the economy and society, which further entrenches poverty. Hence, a post-2015 framework should explicitly measure these gaps and provide incentives to reduce inequality of opportunities and of outcomes with a view to achieving inclusive and sustainable development. This may require the disaggregation of critical post-2015 indicators, such as those related to income opportunities (e.g. employment) and access to basic services, with a view to monitoring and tackling the specific problems facing vulnerable social groups. Measures to promote inclusive growth and ensure an adequate redistribution should therefore be high on the agenda.

Box 10.1 illustrates how Peru, an UMIC, is dealing with issues of economic and social exclusion. Poorer countries may be unable to pursue similar strategies due to financial, human, and technical constraints. As the Peru case study (Barrantes and Berdegué, 2012) emphasises, the international community should continue to support these countries to address social exclusion (e.g. by helping to establish and improve social protection schemes).

Another vital element relates to environmental **sustainability**. MDG7 has generally been regarded as fairly weak and poorly designed, mainly due to the lack of well-defined targets (with the exception of those on water and sanitation) and disagreements on principles such as 'common but differentiated' responsibilities. Current evidence on the potentially devastating effects of adverse climate change and environmental degradation emphasise the extent and urgency of the threats that must be addressed in a new framework (see Chapter 6). For instance, people living in poverty are disproportionately affected by environmental changes, since these often have a direct impact on their livelihoods. Economic growth and poverty eradication cannot be sustained without regard for the environment. In order to promote inclusive and sustainable development, a post-2015 framework must consider the environmental, economic and social dimensions of sustainability, as well as their strong interactions in terms of risks and vulnerabilities.

10.3.2 Pursuing a transformational agenda

Some observers have argued that the conceptualisation of development as 'poverty eradication' may have led to an over-simplification

Box 10.1 Economic and social inclusion

In 2011, Peru's government created the Ministry of Development and Social Inclusion (MIDIS), with a view to reducing inequality of opportunity. Although the country has experienced strong economic growth in recent years, the benefits are not evenly shared. In 2001, 50% of urban residents were poor, compared to 77% in rural areas. By 2010, urban poverty had declined to 19% and rural poverty to 54%, which illustrates the slower absolute and relative progress in rural areas. The creation of MIDIS was a key initiative to coordinate efforts to minimise social exclusion, partly by linking social programmes to economic opportunities.

MIDIS has three main policy goals. The first is to promote universal access to public services, focusing on the rural poor and vulnerable populations, mainly through temporary cash transfer programmes. The second is to increase earnings, food security and productive employment, partly via capacity-building programmes. The third is to develop a system of continuous learning and quality control through permanent monitoring and evaluation. MIDIS inherited three programmes and created two new ones to achieve its goals. JUNTOS is a conditional cash-transfer (CTT) programme designed to minimise the intergenerational transmission of poverty by promoting children's education. CUNA MAS provides childcare and family support to improve the integral development of children below three years of age who live in poverty. PENSION 65 provides cash transfers to poor senior citizens in order to reduce vulnerability and allow families to spend resources on productive activities. FONCODES promotes local development, taking a territorial approach in four areas of intervention: production, capacity building, infrastructure development and territorial interconnection. Finally, PRONAA was created to prevent malnutrition, particularly for poor children.

MIDIS aims to streamline these programmes in order to provide better social services. The main challenges are to consolidate targeting, strengthen interventions with a territorial approach, promote results-oriented management of public funds, align strategic objectives within social programmes, focus on the specific characteristics and needs of potential beneficiaries, and link efforts to work toward common objectives.

Sources: Barrantes and Berdegué, 2012; MIDIS, 2012; World Bank, 2012b

> "Those who have not benefited from progress towards achieving the MDGs tend to be from vulnerable social sectors – such as the poor, women, youth, and ethnic minorities."

of the challenges involved (Fukuda-Parr, 2012; Chang, 2010). The MDG framework may have diverted attention from more fundamental debates, such as the prevailing development paradigm and the structural causes of poverty and inequality. This poses questions for the sustainability of recent achievements, since the MDGs did not seek to provide a **transformational agenda** to promote inclusive and sustainable development, nor to change the discourse on development (Nayyar, 2012; Chapter 2). The MDGs also failed to recognise the importance of transition paths. While achieving better health and education are important objectives in themselves, and justify strong investments, history suggests that making sustainable improvements in human development requires a significant transformation of economic and social structures, e.g. a move from agriculture-based activities towards more productive sectors, such as manufacturing and modern services. This

> A basic premise of this Report is that discussions on a new post-2015 development framework should not be only about goals but also about instruments.

'structural change' is required to sustain economic growth and generate productive employment, without which development cannot be realised (Chapter 8). In fact, Chang (2010) described the vision behind the MDGs as 'development without development', since they overlooked the need to transform a country's productive capacity.

Decent and productive employment is at the centre of these economic, social and political transformations. Jobs are transformational, since it shapes 'what we earn, what we do, and even who we are' (World Bank, 2012a). The incomes derived from labour can help to reduce poverty and vulnerability, while equitable access to productive employment opportunities is vital to reduce inequality and thus tackle economic and social exclusion. Being in employment is associated with greater social and political participation. Recent economic growth patterns have not been sufficiently inclusive, partly because they have failed to generate sufficient productive employment. Indeed, many countries have experienced a perverse trend, whereby people move out of subsistence farming (usually a low-productivity activity) to engage in informal activities in the urban sector that have even lower productivity potential (McMillan and Rodrik, 2011). This growth-reducing structural change undermines the prospects of developing countries to sustainably improve the wellbeing of their citizens.

Employment concerns are particularly acute for young people. Many African countries are experiencing sizable demographic transitions, with a large number of young people expected to enter the labour force in the coming years. This so-called youth bulge could generate an important demographic dividend, which could trigger positive economic, social and political transformations. However, this will depend on certain basic preconditions being met, in particular high-quality education and good job opportunities. Access to productive and decent employment contributes both to raising the incomes of the most vulnerable, and to improving other dimensions of wellbeing (such as self-esteem) and social cohesion. The failure to tackle these issues is likely to fuel social and political unrest, and have enduring consequences for future generations (see Box 10.2).

10.4 Beyond Aid: implementing a new framework

A basic premise of this Report is that discussions on a new post-2015 development framework should not be only about goals but also about instruments. The MDGs came to be very closely associated with ODA. While this is clearly important as a source of development finance, making development progress is not just about resources. It is also about policies and public goods that create an environment that is conducive to development. The Report has identified several 'beyond aid' instruments that might be applicable to any new global development agenda, including financial, trade and migration policies. This section focuses on how each of these can contribute to inclusive and sustainable development individually and how different policy areas interact and complement each other. The section also highlights challenges to collective international action in coordinating approaches and achieving policy coherence, and considers new ways to organise global policies to support inclusive and sustainable development.

The focus is primarily on the international level because a post-2015 framework has the potential to influence norms and standards for addressing international collective action (Hulme and Fukuda-Parr, 2009). Such policies often set the context in which national governments operate and can be significant in determining development progress. Global or regional standards, policies and regulations can have a strong impact on national development trajectories. Trade policies, international investment standards or the lack of international regulations on financial flows might

Box 10.2 Youth Employment

About 85% of global youth live in developing countries and while the population of most continents is set to age, in the 21st Century in Africa youth numbers will continue to significantly expand. Across the world young people are three times more likely to be unemployed than other adults.

The world's youth are therefore central to tackle pressing global challenges. Young people often lack access to productive employment opportunities and resort to informal and precarious jobs to avoid unemployment. Their economic and social exclusion leads to growing inequality, poverty and social instability. For example, poor employment prospects for young people were a key trigger of the Arab Spring. In Côte d'Ivoire, it has facilitated the manipulation of disillusioned youth by political elites, thus promoting political instability. Young people tend to be disproportionately concentrated among the unemployed, but also overrepresented in the lowest paid and more irregular employment categories. The youth employment challenge relates to both their exclusion from employment (and the economic process more generally) and the terms of inclusion in the labour market.

It is therefore crucial to adopt strategies that promote the economic and social participation of youth, and ensure their voices are heard. This could entail investing in technical and vocational education and training to address skill mismatches and support demobilisation programmes in the aftermath of armed conflicts to strengthen social cohesion. Temporary employment programmes (such as public works) can provide income and skill development, as well as a sense of purpose. Entrepreneurship programmes can ensure that their talent and energy are not squandered. However, generating productive employment and enabling equitable access to those opportunities requires a broad range of policies beyond the traditional labour market sphere. Coherent macroeconomic, sectoral, labour market and social policies will be vital to realise a vision of full-employment and decent work for all.

A post-2015 framework could tackle the youth employment challenge in several ways. For instance, its importance could be acknowledged through the inclusion of relevant targets and monitoring indicators (or even a specific goal). Alternatively, youth concerns could be mainstreamed in different goals (by providing age-disaggregated data), in order to highlight existing inequities. As there are strong overlaps with other areas (e.g. education), a framework could be implicitly designed with these challenges in mind. Finally, there could be strong statements and commitments on the urgency of addressing these challenges, linking them with a vision of inclusive and sustainable development.

Sources: Oya et al., 2012; Mathiva, 2012; CIRES, 2013; van der Hoeven, 2012; OECD 2012

“Decent and productive employment is at the centre of economic, social and political transformations. Employment concerns are particularly acute for young people.”

> **"Progress on MDG8 has been disappointing, which makes the question of enhancing the instruments available for advancing development one of the most pressing issues."**

encourage, discourage or impede development progress. For instance, the failure of international financial markets to address the issue of illicit financial flows can present a major obstacle to strengthening national-level taxation.

10.4.1 Making use of all available instruments

Although the MDGs are a list of goals on development outcomes they also include a call for progress on the use of certain instruments. These are essentially grouped under the slogan of the 'global partnership for development' evoked in MDG8. This includes targets on ODA, international trade and financial systems and debt sustainability. The discussion in this Report suggests reaching agreements on international collective action in such areas is of vital importance to realising the vision of inclusive and sustainable development articulated in the Millennium Declaration. Progress on MDG8 has been disappointing, which makes the question of enhancing the instruments available for advancing development one of the most pressing issues for any new global framework.

The Report's main messages on this 'beyond aid' discussion on instruments are summarised below:

Main Message 5: The global development framework should support country policy choices and development paths

The policy space of governments should be respected both in determining national development priorities and in other areas such as development finance, trade and investment and migration. A global framework on development should support such aims and be designed to recognise that flexibility is required to cater for diverse national circumstances.

- All donors, SSC providers and others involved in international cooperation should respect the principles of national ownership and alignment established in the Aid Effectiveness HLF process and most recently confirmed in its Global Partnership for Effective Development Cooperation.
- International partners should appreciate the importance of investing in solid diagnoses and analysis of the domestic realities and development priorities of the developing countries they support if they are to maximise the effectiveness of their contributions

Main Message 6: The deployment of a broad range of policies 'beyond aid' is essential.

Policies in areas such as trade and investment, international private finance and migration have huge effects on development outcomes and need to be designed accordingly and in a coherent manner. ODA will continue to be important, but it will need to be used in a more focused and catalytic manner and to leverage other appropriate development finance.

- The principle of Policy Coherence for Development (PCD) should be a core working approach of a new global development framework.
- The importance of instruments other than development cooperation should be recognised in a new global framework and where possible specified with goals and targets.

Main Message 7: A range of development finance resources will be required

Domestic resources should be the main source of finance for development not least because they provide the greatest policy space. Private domestic investment and FDI are also important and should be supported. Providers of SSC should be encouraged to strengthen their contribution as it offers additional choice and opportunities to partner countries. Levels of ODA should be maintained and ideally increased and ODA should be allocated in ways that optimise its impact. To improve the effectiveness and complementarity of different types of development finance, it is important to encourage transparency regarding financial flows.

- International development partners (traditional donors, SSC providers and others) should support governments in their efforts to raise domestic resources.
- Donor countries should improve the level and the effectiveness of their development assistance.
- Mechanisms should be established to enhance the transparency of all international development finance to improve its deployment.

Main Message 8: More extensive international collective action is required
Achieving the vision of the Millennium Declaration will require considerably greater international collective action through global public policies. Such collective action is essential to establish an international environment that is conducive to inclusive and sustainable development and tackle global issues that affect the ability of individual countries to achieve development outcomes (e.g. in the areas of development finance, trade and investment, and migration).

- Greater international collective action is needed to realise the vision set out in the Millennium Declaration. Specific areas in which there is an urgent need to establish or improve international regimes include trade, financial regulation, migration and climate change.

10.4.2 Protecting policy space and ownership

While there are strong international, regional and national linkages, the four case studies (Chapter 2) showed that development progress depends primarily on national **institutions, government policies and policy reforms** – all factors that can either encourage or obstruct economic growth and social distribution. This underlines the importance of sufficient national (and also sub-national or local) 'policy space', which refers to the need for all countries to have the opportunity to adopt policies and strategies that they and their various stakeholders develop, own and implement. The national level is also the cornerstone of all efforts for improved international cooperation (Kaul, 2013) and national governments should therefore be free to determine their own policies and development trajectories.

A post-2015 framework will need to balance these linkages from the national to the international level, especially in overcoming coordination issues that can be solved through better international cooperation. Kaul (2013) suggests that it is important to stress that 'in areas of policy interdependence and GPG-type challenges effective international cooperation is in states' own enlightened self interest', yet states are often reluctant to engage in cooperation because they are wary of it restricting their sovereignty. She proposes the notion of 'smart sovereignty' as a way to overcome this reluctance. The principle of smart sovereignty should apply to all governments, both to their duties towards their own citizens and to their responsibilities in external relations. It suggests that national policy-makers should not shun international cooperation, but engage in it selectively depending on where it represents the best means to meet national priorities and give their citizens better development and growth conditions. Governments have the freedom to pursue their own policies, but need to respect the sovereignty of other countries or groups of countries. This echoes the notion of PCD whereby governments must ensure that their policies (in whatever domain) do not undermine the development opportunities for other countries.

> "A post-2015 framework will need to balance these linkages from the national to the international level, especially in overcoming coordination issues that can be solved through better international cooperation."

At the national level, ODA is clearly vital to many poor countries in tackling development, but greater progress is achieved where governments take the lead and donors take more of a back seat, align with the government's policies and use country systems.

This Report's four case studies illustrate that the most aid-dependent countries and those needing

> This Report has highlighted the need to gear trade and investment policies towards achieving structural economic transformation.

external support to help them recover from periods of fragility, can at times feel constrained by donors' agendas. ODA and the political support that comes with it can be useful in periods of fragility. As governments become more secure, however, growing stability encourages trade and investment and opportunities for other types of finance increase, as a result of which the relative importance of ODA declines. Rather, other international links, such as trade and investment become more important, as does cooperation in areas such as knowledge exchange and technology transfer.

While it is inevitable that large donors in a given country will tend to have more influence, they also need to exercise it responsibly and to apply the principles of ownership and alignment that have been well developed since the 2005 Paris Declaration on aid effectiveness and most recently reconfirmed in the Global Partnership for Effective Development Cooperation of the Busan HLF. As also noted in the New Deal agreed in Busan, the need to respect the issues of ownership and policy space is particularly acute in the case of fragile states and is one of the key points in the g7+ group of fragile states' efforts to formulate Peacebuilding and Statebuilding Goals (PSGs) as a contribution to the post-2015 debate (Box 10.3).

10.4.3 International regimes in trade, investment and migration

This Report has highlighted three major instruments for achieving inclusive and sustainable development: development finance, trade and investment and migration. These three areas are not exhaustive. Many others could not be addressed for reasons of time and space. While each policy area makes its own contribution, it is also important to consider their interactions and any potential conflicts among them.

Trade and investment, as argued in Chapter 8, are fundamental to increasing the incomes and living standards of people living in LICs and LDCs. In particular, this Report has highlighted the need to gear trade and investment policies towards achieving structural economic transformation. While they must be tailored to each national situation, the global context set by relevant international agreements will be equally important.

Box 10.3 The Peacebuilding and Statebuilding Goals

The g7+, a membership group of fragile states, have started to formulate goals with specific relevance for fragile states in the International Dialogue for Peacebuilding and Statebuilding. These were later refined in the New Deal at the Busan HLF, which provides a new agreement on engagement in fragile states and represents a further step towards mutual accountability and the increased use of country-led strategies and systems.

The New Deal focuses attention on five Peacebuilding and Statebulding Goals: (i) legitimate politics: foster inclusive political settlements and conflict resolution; (ii) security: establish and strengthen people's security; (iii) justice: address injustices and increase people's access to justice; (iv) economic foundations: generate employment and improve livelihoods; and (v) revenues and services: manage revenue and build capacity for accountable and fair service delivery.

Sources: g7+: www.g7plus.org; The New Deal: http://g7plus.squarespace.com/new-deal-document

At the multilateral level, the link between trade and development was emphasised in the DDR, although negotiations have been disappointingly slow and agreement remains elusive. Chapter 8 suggests that multilateral trade negotiations should move beyond the DDR, and include other issues such as trade and finance, and trade and climate change. In order for the WTO to play such a role there may be a need for its agenda to move beyond its narrow focus on trade liberalisation to include a wider set of trade policies that could help to solve these global challenges. The WTO should remain a guardian of trade rules, norms and knowledge that are supportive of development, but deeper trade integration is more likely to take place at the bilateral and regional level. Hence, the multilateral rules and norms represented in the WTO should be built up from below.

At the international level there is already a notable South–South shift in trade and investment flows. These shifts are re-orienting the global division of labour, with Asian countries becoming a global manufacturing hub. Many Asian LDCs have actively integrated into these new production networks, and have picked up production processes as they moved downstream to maintain price competitiveness. The same trend needs to be encouraged among LDCs in Africa, which continue to trade primarily in commodities. The current investment policy environment is also highly fragmented, and there is a lack of linkages between investment policies and trade, environmental, and financial policies. This calls for a more coordinated investment policy system and for enhancing coordination between investment policy and other policy areas, such as addressing the financial crisis, food security and climate change.

Overall, there is a need for a more diverse set of international policies on trade and investment in order to achieve inclusive and sustainable development, although it is clear that factoring these into a post-2015 development agenda could pose challenges regarding coordination and coherence with other policy areas.

Migration: Chapter 9 showed that the significant levels of remittances from migrants working abroad already play a key role in financing development. Official remittances to developing countries in 2009 were nearly three times the amount of ODA and almost as large as FDI receipts. Informal remittance flows are far higher. The chapter argued that freer labour migration could both encourage global economic growth and reduce poverty in migrant-sending countries. Yet, there is currently no international regime in place to govern such mobility.

The chapter argued for establishing such a regime because national or bilateral policies create externalities that can either harm or support development objectives (Farrell and Gänzle, 2012). A system to govern international migration could provide a framework to help maximise the developmental impact of migration policies, while also addressing the challenges. The lack of such a regime depresses legal migration, encourages informal or irregular migration and malpractice and limits the rights of migrants. Although unemployment levels in richer countries have risen following the global economic crisis, thereby reducing somewhat the pull factors for labour migration, there is still a wage gap between rich and poor nations. This is likely to go on widening given the growing labour force and stagnating employment opportunities in many poorer countries. Environmental changes may become another factor. To these push factors can be added the other pull of an ageing demographic structure in rich countries.

Any post-2015 framework should acknowledge migrants' rights and the potential benefits of greater global labour mobility in relation to reducing poverty and addressing demographic change. The framework could underline that the governments of migrant-sending and migrant-receiving countries

“Any post-2015 framework should acknowledge migrants' rights and the potential benefits of greater global labour mobility in relation to reducing poverty and addressing demographic change.”

“As sources of development finance expand and diversify, it will be vital to ensure complementarity and effective coordination between different approaches.”

have a responsibility mitigating the negative effects of labour mobility, refer to the links between migration and other important development issues (e.g. climate change and employment), and stress the importance of collecting better data on migration and monitoring compliance with labour rights. The framework should point to the need to overcome the resistance among migrant-receiving governments to establishing an international regime to govern temporary migration for low-skilled workers, which could make a significant contribution to the ambition to eradicate global poverty.

10.4.4 Managing diversity in development finance

As argued in Chapter 7, any post-2015 global development framework will call for more financial resources, and yet only a small handful of donors have met their existing ODA commitments. Widening the goals of the international development agenda will increase the pressure to provide the necessary finance and to ensure its development impact. The cost of adaptation to climate change in developing countries alone is expected to between $70 billion and $100 billion a year between 2010 and 2050 (World Bank, 2010). A wider global public goods approach to development could attract more development finance (Severino, 2012), although it relegates the eradication of poverty to one goal among other competing claims on resources. Adding new and broader goals to the global development agenda will inevitably mean reallocating existing development finance, and resolving tensions between different goals (e.g. economic growth versus environmental protection). From this perspective, two of the principal challenges regarding development finance post-2015 are complementarity and additionality.

As sources of development finance expand and diversify, it will be vital to ensure **complementarity** and effective coordination between different approaches. There is a risk that an increasingly fragmented development landscape may result in too many new structures and systems, which would make it far harder to harmonise development finance. A lack of coordination would lead to duplication, inefficiency and higher transaction costs. It will also be important to determine how new sources of development finance should be ‘counted’ in order to reduce the risk of substitution and ‘double-counting’ and ensure **additionality**. Although many forms of external finance have more than one objective, such as development and climate, they need to be counted and assessed separately next to different international commitments[147].

These challenges have to be addressed across the full spectrum of development finance in order to optimise the use of resources and achieve the greatest impact. Key points on development finance in the post-2015 context include:

- **Domestic resources** should be the main source of development finance as it is the best guarantee of policy space. In order for governments to establish efficient and better performing tax systems their efforts need to be supported by international regimes that address issues of transparency, illicit capital flows and capital flight.

- **ODA** will remain an important source of finance for the poorest countries. Although it is unlikely that ODA levels will be increased in the near future (OECD/DAC, 2012b), the commitment to do so still stands. There is still significant scope to increase the impact of ODA through the aid effectiveness agenda, including using it to leverage other forms of development finance. European donors have a real opportunity to prevent aid fragmentation through closely harmonised and even unified approaches (joint programming, division of labour etc.).

147 The UNFCCC agreement is that resources provided for climate change adaptation and mitigation should be ‘new and additional’ to existing ODA commitments (UNFCCC, 2009, Decision -/CP.15). The G77 defend this position strongly arguing that the ODA commitments are needed to fund development and climate change is an additional factor on top of the development challenges.

- **South-South Cooperation** resources should ideally be better harnessed to support a new global development framework. SSC provides additional choice and valuable opportunities for partner countries, but there is less knowledge about its specific development contribution. Greater transparency regarding development-related SSC would facilitate complementarity with other sources of development finance and enhance partner governments' policy space.

- **Aid and development effectiveness** lessons from the Paris to Busan HLF process can be applied to all forms of development finance. Moreover donors can gain credibility by applying these standards to non-aid instruments and approaches (e.g. export credits from OECD countries). Increased transparency and predictability of all international financial flows is an important precondition to increasing their impact on achieving development goals.

- **Innovative financing** remains limited in volume, but pilot projects have demonstrated the potential of approaches such as blending, special purpose bonds or global taxes. Overall, there is a need for harmonisation, simplification of delivery mechanisms, needs-based allocation, coherence between the use of ODA and other sources of development finance. A characteristic of the development finance landscape is that international financing is less dominated by North–South flows but is becoming more universal (Severino, 2012).

- **International financial stability** is vital in order to ensure and sustain development gains. The global financial and economic crisis has reversed some of the progress made towards achieving the MDGs. Any post-2015 development framework would be much assisted by a significant commitment to reform the international financial and monetary system. The volatility of public and private international finance is a major problem for poorer countries as it undermines their policy space and ability to take forward their national development policies. Richer countries could help by increasing the predictability of ODA and other support and by exerting better controls on private international financial flows. Taking strong measures to curb illicit flows would be particularly helpful in enabling governments to mobilise domestic resources, including via taxation.

Integrating these sources and policies of development finance in a post-2015 agenda should be based on improving effectiveness and complementarity. It will be important to explore alternative and complementary frameworks for recording flows of development finance and cooperation activities that may not fit conventional definitions of ODA and other development assistance. More comprehensive reporting on development finance should be considered, including reflecting on the role of ODA (Vanheukelom et al., 2012; OECD/DAC, 2012a). Any new framework should ensure that those providing development finance are fully committed to transparency and accountability.

10.4.5 Encouraging international collective action

Advancing a new global framework for development involves improving international cooperation and collective action. In a 'beyond aid' post-2015 context, a framework for international cooperation will need to bring together a broad range of actors, instruments and policies, of which only a minority are predominantly development-oriented. While the formulation of a new development agenda might present an opportunity to set norms for global cooperation in a development-friendly way, there are also obstacles to gearing different instruments towards the achievement of inclusive and sustainable development.

The two main challenges for collective action are the coordination of international actors and

> "Advancing a new global framework for development involves improving international cooperation and collective action."

> “Global public policies could be developed into a web of international regimes that support the provision of global public goods and the mitigation or reduction of global public ‘bads’.”

the coherence of different policies. **Coordination** depends on all relevant parties abiding by jointly agreed rules and standards in their external policies in order to avoid duplication and to promote synergies. Modes of coordination need to reflect an international reality that is shaped by diverse actors, takes place at many different levels and involves many issues at the same time. **Coherence** demands that national and international policies should be in tune with globally agreed goals. Coherence is difficult to achieve when commitments to long-term global objectives conflict with more immediate national preferences or priorities. Both challenges are likely to become more important in the process of formulating any post-2015 framework, and there is an urgent need for improvement on these fronts. Without progress on coordination and coherence, and more specifically on **PCD**, the opportunity to set post-2015 development goals may be missed and international cooperation will not extend ‘beyond aid’.

It is crucial to solve these problems of international collective action so as to sustain a global framework for development that not only fights poverty, but also shapes **global public policies** for providing global public goods. Collective action must overcome market failures, such as incentives for some to ‘free ride’ on global efforts and not contribute their share, or reluctance to enter into any obligation requiring major, long-term financial commitments. Equally problematic is when countries fail to observe the principle of ‘smart sovereignty’ (see Section 10.4.2), or to recognise that if collective action is going to work, they may need to constrain their own sovereignty and policy freedom where this may conflict with the sovereignty and policy freedom of others.

Global public policies could be developed into a web of international regimes that support the provision of global public goods and the mitigation or reduction of global public ‘bads’. International regimes typically provide rules, standards and structures for a given policy area, such as trade or global financial flows. Recent global financial instability, for instance, and its consequences for developing regions, highlighted two realities. First, policies in ‘beyond aid’ areas are crucial for development progress everywhere. Second, although national policies are the key to progress, action at the global level is needed to complement national efforts.

Various studies (Cepparulo and Giuriato, 2009; te Velde et al., 2002) that describe the relationship between foreign aid and GPGs have shown that an increasing share of ODA over the last 20 years, both bilateral and multilateral, has been devoted to financing GPGs. This trend is partly due to linkages between the provision of GPGs and the MDGs. For instance, the way that funding efforts have been organised for achieving MDG6 on combating HIV and AIDS, malaria and other major diseases is effectively providing a global public good. Global public policies require increased collective international action in terms of more financial resources and longer-term commitments. Steering efforts towards collective global action becomes more complicated as numerous, heterogeneous actors have their own agendas and focus on short-term results. At the same time, this diversity can generate more financial resources and innovative instruments and mechanisms for providing GPGs. As more development finance is earmarked for tackling specific global public ‘bads’, greater coordination will be required to ensure the international support system works without leading to duplications or omissions.

Models for orchestrating the complexity of the development landscape include the ecosystem approach (Barder, 2009), which consists of a light structure for international cooperation organised around a set of guidelines, responsibilities and accountabilities that shape interaction among different actors. In contrast, the *hyper-collective action approach* (Severino and Ray, 2010) views multilateral organisations as agents of collective action. These agents would in turn be embedded in a global system characterised by knowledge, information and evaluation initiatives to improve convergence and new generations of coalitions and networks. ODA will not become obsolete in either of these models. On the contrary, it will continue to be an important, complementary instrument in the fight against poverty. In addition, it can play a greater role in leveraging collective action and encouraging convergence.

The problem of steering a complex development landscape towards greater convergence will not disappear with any post-2015 agenda. The GPG approach is a driving paradigm in the transformation of international cooperation in this context (Severino, 2012). The most visible expression of this transformative impact can be found in the proliferation of sector-specific financial instruments, which create new challenges of coordination and coherence. These consist in ensuring complementarity and additionality and guaranteeing that cross-cutting issues such as building capacity in developing countries are not neglected.

10.5 The design of a post-2015 framework

There is considerable debate about what a new framework might look like. Broadly speaking there appear to be three main options: (a) an extension of the current framework with minor adjustments to reflect a changing context and purpose; (b) major modifications to the framework; and (c) a completely new design, perhaps without goals and targets but focused on transformative structures and processes (Vandemoortele, 2012).[148]

In terms of scope, an MDG-plus scenario might cover a broader set of issues, while an MDG-minus scenario would minimise the duplication and overlap of targets (Nayyar, 2012). Following the outcome of the 2012 'Rio+20' conference, there is also much discussion on the possible interactions between the post-2015 and SDG processes (Melamed, 2012). While it is beyond the scope of this Report to suggest a specific design, this section provides a critical analysis of some of the main issues to be considered.

10.5.1 Goals and targets

The MDG framework was conceived as a global monitoring tool, with an implicit objective to influence and shape international policy-making. Its design consists of a set of eight global goals and 21 targets, which were originally intended only as global benchmarks. Once adopted, however, their application to regional and national contexts was probably inevitable, even in UN reports on the MDGs. These disaggregated exercises are problematic because the targets were derived by extrapolating from global historical trends, and were therefore disconnected from what might be feasible at the country or regional level. One of the key challenges for a post-2015 framework is to retain the attractiveness of global goals, while designing them in such a way that they are relevant to specific domestic realities and needs. As this Report's country case studies clearly show, 'one size does not fit all'. Linking a new global framework to national contexts will be crucial to achieve tangible development progress (see Chapter 2). This section offers some insights into how this could be achieved, which could involve combining **global goals and national targets**.

The MDG experience provides clear evidence that a global framework has the potential to increase and focus political and economic efforts around a particular set of issues. This is likely to be the case if a framework is kept fairly simple (with a limited number of goals) and includes intuitive and quantifiable targets, which are measured through

> **"One size does not fit all. Linking a new global framework to national contexts will be crucial to achieve tangible development progress. This could involve combining global goals and national targets."**

148 UNECA (2012) also identified similar options: (a) retaining the MDGs in their current configuration (based on the premise that the implementation period was too short); (b) reformulating the MDGs in order to address new challenges (MDG-plus); and (c) developing an alternative framework, which may include goals specifically focused on structural transformation.

> "The key challenge would be to develop indicators that give positive incentives, without being too prescriptive or limiting policy space."

well-established indicators in order to ensure their robustness. At the same time, this type of framework also involves important trade-offs, as is clear from experience with the MDGs.

First, while the MDGs contributed to greater awareness and advocacy of development issues (and to a considerable extent affected donor behaviour), their impact on domestic policy-making is more disputed. This is partly explained by the lack of domestic ownership of the targets and their low relevance to national planning. Hence, any post-2015 framework should be the outcome of a more participatory process, and be designed in a way that is relevant to and compatible with different national circumstances and priorities.

Second, the choice of targets and monitoring indicators requires careful consideration in order to avoid creating perverse incentives or unsatisfactory results.[149] In other words, the targets should adequately and directly reflect their intended purposes. In addition, a post-2015 framework could include some process-based targets and indicators alongside more conventional indicators based on inputs and outcomes. The key challenge would be to develop indicators that give positive incentives, without being too prescriptive or limiting policy space.

At the same time, setting global goals is likely to appeal to the international development community as the MDGs did. This is important because of the need to continue monitoring the application of the values and principles of the Millennium Declaration. The creation of a (fairly) comprehensive and comparable global monitoring framework is a key legacy of the MDGs.

Of course, few targets and indicators will be relevant to all countries, and none will be equally relevant in every case. Although poverty concerns, broadly defined, resonate across the entire world, measures of relative poverty are likely to be more pertinent in an increasing number of countries. Moreover, the MDG experience shows that adopting common targets is inappropriate for countries with different starting points and challenges, since they may entail very different levels of effort and indeed responses.

Any targets and indicators adopted must be relevant for local circumstances, especially if they are to incentivise and mobilise domestic action. In this sense, **national targets** are more likely to increase domestic ownership (and legitimacy) of a global framework and improve accountability.[150] Such targets could be set through national consultation processes and embedded in national planning strategies, which would support governments' public accountability on their achievement. This would also help ensure that targets are realistic and based on domestic needs and priorities, and so would be more likely to encourage relevant action.

National targets could be aggregated in order to calculate a global target value. This last step could be technically complex (especially because, depending on how the targets are set, it may have to take into account demographic projections) and will take time, but this is a fair price to pay to avoid the simpler but much criticised top-down approach of the MDGs. Given that it is impossible for all countries to conduct full consultation processes by 2015, national targets could be integrated as they become available, in order to allow sufficient time

149 An example of a perverse incentive would be that the elimination of gender disparity in education could be achieved by reducing boys' enrolment, rather than the intended effect of increasing girls' enrolment, while an excessive focus on quantitative measures may mean that quality is neglected or even sacrificed. Thus, it has been argued, in the of case of primary school enrolment, the MDG focus on the number of children in school may have led to an increase in class sizes, which is detrimental to the quality of education provided.

150 With the MDGs some countries already agreed additional national targets, often dubbed MDG9 (e.g. both Laos and Cambodia had an MDG9 on demining and Mongolia an MDG9 on human rights and democratic governance). Equally, a future framework could incorporate regional targets (e.g. set by representative regional organisations such as the AU and EU), although this risks combining the worst of both worlds in lacking the appeal of global targets, while not being particularly relevant to some national contexts.

for consultative processes to take place without compromising their quality and broad ownership.

It is important not to overload a post-2015 agenda with a long list of aspirational objectives in an attempt to cover all possible aspects of inclusive and sustainable development. This would risk diluting key strengths of the MDG-type framework, such as its clarity, conciseness and objectivity. It would be necessary to establish priorities in relation to what a post-2015 agenda can achieve in areas where there is significant agreement. It will also be important to avoid duplication and overlaps by appropriately reflecting cross-cutting issues. These could be highlighted, mainstreamed, or simply omitted (Vandemoortele, 2012). Some issues would probably warrant a specific target due to their instrumental value (e.g. gender). Governance and human rights may prove too difficult to measure objectively, and their insertion could assume forms other than specific targets. Some have suggested that a post-2015 framework should be illustrative rather than exhaustive, suggestive rather than definitive (Nayyar, 2012). Overloading the agenda is a real danger, yet given the rising international interest and expectations as well as the serious challenges to be met it is important to try and find an approach that can encompass effectively a somewhat wider agenda than the MDGs. A new design may therefore be needed.

10.5.2 An entirely new design?

A development agenda based on a completely new design that is conceptually and technically sound could also risk alienating those who are used to the current MDGs, and potentially losing a degree of support. This would be a major setback (Vandemoortele, 2012). In particular, including a wide range of issues, especially dimensions that are not easily measurable, could be a step backwards. This is partly because targets are quantitative, concrete, and can be contextualised and clearly delineated, while values are qualitative, abstract, absolute and hard to define precisely (Vandemoortele, 2012). Values and normative standards could potentially be more ambitious and inspirational, but it may be harder to mobilise effective action around them.

There is some debate on whether a post-2015 agenda should focus on outcomes or also provide insights on how to achieve them (e.g. process indicators). To a certain extent, MDG8 implicitly provided an international roadmap, albeit an incomplete and vague one. In fact, the MDG consensus may have emerged precisely because it enabled an agreement on desirable outcomes, even if there was significant disagreement on how to achieve them (Fukuda-Parr, 2012). A post-2015 agenda should therefore avoid being too prescriptive, since there are complex development problems which require a range of solutions, and a detailed roadmap would also constrain national policy space. It is, however, important to articulate which types of processes are fundamental to a vision of inclusive and sustainable development, partly because its realisation requires fundamental economic and social transformations. This suggests the need for some agreement on general 'enablers', 'drivers' or 'propositions' to serve as overall guidance (UN, 2012).[151]

In this context, it might be feasible to pursue a **mixed design** that includes targets and broad principles (or normative standards)[152]. In this case,

> **"It is important not to overload a post-2015 agenda with a long list of aspirational objectives in an attempt to cover all possible aspects of inclusive and sustainable development."**

151 Suggestions for such general propositions include: 'public action is an integral part of this process'; 'employment creation provides the only sustainable means of poverty reduction'; 'policies should not be prescribed once-and-for-all because there are specificities in time and space'; 'external finance is a complement to, but cannot be a substitute for domestic resources'; 'the role of the State remains critical in the process of development' (Nayyar, 2012).

152 Severino (2012) for instance suggests a two level design with (i) a series of 'meta-objectives' applicable to the whole international community such as poverty eradication, and (ii) a series of 'universal rights' involving access to such services as clean water, health, sustainable energy, security, biodiversity etc. To this would be added a new MDG8-style global partnership.

> “It might be feasible to pursue a *mixed design* that includes targets and broad principles (or normative standards). Elements around which there is sufficient consensus could be defined concretely with measurable targets and indicators, while a set of principles would be supported by strong commitments.”

elements around which there is sufficient consensus could be defined concretely with measurable targets and indicators, while a set of principles would be supported by strong commitments. This would enable key issues, such as environmental sustainability, to be acknowledged while allowing space for further negotiations. It would also ensure that contentious issues do not hold back or jeopardise agreement in other areas. While principles and commitments might be weaker than measurable targets, because they are more subject to misinterpretation and are difficult to monitor, governments would still be accountable for observing those norms and promises. Since the MDGs have created a valuable momentum, this approach could help to ensure the continuation of the endeavour.

A post-2015 framework could also entail an **umbrella agreement** built on thematic and/or regional agreements. A global common vision would facilitate their coordination and coherence, and would clearly delineate expected results to be achieved within an agreed timeframe. This vision would be inspired by the Millennium Declaration and further refined through a participatory process. The specific details, such as setting targets or norms, would then be left to sectoral experts. This would ensure that specialised agreements could be prepared by technical experts, charged with devising practical goals, targets and policies[153].

Finally, a post-2015 development framework will need to acknowledge that it cannot feasibly tackle every challenge facing humankind, and that there are likely to be more suitable ways to address certain issues such as climate change and global financial regulation. Yet tackling many of these global challenges is vital for development. Some such processes are already underway. In addition to the SDGs, it is important to create synergies with other relevant processes, such as the peace-building and state-building goals (PSGs) of the New Deal for Engagement in Fragile States, and the implementation of the Istanbul Plan of Action for LDCs (2011–2020). Therefore, it is crucial that existing **international frameworks and processes be mutually reinforcing**, by creating and strengthening complementarities among them, in order to support the achievement of inclusive and sustainable development.

Main Message 9: Processes to address global challenges need to be mutually reinforcing.
Several international processes are likely to be required to respond to multiple global challenges and support inclusive and sustainable development. Their effectiveness will also hinge on seeking out complementarities and synergies. It is important that aspects where consensus is harder to achieve do not hold back or jeopardise agreement in other areas. The momentum created by the MDGs is a major asset, which needs to be sustained. Its successor should not attempt to address every global challenge if this might deter continued progress and especially if other existing processes and frameworks are better placed to do so. A post-2015 agreement may best be conceived as a framework that brings together a series of interlocking and mutually reinforcing agendas.

- The international community should recognise the urgency and importance of establishing regimes for international collective action to tackle a series of interrelated global challenges that affect development (notably on trade, financial regulation, migration and climate change) and seek to establish and observe complementary agreements and regimes in these areas as quickly as possible.
- The international community should explore the possibility of a mixed design for the post-2015 framework, which combines both targets and principles. This would allow for issues such as environmental sustainability to be acknowledged as a principle and yet allow time for targets to

153 This work would also need to be organised on a participatory basis to include knowledge from a wide variety of different contexts.

be added later. Equally it would be desirable to provide space for both global and national targets so as to increase the flexibility of the framework, allow for diversity and maximise national ownership.

10.5.3 Framework for whom?

The MDGs were never a truly global framework. Human development trends were not monitored in developed countries, partly because the targets set were not particularly relevant to them. The MDGs implicitly promoted a dichotomy[154] between developed and developing countries and cemented uneven power relations between donors and recipients.

In a changing global landscape there is no place for such a divisive construct. The rapid rise of emerging economies such as Brazil, China and India, blurs the conventional boundaries of the development sector and renders the donor–recipient model outdated and increasingly unhelpful. Developing and emerging economies are likely to be reluctant to make specific commitments to achieve certain targets if advanced economies are not also required to do so. This should be taken as an opportunity to build a post-2015 framework that is broader in scope and more inclusive in membership.

Some experts have called for a universal framework rather than one that is focused on developing countries. This can be defended on three main grounds. First, a set of universal goals would clearly have immense political value. Second, some of the most pressing global challenges affect all countries to varying degrees. Poverty, inequality, employment and the environment are all shared concerns, irrespective of a country's level of development. Third, addressing certain development challenges requires global collective action, for instance to ensure environmental sustainability. In principle it is possible to design a new global framework that speaks to the concerns of and challenges facing all countries.

Although a universal framework has an instinctive and obvious appeal, it is likely to be very difficult to devise and negotiate goals and targets that would be both universally acceptable and relevant for diverse contexts. Certain goals would have to be more challenging for some countries than for others[155]. While absolute poverty eradication would be particularly relevant for the poorest countries, targets on relative poverty and inequality could be more pertinent for emerging and advanced economies, and environmental targets for advanced and fast-industrialising countries. All countries should ideally be challenged by a post-2015 agenda, albeit not evenly across all areas. Such an approach would be compatible with the view that poverty permeates all countries and is multi-dimensional in nature. In whatever formulation, emerging economies would play a central role in brokering such a post-2015 development agreement.

Obviously, the challenges and needs of developing countries vary considerably according to their economic structure, human capacity, political situation, geography and inherent vulnerabilities. MDG8 made specific references to Africa, LDCs, landlocked developing countries (LLDCs) and small island developing states (SIDS). A post-2015 framework will need to adequately reflect such differentiated contexts. While this Report has highlighted the challenges facing the poorest countries, Box 10.4 discusses some of the specific challenges facing SIDS. These include high vulnerability to economic and environmental shocks, as well as inherent structural constraints that impede inclusive and sustainable development

“All countries should ideally be challenged by a post-2015 agenda, albeit not evenly across all areas.”

154 The ultimate responsibility for achieving the first seven MDGs fell to developing countries, while developed countries had a vague and poorly specified list of commitments in MDG8, which were meant to support those national efforts.

155 Another approach would be to work with standards that gradually increase over time. For instance the ILO uses the principle of a basic floor of standards (the 'core labour standards') which is then improved on over time with the gradual realisation of higher standards.

Box 10.4 Small Island Developing States

According to the UN classification, small island developing states (SIDS) comprise 52 countries and territories, which are mostly located in the Caribbean and Pacific regions. It is estimated that between 50 and 60 million people live in SIDS, less than 1% of the world population. SIDS are a fairly diverse group in terms of average incomes, with countries ranging from the high-income Singapore and Bahrain to the low-income Comoros and Haiti. Despite this diversity, SIDS face common challenges in their attempts to promote inclusive and sustainable development. Among these are small populations, geographical remoteness, resource scarcity and vulnerability to natural disasters and external shocks.

SIDS are situated in some of the world's most vulnerable regions. They are particularly prone to natural and environmental disasters, such as hurricanes, floods, droughts and earthquakes, which often have high economic, social and environmental costs. They have limited natural resources, in particular a lack of freshwater, land and energy sources. Moreover, SIDS are disproportionately affected by climate change. Global temperature increases will have dramatic consequences on people's livelihoods, and may lead to population displacement. The entire land area of some countries may disappear as a result of rising sea levels (e.g. Maldives and Kiribati). Climate change is also likely to increase the frequency and intensity of natural catastrophes.

In addition, SIDS face considerable economic and social challenges. Their small populations and geographical remoteness, in particular, hamper international competitiveness and efforts to promote structural transformation. Low populations mean that domestic markets are small and limit the scope for economies of scale. Their isolation from international markets leads to high transportation and communication costs. As a result, most SIDS are heavily dependent on foreign aid and international trade. In some cases, remittances and tourism are also major sources of income. These levels of international exposure make SIDS highly vulnerable to external shocks, such as fluctuations in demand and commodity prices. These structural challenges are often compounded by limited human and institutional capacity and in some cases poor governance.

These factors partly explain their disappointing performance in several MDG areas, especially compared to other developing countries. Looking beyond 2015, the international community can help them to address their specific challenges, especially in the areas of development finance, trade and investment and migration. These may include using ODA to leverage other external flows, such as trade and investment. For example, investments in transport infrastructure and human capacity could improve international competitiveness (e.g. in tourism), while greater openness to migration from SIDS could also be beneficial.

Sources: McGillivray, 2013; Winters and Martins, 2004

– such as their size and geographical remoteness. Fragile and conflict-affected states constitute another group of countries that may deserve special attention in a post-2015 framework. Not only have they by definition struggled to advance human development, due to weak state capacity and violence, but fragility and conflict also threaten to undermine any progress that might have been achieved.

In sum, if the ultimate purpose of a post-2015 framework is to encourage change at the global and national levels, then it must be designed in such a way that it is relevant to diverse national realities. The framework could allow some flexibility in the choice of indicators and specific targets, which would contribute to greater domestic ownership and accountability, even if it renders global assessments less straightforward. A framework that aims mainly to incentivise change at the global level (e.g. MDG8-type issues) will require clear global targets on finance, trade and migration (probably based on process indicators) with a view to creating the desired type of incentives that will be covered in the following chapter. Alternatively a post-2015 agreement could include a mixture of targets and indicators for some goals, while others issues could be addressed by setting norms. The design of a post-2015 framework will be determined largely by what it ultimately aims to achieve. If it is intended to be a global development strategy, then it will look very different from the MDGs. Although a universal framework is clearly desirable, making this the explicit objective from the outset may make it more difficult to achieve agreement.

10.5.4 Achieving an Agreement

The Millennium Declaration and the MDGs were forged in very specific circumstances that cannot be replicated in the remaining months leading up to 2015. In particular they were built on a sustained period of international debate organised around a series of UN global conferences throughout the 1990s on different aspects of development and global cooperation. The start of the new millennium also provided a useful symbolic moment around which to create momentum for a grand statement of intent. The MDGs were agreed not by consensus, but by a small group of international officials seeking to create a tangible monitoring tool out of the Declaration itself.

None of these conditions apply in the run-up to 2015 and the lack of progress in agreeing further international collective action at some recent summits does not augur well. Given current expectations of transparency and participation, drafting any new set of goals will also take place in a much larger and more open forum. On the other hand the MDGs have set a precedent and the considerable momentum behind them should help carry forward the debate even though it may not be enough to guarantee success.

At the same time there are other opportunities and challenges that may help or hinder the debate. A significant opportunity is the potential involvement of major new actors. First there are countries like Brazil, China and India with both growing political weight and resources of their own to deploy. Crucially, their own development successes present a more tangible model that many poorer countries could follow. Their roots in the Non-aligned Movement (NAM) and the G77 are also an asset because it means they may count on support that OECD countries cannot always muster. Second, is the growing voice and confidence of a wider group of developing countries. The fact that African states as a group, through the African Union, are now better able to articulate their views in the international arena is particularly valuable[156].

On the other hand, as this Report has shown, the poverty agenda has become more complex and the increasingly urgent need to integrate issues of environmental sustainability substantially raises the

> **"Given current expectations of transparency and participation, drafting any new set of goals will also take place in a much larger and more open forum."**

156 Since the reform of the OAU into the AU in 2003, African states are increasingly voicing a common view in international fora, the latest example being the African common position for the Busan HLF prepared by the African Union and NEPAD.

> “To build consensus among a wide range of governments facing a variety of challenges and different specific circumstances will depend on whether they feel that any new framework supports their own efforts to pursue inclusive and sustainable development.”

threshold, particularly since reaching international agreement on climate change has proved so intractable. Within the MDGs, the environment goal (MDG7) and the global partnership (MDG8) were already the toughest against which to agree on targets and indicators and these areas will not be any easier to formulate in a new global framework.

To build consensus among a wide range of governments facing a variety of challenges and different specific circumstances will depend on whether they feel that any new framework supports their own efforts to pursue inclusive and sustainable development. It will therefore be important to show how a post-2015 framework makes the link between national concerns and the international or global levels, and that it is flexible enough to cater for different interests.

Thus while there are new opportunities it is also clear that it will not be easy to reach international agreements for collective action on all fronts – and particularly those that this Report has addressed – in order to achieve inclusive and sustainable development. A wide range of national concerns will have to be accommodated. The various discussion processes on how to articulate a new framework that aspires to inclusive and sustainable development are essential, but equally achieving progress in one area should not be held back or jeopardised by slow progress in another. It may be advisable to move forward on several fronts simultaneously with the aim of securing agreement on each as and when this becomes possible and not waiting for a complete package. At the same time it is clear that these various agreements should be mutually reinforcing, all are necessary and none can therefore be omitted.

10.6 Implications for the EU

10.6.1 The EU's role and performance

This Report has investigated the EU's performance in promoting the MDGs and the extent to which the MDGs have influenced its own actions. Overall the EU as a group has made strong contributions by consistently providing more than half of the world's ODA and aligning its development cooperation policy to the MDG agenda. It has also played an important role in encouraging international financial and trade flows that are major promoters of growth. Equally the EU is also one of the leading proponents of PCD in the OECD/DAC and is a major supporter and promoter of international collective action in a variety of fields. Yet at the same time the EU's support for the MDGs has not reached the targets it set itself both in development cooperation and in other policy areas.

Of course, the EU is not alone in facing these problems, but it is a major and respected player in part because it sets itself high standards. In doing so it also sets an example that other might follow and its performance therefore needs to be critically examined in order to suggest where it might be further improved. This section summarises the Report's findings in relation to the EU's key roles and performance in furthering the MDGs and identifies lessons and practical recommendations.

Against the background of the current global development agenda there are four key aspects of the EU's role that should be addressed:

- **ODA levels:** Despite recent efforts, almost no European donors (save those already past the threshold at the time) will achieve their 2002 Monterrey and 2005 Barcelona commitments to provide 0.7% of their GNI as ODA by 2015. In view of European austerity programmes and ODA trends, it is likely that, at least in the medium term, in real terms aid volumes will stagnate.

- **Effectiveness:** Even if the volume of European ODA remains the same, it is still possible to increase its impact, as is recognised in recent policy documents such as the Agenda for Change

(COM, 2011). The aid-effectiveness agenda and its application to EU policies, programmes and instruments can be applied more thoroughly in many areas. There is now a need to move forward on coordination and complementarity through long-standing commitments to improve joint programming and the 'division of labour' among the EU institutions and the Member States.

- **Policy Coherence for Development:** It remains crucial to make tangible progress in promoting PCD, which should imply that other policies, such as security or trade, at least 'do no harm' to the objectives of development cooperation, and at best reinforce development progress. It is not easy to make progress on achieving PCD and the EU has made more efforts than most, but the impact of these efforts remain limited even in cases where negative impacts for development are most apparent. For instance, the EU has long-standing difficulties in reconciling its own domestic interests, particularly in agriculture and fisheries policy, with those of developing countries and more concrete efforts are needed to resolve such tensions. Yet having stated its PCD objectives it is important for the EU's credibility to make tangible progress and show results.

- **International negotiations:** Providing it is united, the EU's international standing and membership gives it considerable potential to shape existing and contribute to creating new international regimes that can support global public policy goals (Gänzle et al., 2012). However, for the EU to be more effective in exercising this role it should continue to improve the articulation of its external representation and its place in international organisations. The EU and its Member States are very visible in global institutions, but are not always organised in the best way. A more effective external policy could contribute to increasing the collective weight of the EU and its Member States in shaping international regimes and securing the reform of the global governance architecture. While it is difficult to push for global public policies, the EU is in a stronger position than many to foster debate in favour of a development-friendly review of existing and potential international regimes.

The EU's contribution to any post-2015 framework should largely be assessed on its ability to provide effective support 'beyond aid'. Its ability to do this will depend partly on the willingness of the wider international community to move beyond a narrow focus on ODA and engage in collective action on wider GPG goals, but also on the EU's own levels of ambition and commitment.

The four case studies conducted for this Report recognised the value of EU development assistance in varying degrees, but also stressed the importance of EU support in other 'beyond aid' areas. Development-friendly trade agreements, sharing knowledge on systems of social protection, improving global financial governance and transparency, new technology (particularly to confront climate challenges) and conflict-sensitive interventions in fragile environments were all cited as examples of areas where EU support was welcomed (see also Box 10.5).

This Report examined three international drivers of development in particular: development finance, trade and investment and labour migration. Aspects of the roles that the EU has been playing and could improve on in each of these areas in promoting a post-2015 framework are summarised below (Table 10.1).

In conclusion, while the EU has made strong contributions to the achievement of the MDGs, the overall balance of its performance across these four key roles is mixed. This suggests a need for the EU to improve, particularly in areas 'beyond aid'. The EU has been part of the solution in supporting a strongly ODA-focused MDG framework. If, as

"The EU is a major and respected player in part because it sets itself high standards. In doing so it also sets an example that other might follow and its performance therefore needs to be critically examined in order to suggest where it might be further improved."

Table 10.1 The EU's role in international flows of money, goods and people

	EU as trade and investment partner	EU as provider of ODA and development finance	EU as facilitator of labour migration	EU as a global player affecting global governance
Positive influence to date	+ Clear policy to facilitate LDC access to EU markets (EBA) + Largest provider of AfT + Progress made in discussions on promoting country by country reporting in specific sectors	+ Largest donor world-wide (as EU and member states) + Championing the use of innovative sources of finance (COM and some MS) + Strong role in pushing aid and development effectiveness agenda	+ Improved policy on migration: 'Global Approach to Migration and Mobility'	+ Strong influence on climate change negotiations + Strong communication efforts in promoting MDGs to EU general public + Commitment to completing Doha Development Round
Room for improvement	- Remaining tariff and non-tariff barriers (e.g. SPS) - Limited flexibility shown in EPA negotiations - Lack of transparency in FDI deals (e.g. in extractive industries)	- Decreasing levels of ODA in 2011 and failure to meet targets by 2010 and probably also 2015 - Fragmented EU aid system hampers effectiveness - Slow progress in controlling illicit capital flows	- Restrictive national immigration policies - Resistance from MS hampering progress in EU migration legislation	- Inability to facilitate real progress in Doha Development Round - Mixed performance in formulating and effectively promoting joint EU positions in international fora - Mixed performance on pushing for reform of global governance institutions

this Report has argued, a post-2015 framework expands from the MDGs' rather narrow focus on development cooperation and ODA and moves towards a broader focus on international collective actions in a variety of areas including development cooperation, then the emphasis of the EU's support should shift correspondingly.

10.6.2 Specific recommendations for the EU's role

The case study reports already identify a series of areas where the EU could usefully support development processes at the national level. These are summarised in Box 10.5.

Box 10.5 Areas for EU support: Recommendations from the Case Studies

Nepal

- **Aid:** Mobilize 0.7% of GNI as ODA, as this helps recipient countries in resource planning. Adhere to the Paris, Doha and Busan Declarations. Allocate 40% of aid to productive sectors such as agriculture and infrastructure development. Focus ODA on job creation, including making use of the skills of returning migrants.
- **Aid for Trade:** Should be additional, predictable and needs oriented. Leverage development assistance for export promotion as well as for FDI facilitation from the EU.
- **Trade regime:** Abolish para-tariff and non-tariff barriers.
- **Migration:** Ratify the UN International Convention on the protection of the rights of migrants and their families and encourage other recipient-countries to do so as well. Support Nepal in better managing all dimensions of migration.
- **International support:** Help track illicit international financial transfers.

Rwanda

- **Aid:** Ensure that 0.7% of GNI is mobilised as development aid. Conform to the Paris, Doha and Busan Declarations. Allocate appropriate amount of aid funding to productive sectors.
- **Aid for Trade:** Encourage and expand; should be additional and reliable. Assist capacity building for exporters to ensure they develop understanding of and capacity to meet EU quality-control requirements for exporting processed food products and packaging.
- **Trade regime:** Ensure Market Access Agreement with EAC is concluded as rapidly as possible.
- **International support:** Support pursuit of national poverty reduction strategy.

Côte d'Ivoire

- **Aid:** Support for preparing subsequent achievement of any MDGs not reached by 2015. Support for strengthening public expenditure financial management.
- **Trade regime:** Avoid disrupting unity of the ECOWAS regional bloc of states through the EPA negotiations. Reflect on how to best deal with the different levels of preferences and access regimes between LDCs and other developing countries.
- **Investment:** Promote private-sector investments, and growth with job creation. Contribute to strengthening the private sector and entrepreneurship through supporting capacity building in the areas of standardization and quality control. Facilitate information access and increase awareness on national and international tender processes.
- **Good governance:** Support for the establishment of the high court and the court of auditors.
- **International support:** Strengthen cooperation with Côte d'Ivoire on monitoring illicit funds. Support capacity building in the area of customs services and tax. Support for monitoring migration of military or paramilitary origin

Peru

- **Cooperation:** Shift the axis of cooperation away from support for basic development, towards the promotion of broader and fuller objectives.
- **Knowledge sharing:** Assist Peru in dealing with the most important future major challenges: institutional development and democratic governance, provision of high-quality services to the public and reduction of structural inequalities. Europe is an important source of ideas, technical and political expertise, as well as financial aid for Peru.
- **Capacity building:** Strengthen the government capacity to manage natural resources, deliver public services effectively and encourage redistribution. Technical cooperation for institutional strengthening to deliver public services (education, health, security and justice). The EU can make a distinct contribution in these areas, as Peru does not find appropriate support and cooperation in most of them from many of its other development partners.

> "The case study reports already identify a series of areas where the EU could usefully support development processes at the national level."

CHAPTER TEN

> "Demonstrating a willingness to look at goals that would apply to Europe and that could be monitored and measured would greatly strengthen the EU's credibility in this debate. The EU may wish to consider pursuing a framework that is truly global with a range of different goals so that all nations, not just the poorest, are challenged."

To play a more progressive role in the post-2015 era the EU can certainly build on its ODA performance and apply lessons learned in aid effectiveness to other development-relevant contributions. Above all it should further strengthen the development-friendliness of its own policies other than development cooperation in a way that also promotes the EU's own long-term values and interests. Moreover, the EU could make an important contribution in promoting the establishment or consolidation of international regimes in support of GPGs, most immediately in the area of climate. Finally, it will be vital to manage expectations of other countries regarding how, on the basis of the available research evidence, the EU and other developed countries could best support efforts to realise the vision of the Millennium Declaration.

Main message 10: Over and above its ODA effort, the EU's contribution post 2015 should also be assessed on its ability to promote PCD and conducive international regimes.
The EU's most valuable contribution to a new global framework for development will be in a range of policies beyond development cooperation (e.g. in trade, migration, PCD, knowledge sharing, climate change, promoting global collective action, and contributing to the establishment of development friendly international regimes) while still maintaining and improving its development cooperation. In particular the EU should adopt internal policies that support inclusive and sustainable development at the global level.

- Strengthen the development-friendliness of the EU's trade and investment policies and follow through on proposed measures to improve transparency.
- Continue to meet EU commitments on the level and effectiveness of ODA in the medium term, but focus on strengthening the development effectiveness of other financial contributions.
- Develop and realise development-friendly EU policies on facilitating labour migration.

In the short term and to optimise its considerable influence in international affairs, the EU should

- Seek a sufficiently strong yet flexible EU common position to participate in post-2015 debates at the UN in other appropriate multilateral and mini-lateral fora (e.g. G20, G8).
- Advocate for a post-2015 global development framework that builds on the Millennium Declaration and the experience of the MDGs and works towards a vision of inclusive and sustainable development.

To take these recommendations further the Report's findings suggest a number of specific actions that can be grouped under each of them. These are outlined in Box 10.6 below.

It is clear that the negotiations on a new global framework will be difficult. It is therefore also important to consider not just what is needed in terms of promoting inclusive and sustainable development, but also what would attract the support of the main negotiating powers.

Demonstrating a willingness to look at goals that would apply to Europe and that could be monitored and measured would greatly strengthen the EU's credibility in this debate. So the EU may wish to consider pursuing a framework that is truly global with a range of different goals so that all nations, not just the poorest, are challenged. Such a set of global goals would be entirely in keeping with the UN Millennium Declaration and a clear step 'beyond the MDGs'.

Not least because of its support for the MDGs, the EU will be an important player in negotiations on a post-2015 global development framework and many other nations will expect it to make a constructive contribution. Updating and strengthening the MDG8 'global partnership on development' will be a crucial element of the debate and one on which the EU's views will be watched particularly closely.

There will need to be a continuing commitment to maintain and increase ODA levels, and to following up on commitments to improve aid effectiveness. But ODA is likely to play a more specific and catalytic role in a portfolio of different types of development finance and achieving inclusive and sustainable development requires action on a far broader front than just through development cooperation. The EU should therefore be pushing for more international collective action on a range of policy issues that are important for inclusive and sustainable development and that need to be tackled in a coherent manner so that the outcomes are mutually reinforcing. Establishing a positive and effective agreement on a new post-2015 global development framework is a vital strategic challenge for the global community, which the EU should use its influence to help secure.

> "Establishing a positive and effective agreement on a new post-2015 global development framework is a vital strategic challenge for the global community, which the EU should use its influence to help secure."

Box 10.6 European contributions to a new global framework

A. Strengthen the development-friendliness of the EU's trade and investment policies and follow through on proposed measures to improve transparency

- The EU should systematically review its trade and investment policies, notably those with specific objectives/aims for LDCs, with a view to maximising their contribution towards structural economic transformation.
- As the EU has a strong interest in and reliance on primary commodities (notably extractive resources) from developing countries it should, in its own interest as the world's largest trading bloc, seek to diversify EU economies.
- The EU should continue its efforts to revise its Accounting Directives to ensure that stock exchange-listed and large non-listed companies report all payments to third-country governments by country and project. Based on lessons learned it should also consider broadening this Directive, once adapted, to other sectors of its economy.
- The EU should push for 'country-by-country' reporting for MNCs (e.g. on transactions between parent and subsidiary companies) to fight transfer pricing, which hinders domestic resource mobilisation.

B. Continue to meet EU commitments on the level and effectiveness of ODA and focus on strengthening the development effectiveness of other financial contributions

- The EU should continue to meet its own ODA commitments but at the same time seek a proactive role in the debate on the financing of a post-2015 framework.
- The EU should continue to push for integrated EU aid approaches including greater coordination, joint programming, complementarity and division of labour.
- The EU should go beyond discussing the use of public resources to push for a strong agreement on the contribution of private actors to a post-2015 framework and in that context seek to integrate major MNCs based in emerging economies.
- The EU should seek convergence and consensus among its differing national interests to promote financial transparency and move away from being either intermediary or destination in illicit financial flows from developing countries.

C. Develop and realise development-friendly EU policies on facilitating labour migration

- As a key requirement for credible international interventions, the EU should adapt legislation to promote low-skilled labour migration from third countries.
- The EU should advocate for a WTO agreement on labour migration and make efforts to formulate a joint- and development-friendly EU position to feed into these negotiations.
- To improve the evidence base and constituency for a WTO agreement, the EU should organise a more informal initiative to bring together sending and receiving countries and international organisations to discuss improvements in the respect for migrants' rights and better access to labour markets for low-skilled workers. In so doing it should share its own experiences of temporary migration programmes.

D. Seek a sufficiently flexible yet strong EU position in post-2015 debates and influence positions taken in other multilateral and minilateral fora (i.e. G20, G8)

- Building on its initial proposals (COM, 2013), the EU should speak with one voice in the preparation of a new post-2015 framework.
- The EU should be proactive in linking different fora and multilateral decision-making processes to the post-2015 debates, most notably the separate discussions and negotiations on defining the SDGs.
- Avoid an EU post-2015 position that is too detailed, which would restrict the EU's flexibility in the negotiations, and agree on modalities for modifying the EU's position en route.

E. Advocate for a post-2015 global development framework built on the Millennium Declaration and the experience of the MDGs that works towards a vision of inclusive and sustainable development

- The EU should seek an outcome in which a post-2015 framework tackles an updated poverty agenda that seeks to integrate the SDG concerns in order to pursue all three aspects of the objective of inclusive and sustainable development and better reflect the wider needs of the whole international community.
- Promote and support the conclusion of a series of mutually supportive international agreements in various areas necessary to achieve the overall vision (e.g. climate change, migration and trade).
- The EU should be willing to look at goals that would apply to Europe and that could be monitored and measured, as this would greatly strengthen the EU's credibility in this debate

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ANNEXES

ANNEX 1 – LIST OF MDG INDICATORS

Official list of MDG indicators
All indicators should be disaggregated by sex and urban/rural as far as possible.

Millennium Development Goals (MDGs)	
Goals and Targets (from the Millennium Declaration)	Indicators for monitoring progress
Goal 1: Eradicate extreme poverty and hunger	
Target 1.A: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	1.1 Proportion of population below $1 (PPP) per day* 1.2 Poverty gap ratio 1.3 Share of poorest quintile in national consumption
Target 1.B: Achieve full and productive employment and decent work for all, including women and young people	1.4 Growth rate of GDP per person employed 1.5 Employment-to-population ratio 1.6 Proportion of employed people living below $1 (PPP) per day 1.7 Proportion of own-account and contributing family workers in total employment
Target 1.C: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	1.8 Prevalence of underweight children under-five years of age 1.9 Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	
Target 2.A: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	2.1 Net enrolment ratio in primary education 2.2 Proportion of pupils starting grade 1 who reach last grade of primary 2.3 Literacy rate of 15-24 year-olds, women and men
Goal 3: Promote gender equality and empower women	
Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015	3.1 Ratios of girls to boys in primary, secondary and tertiary education 3.2 Share of women in wage employment in the non-agricultural sector 3.3 Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	
Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	4.1 Under-five mortality rate 4.2 Infant mortality rate 4.3 Proportion of 1 year-old children immunised against measles
Goal 5: Improve maternal health	
Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio	5.1 Maternal mortality ratio 5.2 Proportion of births attended by skilled health personnel

* For monitoring country poverty trends, indicators based on national poverty lines should be used, where available.

Millennium Development Goals (MDGs)	
Goals and Targets (from the Millennium Declaration)	**Indicators for monitoring progress**
Target 5.B: Achieve, by 2015, universal access to reproductive health	5.3 Contraceptive prevalence rate 5.4 Adolescent birth rate 5.5 Antenatal care coverage (at least one visit and at least four visits) 5.6 Unmet need for family planning
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 6.A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	6.1 HIV prevalence among population aged 15-24 years 6.2 Condom use at last high-risk sex 6.3 Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS 6.4 Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years
Target 6.B: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it	6.5 Proportion of population with advanced HIV infection with access to antiretroviral drugs
Target 6.C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	6.6 Incidence and death rates associated with malaria 6.7 Proportion of children under 5 sleeping under insecticide-treated bednets 6.8 Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs 6.9 Incidence, prevalence and death rates associated with tuberculosis 6.10 Proportion of tuberculosis cases detected and cured under directly observed treatment short course
Goal 7: Ensure environmental sustainability	
Target 7.A: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources Target 7.B: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss	7.1 Proportion of land area covered by forest 7.2 CO2 emissions, total, per capita and per $1 GDP (PPP) 7.3 Consumption of ozone-depleting substances 7.4 Proportion of fish stocks within safe biological limits 7.5 Proportion of total water resources used 7.6 Proportion of terrestrial and marine areas protected 7.7 Proportion of species threatened with extinction

ANNEX 1 – LIST OF MDG INDICATORS

Millennium Development Goals (MDGs)	
Goals and Targets (from the Millennium Declaration)	**Indicators for monitoring progress**
Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation	7.8 Proportion of population using an improved drinking water source 7.9 Proportion of population using an improved sanitation facility
Target 7.D: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	7.10 Proportion of urban population living in slums*
Goal 8: Develop a global partnership for development	
Target 8.A: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development and poverty reduction – both nationally and internationally Target 8.B: Address the special needs of the least developed countries Includes: tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction Target 8.C: Address the special needs of landlocked developing countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly) Target 8.D: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	*Some of the indicators listed below are monitored separately for the least developed countries, Africa, landlocked developing countries and small island developing States.* Official development assistance (ODA) 8.1 Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors' gross national income 8.2 Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) 8.3 Proportion of bilateral official development assistance of OECD/DAC donors that is untied 8.4 ODA received in landlocked developing countries as a proportion of their gross national incomes 8.5 ODA received in small island developing States as a proportion of their gross national incomes Market access 8.6 Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty 8.7 Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries

* The actual proportion of people living in slums is measured by a proxy, represented by the urban population living in households with at least one of the four characteristics: (a) lack of access to improved water supply; (b) lack of access to improved sanitation; (c) overcrowding (3 or more persons per room); and (d) dwellings made of non-durable material.

Millennium Development Goals (MDGs)	
Goals and Targets (from the Millennium Declaration)	Indicators for monitoring progress
	8.8 Agricultural support estimate for OECD countries as a percentage of their gross domestic product 8.9 Proportion of ODA provided to help build trade capacity Debt sustainability 8.10 Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative) 8.11 Debt relief committed under HIPC and MDRI Initiatives 8.12 Debt service as a percentage of exports of goods and services
Target 8.E: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries	8.13 Proportion of population with access to affordable essential drugs on a sustainable basis
Target 8.F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications	8.14 Fixed telephone lines per 100 inhabitants 8.15 Mobile cellular subscriptions per 100 inhabitants 8.16 Internet users per 100 inhabitants

The Millennium Development Goals and targets come from the Millennium Declaration, signed by 189 countries, including 147 heads of State and Government, in September 2000 (http://www.un.org/millennium/declaration/ares552e.htm) and from further agreement by member states at the 2005 World Summit (Resolution adopted by the General Assembly - A/RES/60/1, http://www.un.org/Docs/journal/asp/ws.asp?m=A/RES/60/1). The goals and targets are interrelated and should be seen as a whole. They represent a partnership between the developed countries and the developing countries "to create an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty".

ANNEX 2 – COUNTRY CASE STUDIES

Sections 1–4 of this Annex summarise information from the commissioned country case studies[157] and complementary desk-based research[158] – Nepal, Rwanda, Côte d'Ivoire and Peru – on the political, economic and environmental context for inclusive and sustainable development (ISD), the development trajectories and the role and importance of external links, including the EU. The role that the MDGs have played in each of the four different countries and the way national policy processes have interacted with the international MDG framework, is discussed in detail in the main Report in Chapter 2.

Each summary begins with an overview of the development trajectories and political economy characteristics, including the nature of the political settlement and the incentives or constraints facing key actors. This political economy approach provides an additional lens through which to assess the effects of the three main themes of the Report and other international drivers affecting the achievement of the MDG targets, as well as the main opportunities and challenges in terms of ISD.

Each section summarises some of the principal findings and the main implications for future EU contributions to ISD and the post-2015 agenda.

1. Nepal

1.1 Development trajectories, political settlements and fragility

Nepal is a country of complex ethnic, cultural and political diversity and ecological variation. The country continues to struggle with development and modernisation as well as crafting its own national identity and state-building process.

Nepal has undergone a number of political settlements since 1990, the year in which the monarchy was forced to promulgate a new constitution and to organise multi-party elections. The new multi-party democracy remained highly exclusive, however, with persistent inequality and poverty prompting a Maoist insurgency or People's War in 1996.

"The period since 1990 has seen the economic and development agenda completely overshadowed by political events. The periodic development plans were hardly implemented and most government revenue was spent on recurrent expenditure. The government was unable to proceed with development activities because of the insurgency, misappropriation of funds, and, after mid-2002, the absence of local governments. Most donor-funded development activities were concentrated in the social sectors and managed by the donors themselves, citing low absorption capacity, institutionalised corruption, and weak governance." (Nepal case study)

As a LIC, Nepal has undergone a number of structural changes. Despite the fact that 80% of Nepal's population is rural, 75% of whom depend on agriculture, Nepal has seen a rapid decline in the contribution of agriculture to its GDP. Nepal's GDP growth rate has been volatile and mostly below 5%. Over the past two decades, donors continued to channel support through government systems, largely geared to providing social services in urban areas, and 'perpetuating the status quo' (Elgin-Cossart et al., 2012). By 2001, the monarch declared a state of emergency and the Maoists ended a four-month truce. This prompted donors to reflect on the stalemate and the root causes of the conflict, including inequality and exclusion. In 2002 DFID, undertook an in-depth Strategic

157 The full reports are available on the ERD website. The case studies were conducted by:
- SAWTEE and CESLAM in Nepal, led by Pandey, P.R., Adhikari, R., and Sijapati, B. (2012)
- IPAR in Rwanda, led by Abbott, P., Malunda, D. and Ngamije Festo (2012)
- CIRES in Côte d'Ivoire, led by Kouadio, E.K., Ouattara, Y. and Souleymane, S.D. (2013)
- RIMISP and IEP in Peru, led by Barrantes, R. and Berdegué, J.A. (2012)

158 Most material used here is from the Case Study Reports, additional sources are referenced individually.

Conflict Assessment, which also delved into the relationship between donors, aid and conflict. This was presented as a governance case study at the OECD (Segal, 2008).

This SCA stated that ODA was based on false premises, pointing out that the persistence of poverty in Nepal was not due to a lack of capacity within the state administration, but to the exclusive nature of the political settlement. The study also indicated that building state capacity to deliver basic services would essentially entrench an unjust, repressive and exploitative political settlement:

"…whilst poverty and social exclusion were critically tied up with the causes of conflict, the actions and behaviour of the elite-dominated Government, bureaucracy and aid donors were intrinsically part of the problem…. Critically, donor aid, according to the report, was based on a false premise, stipulating that: (i) the persistence of poverty was due to a lack of capacity within the administration and, (ii) the way to address this was by building state capacity to deliver basic services and meet human needs, and by stimulating demand among poorer populations." (Segal, 2008)

Moreover, it argued for a drastic overhaul of donor strategies. Although this study was conducted by DFID alone, by the time of another coup by the ruling monarch in 2005, most donors, including the EU, were redesigning their aid approaches to support gradual structural change. More coherent and coordinated donor efforts to support a more inclusive political peace process and democratic institutions seem to have contributed to laying the 'groundwork for shifts in the political settlement', mediated through national actors, initiatives and movements (Elgin-Cossart et al., 2012: 48). This also implied that donors distanced themselves from the ruling elite, which still veered towards using military power to solve the conflict. The change in donor response, to which the DFID study contributed, illustrates the value of a robust, independent diagnosis that focuses less on the formal outlook of political and economic institutions, but rather on how they function.

A new political settlement emerged after the signing of the Comprehensive Peace Agreement in 2006. This is the most inclusive political settlement in Nepal's history, yet it remains unstable as the uprising in 2007 illustrated. There has only been a gradual expansion of horizontal inclusivity, with broader political representation based on a wider ethnic, caste, regional, religious and gender base. Yet the process of renegotiating the political system did not meaningfully transform the vertical relationship between state and society. As a result newly empowered leaders have been criticised for replicating a political system that relies on patron–client relationships and corrupt infusions of cash. The twice-delayed Constituent Assembly elections were held in April 2008 and saw the Maoists voted in as the largest party. Charged with writing the country's new constitution, but failing to do so, the Assembly was dissolved in May 2012, mainly over the question of federalism and whether the country should be divided along ethnic lines. A meaningful political alternative remains elusive.

1.2 Role and importance of international links

Development finance and investment

External assistance has played a substantial role in meeting Nepal's development spending. Total ODA as a share of total actual expenditure was 25.4% in 1990/91 and 19.2% in 2009/10, and as a share of total development expenditure, 37.5% and 55.2% respectively. In terms of the share of total grants disbursed, the European Commission's share was only 1.1% in 2009/10.[159] At present, 90% of European Commission support to Nepal's government takes

159 Source: Case study authors' calculation using various issues of Source Books. See 'Aid and Finance' section of the case study.

the form of budgetary support,[160] of which 60% goes to the education sector, 30% to peace and reconstruction, and 10% to trade and investment. The European Commission also provides resources through multilateral agencies such as the Global Fund and the Global Environment Facility.

Unlike ODA, FDI represents a minimal source of development finance. In South Asia, Nepal remains one of the worst FDI performers; it ranks the lowest in terms of the FDI potential index for the region and 175th out of 182 countries at the global level (UNCTAD, 2012). Data suggest that highest investment is made in manufacturing (38%), followed by energy (21%) and services (19%), while FDI in the agricultural sector only represents 1%. European investors have made important contributions. Although they are the third largest in terms of approved FDI figures, they have the highest employment intensity among all foreign investors. The case study refers to the potential of providing subsidised credits to reduce the risk aversion of foreign investors and promote investment in LDCs and LICs in the post-2015 context.

Nepal has experienced illicit capital flight, representing a significant leakage in development finance, to the tune of $7.9 billion in 1990 and $20.2 billion in 2008 (UNDP, 2011).

Trade

Nepal's balance of trade is another area of weakness. Although its exports and imports have been increasing, the absolute growth in imports has been much higher, consistently leading to trade deficits. In 2010/11, Nepal's exports reached €0.57 billion while imports totalled €3.5 billion, a deficit of €2.9 billion. India has been Nepal's most important trading partner, accounting for almost 67% of exports and 66% of imports in 2010/11. Turning to its trading relationship with the EU, Nepal has only registered a trade surplus three times since 2001/02. This demonstrates that the country has failed to take full advantage of the GSP facility granting Nepal's exports access to the European markets. The European Commission has however been instrumental in upgrading capacities at the Department of Food Technology and Quality Control and Nepal Bureau of Standards and Metrology. Nepal's exporters have been unable to make full use of these facilities, however, mainly due to domestic shortcomings in supplying the prerequisites for production.

Migration

Migration and remittance flows are a huge source of development finance for Nepal. Labour emigration from Nepal has a long history, but has seen a rapid acceleration in the last 20 years. Work permits are not required for India since there is no movement control between the two countries. Although there is no definite figure of how many Nepalis are working in India the number is variously estimated between 1.5 and 3 million. Besides India, the Gulf Cooperation Council (GCC) countries and Malaysia are among the top destinations. Such migration has led to an increase in remittances, which comprised more than 20% of Nepal's GDP in 2010, the sixth highest proportion of remittances to national GDP worldwide.

1.3 Main conclusions from the country study for a post-2015 development agenda

The case study notes that poverty reduction in a post-2015 context should be defined in a broader context of 'reducing human suffering and expanding human freedoms – economic, social and political'. A new framework should also address climate change and financial vulnerability.

160 Based on an interview with Giap Dang, Cooperation Coordinator, EU Delegation to Nepal (29 June 2012). The SWAp in education and health is not considered budget support. There are SWAps in health, education, alternative energy and peace sectors. According to the Ministry of Finance, budgetary support was provided by Japan (Debt Relief Fund), China (one-time support of $20 million), and the UK (Multilateral Debt Relief Initiative).

The case study report suggests that Nepal would be keen to see stronger donor commitments to increase ODA and to implement the internationally agreed principles of aid and development effectiveness (through the HLFs), especially country ownership, alignment and harmonisation. The international community should also recognise the change in the aid landscape and develop a precise definition of innovative development finance in addition to the traditional ODA relationship. The Nepal case study, for instance, refers to the potential for raising additional finance through climate-financing provisions. In terms of the distribution of funding the Nepal case studies notes that more resources should be directed to productive sectors such as agriculture or infrastructure development. It further highlights the considerable levels of illicit capital flight, and therefore proposes that tracking and monitoring of cross-border money transfers to control illicit money transfers be placed on the post-2015 agenda. The case study views FDI as a critical component of development finance in a post-2015 framework. Thus donors should be encouraged to consider measures to leverage development finance that promote exports to and facilitate FDI from their respective countries. Investment goals and targets could be established.

Specific constraints faced by LDCs should be considered in a post-2015 context, such as a vertical 'LDC integration Fund' in the trade realm.

The Nepal study calls for a stronger commitment to enhance the development potential of migration and to reduce the social and other negative consequences. Thus migration should be identified as a development issue in the post-2015 context, both in its economic and its social/rights dimensions. Part of the effort to ensure better treatment of migrants should include the ratification of international conventions on the protection of the rights of migrants. Better cooperation and capacity building in the countries of origin and transit is another area where the post-2015 framework could contribute. Nepal also welcomes initiatives in the field of remittances.

Finally, the case study proposes science and technology as an important additional area of concern toward improving future development prospects.

2.Rwanda

2.1 Development trajectories, political settlements and fragility

Following the devastating effects of the 1994 Genocide, Rwanda has made remarkable progress over the past decade. Since 2000, Rwanda has achieved strong economic growth with per capita GDP increasing by more than 160% from $225 in 2000 to $595 in 2011.

The post-genocide political settlement, marked by an initial military victory of the Rwanda Patriotic Front (RPF), was characterised by centralised control of economic rents. Booth and Golooba-Mutebi (2011, 2012) categorise this political survival strategy in Rwanda as *developmental patrimonialism*, but without the high level of corruption that is usually associated with patrimonial structures. The control of the sources of economic rents (see Chapter 2) seems to be effectively centralised and deployed in ways that correspond to a long-term development vision that prioritises the provision of public goods and services. The government has shown a high level of commitment to fostering national reconciliation and undertaking institutional reform. The pledge for good governance forms one of the three pillars of the country's medium-term development strategy, the EDPRS-1. In this regard, the Rwandan experience contrasts with patterns in other parts of Africa, in which political leaders distribute rent-seeking opportunities to a narrow group of supporters as a means of ensuring their own survival.

The Rwandan political elite, by contrast, is building broad-based support and demonstrating an ability to reduce poverty and commit to achieving economic transformation. Over the last decade, it has increased domestic revenues, made efforts to improve governance, accountability and the rule of law, fought corruption and taken the lead in improving donor coordination. Moreover, it has engaged with a growing number of Southern partners and pursued regional economic integration via the East African Community (EAC). Similar to some East and Southeast Asian developmental governments, Rwandan policy has been driven by the view that social and economic development and transformation are essential to avoid a repeat of the 'recently remembered national disaster' (Booth and Golooba-Mutebi, 2011, 2012). Besides achieving strong economic growth, Rwanda also shows signs of economic transformation. Its governance indicators have improved, although it continues to score poorly in the area of democracy and civil liberties.

The government has established a firm partnership with its principal donors. Still, their relatively small number (six bilateral and four multilateral donors accounting for up to 80% of ODA) and Rwanda's heavy dependency on ODA for its public spending and foreign exchange, also create risks and vulnerabilities – especially when there are disagreements over national and regional policy preferences. In mid-2012, the continued allegations of Rwandan support to the M23 rebel group in neighbouring DRC provoked negative responses from four donors, including the EU, which decided to delay the adoption of any new decision on budget support for Rwanda. Effectively this meant the EU delayed two budget support initiatives, totalling €70 million, though one has since been resumed following discussions with the government. Such incidents diminish predictability and may reduce the availability of foreign exchange (with which to support current account deficit), for broader macroeconomic planning, and for the financing of imports. The global economic and food crisis, loss of export revenue and now declining foreign investments highlight the continued dependence on ODA, with few immediate prospects of substantial alternative sources of finance.

2.2 Role and importance of international links

While the largely informal agricultural sector still remains important, providing employment for 73% of the population, there has been an increase in non-farm employment, more exports, higher revenues from domestic taxation and a growth in FDI and domestic investments and in domestic savings. The contribution of informal agriculture to GDP declined from 39% in 2006 to 32% in 2011, and the services sector has overtaken agriculture in terms of the contribution to GDP. There has been little growth in manufacturing.

Rwanda has the lowest FDI in the region according to the IMF (2012) and a number of disadvantages that have to be overcome include the lack of natural resources, distance from ports, the size of the local market and the shortage and high cost of skilled labour. Rwanda's trade and investment strategy is threefold: increasing the volume and value-added of traditional exports (especially coffee, tea and minerals), developing the tourism industry, and identifying areas for investment that will generate growth. The government has set out strategies to address the infrastructure bottlenecks, but these have yet to yield results. Investment was highest in tourism, manufacturing and construction over the 10-year period.

Rwanda's government is eager to diversify markets, promote its trade and increase market access. It received EU support for studies in these areas. Rwanda sees the EU's proposed Economic Partnership Agreement with the EAC as an opportunity to attract FDI, increase market access and promote entrepreneurialism. Exports have been growing rapidly, but from a low base, with imports growing even more rapidly, resulting in trade deficits widening by 40% between 2000 and 2011. Exports represent less than 10% of total GDP in Rwanda compared to an average of 32% of GDP for SSA and 47% for the EAC.

Tax revenue in Rwanda was 12.1% of GDP in 2009, comparable to most of its neighbours in the EAC. Tax revenues are increasing due to consistent (donor-supported) efforts by the Rwanda Revenue Authority to make the tax system more efficient. The government has tried to tackle the comparatively low levels of savings by introducing grassroots savings cooperatives as a means to increase access to credit and as a step towards increasing economic inclusion. Other means to mobilise domestic resources for financing development include the so-called Dignity Fund to mobilise voluntary contributions, with plans to launch a Diaspora Bond. The government also seeks to establish an Environment and Climate Change Fund to facilitate access to international funds on the environment and climate change adaptation.

Rwanda's government remains heavily dependent on foreign aid, with ODA contributing 44.2% of the national budget. Total ODA stood at $322 million in 2000 and at $1,034 million by 2010. The government budget has almost tripled over the period of the first *Economic Development and Poverty Reduction Strategy* (2007–2012). In 2010/11 the total aid was equivalent to 17.6% of nominal GDP, which was lower than in previous years and suggests that Rwanda may be reducing its aid dependency in relative terms even if the real value of aid is increasing.

The government has prioritised the quality of aid, and has openly criticised donors for their lack of discipline in meeting disbursement schedules and for the unpredictability of aid flows. The government has taken the lead in coordinating donors, and implementing the key principles of the HLF aid-effectiveness agenda. The joint monitoring of donor alignment, transparency and aid predictability through a performance assessment framework reflect that a number of OECD donors are not adhering to the principles. The European Commission is seen as an important contributor to the objectives of predictability and ownership. It has increased its budget support from 23% in 2008 to 70% in 2009/10, and is among the top performers in terms of meeting disbursement schedules. Its total 2008–2013 contribution to Rwanda amounts to €380 million. Over two thirds of ODA went to the traditionally non-productive sectors in 2010, and aid for economic infrastructure represented 29% of the total.

New development partners like China and the Arab Funds contribute most of their aid to productive sectors, primarily in the form of concessional loans and technical assistance. The aid is often tied to goods and services in the home country. Given the different nature of South–South Cooperation (SSC), the multiple Southern partners are not integrated into the aid-effectiveness agenda, although the government is encouraging China to do so.

Rwanda emphasises the importance of mobilising additional foreign investment and resources through aid for trade (AfT) and funds to mitigate climate change, but has no specific demands to the EU in this respect. Following donors' recent decisions to halt or reduce aid in response to allegations of Rwandan involvement in regional insecurity, the government has criticised the unpredictability of some of its development partners.

Rates of internal and international migration have been quite high. Nearly 80% of Rwandan migrants are living in other EAC countries and just under 10% in the EU, but the figures are unreliable. Although they remain low, remittances are growing and the government is encouraging the diaspora to contribute financial and technical resources to the country's development.

ANNEX 2 – COUNTRY CASE STUDIES

Box A1. Challenges for youth in Rwanda

Providing productive employment for young adults is a growing problem, with 42% under-employed or unemployed. There is a mismatch between the skills needed and the skills that young adults can offer, and a shortage of employment with only a third of the number of jobs needed to absorb new entrants to the labour market created each year between 2005/6 and 2010/11.

2.3 Main conclusions from the country study for a post-2015 development agenda

The Government of Rwanda has a strong preference for aid to be provided as direct budget support followed by sector budget support. Rwanda will continue to take a strong lead in the implementation of aid policy and in ensuring that ODA supports the country's own priorities in its EDPRS-2 strategy. The EDPRS-2 has a stronger focus on promoting productive investment, and its four strategic thematic areas are: economic transformation, rural development, productivity and youth employment and accountable governance. While the MDG targets will be incorporated into the EDPRS-2, the new strategy clearly goes beyond the MDGs and places stronger emphasis on the development of the productive sector and employment generation.

Part of Rwanda's strategy is to continue the efforts to mobilise alternative sources of finance including SSC, but it also argues that donors should honour their commitments regarding the target of 0.7% of GNI as ODA and comply with their undertakings in the Paris, Doha and Busan Declarations on aid effectiveness. The Rwanda case study thus argues for greater transparency for all donors, including SSC providers, as well as for the latter to adopt the principles of aid effectiveness.

With regard to international trade and investment in the context of a post-2015 agenda, the case study notes that Rwanda would appreciate being supported in its endeavour to promote exports, especially in the form of trade assistance such as predictable and needs-oriented aid for trade and capacity building. Yet, it is also argued that a post-2015 framework should include obligations for developed countries to provide incentives to its investors, such as tax breaks, to encourage them to invest in LDCs. In terms of trade relations with the EU, the EU should ensure that the Market Access Agreement with the EAC is concluded as rapidly as possible.

Recommendations in the field of migration are to ensure that the mobility of labour provisions under the EAC Treaty are ratified and implemented. National priorities revolve around the development of a migration policy, mainstreaming of migration into development and ensuring a match between labour market demands and migration.

3. Côte d'Ivoire

3.1 Development trajectories, political settlements and fragility

Côte d'Ivoire has been in and out of socio-political and military crises since December 1999, with prospects for stability somewhat restored after the post-electoral violence in 2011. The post-independence political settlement proved to be untenable after the economic and political crises of the 1980s. Between 1960 and 1978 the economy grew at an annual average real GDP rate of 7%, stimulating migration towards the capital city and producing a relatively large educated class. Immigration was encouraged as an integral part of this political economy. Further, the Houphouët-Boigny government was able to extract cocoa rents through the marketing system. It used these resources, along with external borrowing, both for productive investments and for redistribution around the country to pay for the military and garner political support, thus achieving a degree of social stability. The first 15 years of independence are therefore associated with 'developmental patrimonialism' (Booth and Golooba-Mutebi, 2012). It is also described as a 'miracle' period and the country was seen as the 'locomotive' of the West African region, with high economic growth rates, a booming cocoa and coffee sector and large public investments.

With the oil crisis, the debt crisis and declining terms of trade in the 1980s, most notably the fall in cocoa prices, the growth period came to an end and many of the gains of previous years were lost between 1979 and 1993. These external shocks coincided with a structural decline in cocoa production due to the exhaustion of virgin land and reduced productivity of cocoa trees at the end of a 30-year cycle of tree planting. Despite its dominance in the world market and a failed attempt to raise prices by withholding cocoa stocks in the late 1980s, income from cocoa continued to fall. Outside pressure for multi-party elections led to the break-up of President Houphouët-Boigny's 'grand coalition' just prior to his death in 1993, and ultimately set the scene for the divisive ethnic politics of later years. The annual growth rate of production of coffee also fell from 0.7% from 1985 to 1989 to -7.9% from 1990 to 1994, further exacerbating pressures from declining cocoa performance.

Centralised cocoa rent distribution had secured political stability while commodity prices were high. But market decline undermined both the economy and the political stability. The subsequent return migration of the unemployed to rural areas added to land pressure and resentment against immigrants who had been farming the land during the boom years. This pattern also provided a basis for ethno-political manipulation in a competitive multi-party electoral system. Liberalisation policies applied from the mid-1980s further decentralised rents (McGovern, 2011). The importance of this rent system for the political survival of the ruling elite was dramatically illustrated by the post-electoral crisis in 2010, in which the outgoing president was finally ousted following the EU's 'restrictive measures' that aimed to cut off his access to rents from cocoa exports and the financing of the army under Gbagbo's command. The foreign exchange provided by cocoa and the business networks it sustains remain important, while the new government's connections with these rent mechanisms are unclear.

It remains uncertain how political competition will affect the ruling elite's willingness, organisational capacity and incentives to address key short- and longer-term issues related to the provision of public goods, to stability and economic transformation – all three being important for growth and job creation. President Ouattara has sought to promote reconciliation and political openness, suggesting some potential for a developmental state coalition. Yet the coalition behind the current political settlement may not be sufficiently strong to make necessary choices in a climate of continuing violence and political frustration among a large part of the population, with what some see as the unjust treatment of Gbagbo, the former president now facing charges at the International Criminal Court (ICC). Recent outbreaks of violence have drawn attention to the large number of unemployed urban youths, which can be easily mobilised by ethno-political entrepreneurs for violent campaigning.

Despite the objectives of the new President's support for poverty reduction and the broader MDGs, the country is likely to face uncertain times. As yet, there seems to be no self-sustaining political equilibrium with a sufficiently strong elite coalition that has both the organisational strength and long-term perspective to engage in economic and institutional transformation. The risks of violent competitive politics make for a fragile political settlement.

3.2 Role and importance of international and EU links

Investment

Public and private investments have, in general, been weak since the beginning of the economic crisis in the 1980s, with a minor rally in the period 1995 to 1999 following the CFA devaluation of 50%, which brought short-lived competitiveness for the country's exports. Paradoxically, from 1996 to 2011, FDI increased despite the crises, mostly due to an increase in Asian and African investments, while EU investments declined. The EU (and within the EU, France) nonetheless, remains the principal source of FDI, supplying around 31% of private investment. Importantly, little of this is in agriculture, except for the agro-industry sector, which has received a considerable share along with ICT and services in recent years.

The Ouattara government emphasises restoring the private sector, reconciliation and 'regaining Ivory Coast's leading regional role'. The technocratic background of President Ouattara may further inspire confidence. This is to some extent supported by a new investment code agreed in June 2012 that offers incentives to promote investment outside Abidjan and around the country, and efforts to encourage investment through business-to-business events with foreign investors. Although several hundred firms left during the crisis, there are still 650 French firms in the country, representing 30% of GDP, more than half of fiscal revenues, and nearly a third of formal employment with 90,000 salaried workers. Another confidence-building measure may be the country's signing of the *Extractive Industry Transparency Initiative* (EITI). The country also achieved the *Heavily Indebted Poor Countries* (HIPC) status in June 2012, thereby also re-gaining some basis for credibility.

The Côte d'Ivoire study points to the need for private-sector investments, and growth with job creation. The EU could contribute to strengthening the private sector and entrepreneurship through supporting capacity building in the areas of standardization and quality control, facilitating information access and increasing awareness on national and international tender processes.

Trade

In terms of trade policy, Côte d'Ivoire is caught between its reliance on EU trade and its regional integration plans. In order not to lose preferences as a MIC, it signed an *Interim Economic Partnership Agreement* with the EU, something its neighbours – with the exception of Ghana – have not done. The main future questions revolve around whether the ECOWAS countries can agree on a common EPA offer with the EU. If a common EPA cannot be agreed this is likely to have a negative effect on ECOWAS regional integration processes. Another major element of trade policy stems from the implementation of a West African Economic and Monetary Union (UEMOA) common external tariff from 2000. However, according to data presented in the case study, this did not markedly affect Côte d'Ivoire's trade with the UEMOA members.

The Côte d'Ivoire case study expressed critical views on the EU trade policies towards the country and the region. It was felt that the country had little choice but to sign the interim EPA with the EU. In the case of Côte d'Ivoire, the case study argues that EU preferences in trade policy in West Africa through the EPAs were not conducive to further regional integration and development.

Development Finance

The country has had a relatively strong record in mobilising domestic resources through taxation, even during the period of conflict. This was partly due to the economic dominance of the south, which remained in government hands during partition, but also due to reforms on land taxation and tax administration, with greater autonomy vested in the revenue authority. According to some studies, the tax take may be below the UEMOA goal and its 'tax potential', but it is interesting that the authorities managed to maintain relatively high levels of fiscal revenues during a sustained period of crisis (internal receipts since the 1990s have remained between 16% and 22% of GDP).

Traditionally, ODA has been a very minor proportion of the country's budget (on average about 5%). Relations with donors have been volatile due to the political instability, with the EU suspending budget support due to 'bad governance' from 1998 until 2002 and several donors considerably reducing ODA after 1999 and during partition. More normal flows resumed in 2001 and 2007. The EU prioritised sectors that were largely ignored by the government. For example, government expenditure in agriculture, which provides a livelihood for 60% of the population, represented no more than 3% of the total annual budget between 1999 and 2010.

In the crisis period 2003–2009 the EU supported sectors such as agriculture/cattle (26% of the total), water/sanitation/energy (22%) and political governance, peace-building and human rights (14%). The European Commission disbursed €490 million during this period. The EU contribution stood out in terms of its humanitarian assistance, as well as political facilitation during some key moments of the conflict. The refusal of the former president to step down after losing the 2010 elections prompted the EU's 'restrictive measures', which targeted banks through which the military were financed and blocked rent generation through cocoa exports. In April 2011, after Laurent Gbagbo's arrest and with Alassane Outtara assuming the Presidency, the EU Council agreed to resume development assistance to Côte d'Ivoire (Council, 2011).

South–South partnerships with Côte d'Ivoire were welcomed as these seemed to represent cooperation among 'equals'. Cooperation with China has been increasing since 1995, through various donations and cooperation agreements and the building of hospitals, agricultural projects and a conference centre. The Chinese are also providing €5 billion to build the Grand-Bassam highway, an important link to Abidjan, while Chinese Eximbank has also extended a €572 million loan for the construction of the Soubré hydro-electric dam.

Inflows of remittances have been minor compared to the outflows. The role and importance of migration have been highlighted above, with inward migration from the region ultimately far more important in terms of the country's development trajectory than migration to EU countries. In 2010 it was estimated that approximately 1% of the Ivorian population live abroad, with around 45% of these in Europe, mainly in France, and 31% in the USA.

3.3 Main conclusions from the country study for a post-2015 development agenda

The case of Côte d'Ivoire, which achieved MIC status from 1987 to 1992 and then slipped back to LIC status before graduating again to LMIC in 2008[161], is a reminder of the uncertainties facing developing countries, including certain MICs, and the possibilities of socioeconomic reversals and internal conflicts that can turn violent. In Côte d'Ivoire, inequalities and major social divides are serious concerns alongside the urgent need to restore confidence and growth. It is vital to restore stability in order to encourage FDI, as is diversifying exports beyond its two staple agricultural commodities. All these are required to address the lack of productive employment, one of the fundamental problems facing Côte d'Ivoire.

160 World Bank web site Côte d'Ivoire Overview: http://www.worldbank.org/en/country/cotedivoire/overview

How external actors can support the building of internal political stability is a complex question. The case study pays attention to capacity-building, particularly in the provision of social services, and potentially paying more attention to dynamics at the local level, where there tends to be greater political stability, as well as efforts to support the government's inclusiveness.

4. Peru

4.1 Development trajectories, political settlements and fragility

In 30 years, Peru has gone through three stages, with macroeconomic and political instability under democratic government in the 1980s, with increasing macroeconomic stability and greater political stability though with massive corruption and rent-seeking in the 1990s under President Fujimori (1991–2000), and then democracy with substantial growth since then. Over this period, Peru developed from a LIC that was characterised by high levels of poverty and inequality, macroeconomic disarray, widespread emigration, weak democratic rule, and an internal armed conflict that claimed over 70,000 lives, to the status of an upper middle-income country (UMIC).

Peru has long been one of the most inequitable countries in Latin America. Under Fujimori there was a strong drive to restore macroeconomic stability as part of a Structural Adjustment Programme. This was combined with the creation of the Peruvian Social Fund (1991), with the aim to generate employment, alleviate poverty and improve access to social services, although research suggests that in practice the funds were largely channelled to electorates most likely to support the president (Schady, 2000). External expertise and incentives – primarily brought in through the international financial institutions (IFIs) – proved influential in this authoritarian setting and helped strengthen certain 'islands of bureaucratic efficiency'. But these policies did not contribute to reducing structural poverty or achieving economic transformation and resulted in the gradual loss of legitimacy and fragmentation of the ruling coalition.

In the post-Fujimori era, along with a rise in tax revenues, social expenditure increased substantially. Peru more than tripled its per capita social expenditure between 1990/1991 and 2008/2009 (8% of GDP), albeit below the Latin American average of 18.4% of GDP in the same period. There were also qualitative improvements in social spending, focused on needs rather than politics. There has been a reduction of poverty, more children go to school, there is broader coverage by health insurance schemes, and infant mortality rates have dropped.

Despite this rapid economic and social progress, high levels of poverty persist, particularly in rural areas, and income inequality remains stubbornly high. These phenomena stem from significant inequality of opportunities and from the poor quality and limited coverage of public services. Owing to vertical and horizontal disparities in opportunities and wellbeing, there are in effect two countries within a single national territory: one is making rapid progress, while the other lags behind with far fewer signs of economic and social change. This situation is reinforced through government transfers to local authorities that fail to take into account expenditure needs and fiscal capacity at the local level, thus exacerbating existing regional disparities and risking social conflict by failing people's expectations. The development model is largely based on environmentally unsustainable exploitation of natural resources, given Peru's vulnerable eco-systems.

Peru's political governance since 2000 seems too fragmented to tackle this *middle income trap*. The past decade has witnessed episodes ending in political stalemates, reflecting weaknesses in the ruling coalition. These have resulted, for example, in low increases in tax efforts (0.6% of GDP between 2005 and 2011, excluding the mining sector) despite the considerable growth rates. Between July 2001 and July 2012, Peru has had 12 different cabinets, with an average life span of 11 months. Public institutions are needed to regulate industry and coordinate multiple actors and agencies so that such regulations are properly applied. There is a lack of support among the ruling elite for economic transformation based on creating jobs among the poorer sections of the population, and tackling inequalities by promoting linkages between economic sectors and regions. At the same time there is a fairly strong consensus among the political elite, economists and technocrats on the need to safeguard macroeconomic stability.

The nature of the political settlement appears primarily to accommodate the urban middle classes and while this does allow for some redistributive policies it also incorporates a wariness of a return to left-leaning government:

"In the first decade of the 2000s, redistributive policies relied on a "trickle-down" effect and social policies were implemented through programs that aimed increasingly at assisting the extremely poor. At the same time the middle class grew, and with it the notion that hard-earned assets could be lost if left-leaning political groups were to win an election" (Peru case study)

There are social conflicts, but the most enduring ones seem to be caused in rural areas by the presence of extractive industries (mining, gas and oil). These are areas where there remain high levels of poverty and a concentration of indigenous populations that have traditionally been excluded from the benefits of economic growth and social policies. Apparently, these conflicts and the prospects of more to come are too remote from the centre of power and too fragmented to threaten the political survival of the ruling coalitions. The threats to political survival posed by challenges to the ecological sustainability of, among other things current extraction policies and practices, may create pressures for a change in the policies that are given priority.

4.2 Role and importance of international links

Economic growth, trade and investment

Peru's economic growth of up to 7% per year between 2005 and 2011 is among the highest in Latin America. This growth is largely due to the extractive industry, primarily explained by China's need to import minerals. Foreign investments increased from $5 billion in 1995 to $25 billion in 2011, of which 20% flowed into the extractive sector, which now represents 14% of GDP. In 2011, mining represented 24% of total FDI, finance 18%, communications 17% and industry 14%. The recent cycle of economic expansion in the extractive sector has been accompanied by new environmental policies, for example regarding environmental management systems. The process leading to these measures benefited from international normative and regulatory frameworks relating to environmental protection.

Most new jobs were created in high-productivity and capital-intensive sectors, whereas unemployment and underemployment are found mainly in low-productivity sectors. Export favours traditional products (mainly raw materials), which represent 78% of total exports, making the sector vulnerable to price fluctuations on global markets. International trade increased more rapidly than economic activity between 2000 and 2011, with total exports and imports rising from 27% of GDP to 47% of GDP. Raw materials topped the export list and capital goods and inputs represented more than 80% of total imports. In 2011, the EU was the destination of 22% of Peruvian exports and the origin of 15% of Peru's imports. The case study highlights that the EU is an 'important player in the Peruvian economy'. The recently signed Free Trade Agreement (FTA) between the EU and Peru gives confidence that trade flows will continue to increase despite Europe's 'short-term problems'.

As mentioned, economic growth has not been combined with public policies and institutions to regulate extractive industrial sector, ensure investment in public goods and services that help tackle inequalities or coordinate the different government functions and levels that are required to transform the economy and reduce inequalities.

Development Finance

In terms of political governance, the case study contrasts the influence and support from the USA with that of the EU as the former has played 'a leading role in strengthening governance in Peru' and suggests the latter could be making more of a contribution in this area particularly by sharing knowledge and expertise. The European Commission (providing 11.4% of total ODA) and EU Member States (jointly providing 58.2%) provide most of Peru's ODA. The case study suggests that there are more opportunities for the EU to engage in ways that would contribute to inclusive and sustainable development. Aid represents $300 million, 20% of which has been invested in the MDG target on providing safe drinking water, and most of the rest in the social sectors.

Remittances have increased annually by 19% since 1990. The country received $2.6 billion in remittances in 2011 (1.9% of total GDP), 70% of which went to urban households, with families spending on average 66% on household consumption and 21% on education. Around one third of Peruvian migrants live in the EU.

The Peru case study refers to the potential for raising additional finance through climate-financing provisions. Yet, the study also warns of the risk that the country remains trapped in dual and fragmented structures that have been reinforced even in recent periods of growth.

4.3 Main conclusions from the country study for a post-2015 development agenda

The Peru case study argues that a new global development framework should take into account different categories of developing countries and recognise the needs and potential that are specific to MICs, as well as the internal heterogeneity of developing countries. Although poverty will remain a problem in Peru, the country's major challenges – and where the EU could provide support – relate to institutional development and democratic governance, provision of high quality public services and the reduction of structural inequalities.

Peru's economic growth has been built on commodity exports, which means that world market prices and terms of trade are of fundamental importance. Although there is still some ODA, it is not crucial. The study suggests that the EU could contribute more if it shifted the emphasis away from 'technical and financial support for basic development objectives, towards broader and fuller economic, political and cultural relations' (Barrantes and Berdegué, 2012). Europe is seen as a source of ideas, technical and political expertise as well as ODA that could help with institutional development and democratic governance, provision of high-quality social protection systems and reducing structural inequalities. The study also argues strongly in favour of technology and capacity transfer through EU technical assistance in the area of natural resource management and environmental assessments and protection.

ANNEX 3 – CORE PRINCIPLES FOR INVESTMENT POLICY-MAKING FOR SUSTAINABLE DEVELOPMENT

Area		Core principles
1	Investment for sustainable development	The overarching objective of investment policy-making is to promote investment for inclusive growth and sustainable development.
2	Policy coherence	Investment policies should be grounded in a country's overall development strategy. All policies that impact on investment should be coherent and synergetic at both the national and international level.
3	Public governance and institutions	Investment policies should be developed involving all stakeholders, and embedded in an institutional framework based on the rule of law that adheres to high standards of public governance and ensures predictable, efficient and transparent procedures for investors.
4	Dynamic policymaking	Investment policies should be regularly reviewed for effectiveness and relevance and adapted to changing development dynamics.
5	Balanced rights and obligations	Investment policies should be balanced in setting out rights and obligations of states and investors in the interest of development for all.
6	Right to regulate	Each country has the sovereign right to establish entry and operational conditions for foreign investment, subject to international commitments, in the interest of the public good and to minimise potential negative effects.
7	Openness to investment	In line with each country's development strategy, investment policy should establish open, stable and predictable entry conditions for investment.
8	Investment protection and treatment	Investment policies should provide adequate protection to established investors. The treatment of established investors should be non-discriminatory in nature.
9	Investment promotion and facilitation	Policies for investment promotion and facilitation should be aligned with sustainable development goals and designed to minimize the risk of harmful competition for investment.
10	Corporate governance and responsibility	Investment policies should promote and facilitate the adoption of and compliance with best international practices of corporate social responsibility and good corporate governance.
11	International cooperation	The international community should cooperate to address shared investment-for-development policy challenges, particularly in least developed countries. Collective efforts should also be made to avoid investment protectionism.

Source: UNCTAD (2012b).

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