

Sustaining and Broadening Progress Toward the MDGs

Development Committee Meeting

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François Bourguignon

Chief Economist and Sr. Vice President

The World Bank

Mr. Chairman, ladies and gentlemen: I welcome this new opportunity to address this meeting of the Development Committee. Before I do this, however, I would like to welcome – or perhaps I should say, welcome back – the new chairman, Agustin Carstens.

In my limited time today, I will review some issues linked to the MDGs that seem of particular importance at this point of time, drawing heavily on the Global Monitoring Report (GMR) that will be discussed later today as well as other analysis undertaken in the Bank. I have two main messages: first, at the country level, there are heartening signs of progress in some areas, but further acceleration is needed on many goals in many countries. Second, many of the issues we face require closer multilateral coordination, and in this regard we – the broad development community – are in danger of falling well short of what is needed.

2006 was another year of very strong growth for developing countries and for the global economy as a whole. Global GDP expanded by 3.9 percent and developing economies by 7.2 percent. Moreover, this strong performance has been broadly based – while growth in India and China has remained rapid, middle-income countries (excluding China) have also performed well at 4 per cent, and taken together, low-income countries even did slightly better. This grouping hides disparities, however. For instance, per capita GDP grew only at 2 per cent in fragile states whereas it reached 6 percent in non-fragile low-income countries.

Looking ahead, 2006 will likely appear as a cyclical peak. Tighter monetary policy, emerging capacity constraints in many countries and a maturation of the investment cycle contributed to a slowing of industrial production toward the end of the year in the major high-income countries and in China. Yet, we expect growth to remain strong in developing countries, declining by not much more than one percentage point.

This continuing strong growth is driving further poverty reduction. Updates of our estimates of global poverty through 2004 show that the world as a whole is on track to achieve the MDG1 target of halving the share of extreme poor by 2015. As the graph shows, the absolute number of poor continues to decline. It fell by almost 200 million over the last 10 years, bringing the total below 1 billion. *This is an enormous achievement.* Historical estimates suggest that the number of poor has been consistently

above 1 billion since the late 19th century, since which time the global population has quadrupled. Economic progress has finally overcome the effect of this demographic explosion.

While this global picture provides some grounds for optimism, the story varies substantially at the regional and country level. Regionally, Sub-Saharan Africa lags furthest behind, although there has been progress there too, as highlighted in the update on the Africa Action Plan prepared for this meeting. In Africa, the fall in the share of people in extreme poverty over the last few years has been fast enough to offset the impact of growing population, so that the absolute number of poor has stopped growing and stabilized – at around 300 million – for the first time in at least a quarter century. And growth, while important, is not always sufficient to reduce poverty – the poverty impact will depend as well on what happens to the distribution of income and other factors. For a sample of countries, the slide compares the average growth of GDP per capita with the average annual reduction in the extreme poverty rate during 1999-2004. Country experiences differ: from China, with rapid income growth and even more rapid poverty reduction, to Brazil and Burkina Faso, with low (or no) growth but substantial poverty reduction nonetheless, to Mozambique and India, with moderate growth and little poverty reduction, to Peru and Laos, where low growth is correlated with worsening poverty. This range of outcomes shows that specific policies may be needed to make sure that growth reduces poverty.

Achieving the MDGs implicitly involves two separate challenges: first, and most obviously, designing and implementing policies in order to reach country-specific targets, and second, generating sufficient monitoring capacity and relevant indicators over time to measure progress and to modify policy when progress is absent or weak.

There are signs of movement on both dimensions. In countries where recent Demographic and Health Surveys – the most reliable, robust and time-consistent sources – allow for an assessment, the slide shows indisputable progress on child mortality over the last several years. Two items deserve mention. First, we can see clear signs of improved monitoring due to greater data availability -- a similar slide in my presentation a year ago showed only 10 countries where this medium-run monitoring of infant mortality was possible, while now there are 21. And second, the results remain encouraging – for many of these countries, progress has been quite rapid, in some cases faster than the average rate of reduction required to achieve the MDG by 2015 – the vertical line. But much more remains to be done to improve our monitoring capability and to accelerate the pace of infant mortality reduction.

In education, the GMR emphasizes that attention to quality – ensuring that students actually learn – is key to ensuring that schooling delivers fully on its promise as the driver of economic success. There is strong evidence that the cognitive skills of the population, rather than mere school enrollment, are powerfully related to individual

earnings, to the distribution of income, and to economic growth. Reducing disparities in access and quality are two necessary ingredients for any education reform to be successful.

One special topic addressed in this year's GMR is efforts to promote the Millennium Development Goal on gender equality and women's empowerment – MDG3. This choice reflects growing recognition of the importance of this goal – both for its own sake as well as for how it can contribute to achieving other goals – and the reality that less attention has perhaps been placed on it compared to others.

Gender inequality is a complex and multidimensional issue – involving access to *rights*, to *resources*, and to *voice*. There are some signs of progress, but it is very uneven. On *resources*, in the context of rising primary school completion rates, gender differences have been greatly reduced in the Middle East and North Africa region and especially in South Asia, as this slide shows. But such progress is more the exception than the rule. While indicators to monitor women's empowerment suffer even more than usual from lack of data, incomplete country coverage and irregular updates – especially in the *rights* and *voice* dimensions – available information suggests that progress remains elusive in many critical aspects of this agenda.

The second focus topic in the GMR is on fragile states – countries with particularly weak governance, policies, and capacity. The 35 countries currently in this group comprise around one-fifth of the population of low-income countries, and they perform more poorly on nearly all indicators of development. With per capita income around one-third of other low-income countries, they also grow only around one-third as fast, so that the gap with other developing countries widens steadily. Debt/GDP ratios are 50 percent higher, poverty rates are nearly double, and under-five mortality is significantly higher than in other low-income countries. Literacy rates are lower, and youth literacy lags behind adult literacy, highlighting the intergenerational impact of the fragile environment.

State fragility may be considered as transitory, as countries emerge from conflict or transition to a more stable political regime. There are success stories – like Mozambique or Rwanda – but unfortunately there also are many examples of persistent or recurrent fragility. Eighty percent of the fragile states identified in 1980 are still fragile today. Achieving the MDGs is particularly problematic in those countries, and calls for increased attention to research and policy initiatives on fragile states and efforts to mobilize resources – despite their enormous needs, aid flows to fragile states are uneven, irregular and fragmented.

The expansion in global aid has stalled. Overall aid was on an upward trend with a large surge in 2005 attributable to exceptional debt relief that mostly favored two countries, Iraq and Nigeria. But total ODA in real terms fell by \$5.4 billion from 2005 to 2006, of

which \$3.4 billion is due to debt relief and \$2 billion for other ODA. Debt relief can yield important benefits to recipients – especially when debt is being regularly serviced, but also in terms of improving macro and creditworthiness indicators. But the worry is that as the opportunities for “exceptional” debt relief continue to drop over the coming years, total ODA will fall as well, and donor promises of doubling aid to Sub-Saharan Africa by 2010 fail to materialize.

The recent proliferation of different sectoral (or “vertical”) funds, the growing role of non-traditional donors (such as China and India), and the expansion of private foundations are welcome. The magnitude of the development challenge we face is large enough to accommodate more contributors. But at the same time, this trend focuses attention on the fragmentation of aid and possible loss of efficiency. As the slide shows, fragmentation in the number of official DAC donors has been rising for decades, adding to the burden on recipient countries. Including non-traditional donors would make this picture even worse, underscoring the need for greater harmonization and alignment of aid programs.

Rapid global integration has taken place over the last 15 years and may be one of the factors behind the strong global growth observed over the last few years. As the slide illustrates, average real export growth over the last decade and half has been strong for nearly all country groups. India and China have seen an enormous increase in export volume growth. Although more modest, low-income countries also exhibited strong trade growth, with an average export growth rate of more than 6 percent per year in the 1990s, and still faster in recent years. At the same time, the slide shows that these averages hide strong disparities across countries – as shown by the vertical bars delimiting the range of growth rates between extreme cases. In particular, fragile states have been largely left out of this buoyant story – signaling the dynamic cost of their inability to seize opportunities in a globalizing world.

It is important that global integration of developing countries continues. This calls for more attention in their own programs to policies that facilitate trade and improve competitiveness – supported where needed by Aid for Trade. Furthermore, progress on the Doha Round – precisely intended to address the trade concerns of developing countries – has been minimal. A narrow – but shrinking – window remains open to reach agreement. This progress is crucial.

Other important externalities tie countries together. The growing threat posed to the global environment from rising concentrations of greenhouse gases is now recognized. Beyond the potential global impact, I want to emphasize its distributional consequences. Not all countries will be affected in the same way and to the same degree, and within countries, certain sectors and income groups will be more affected.

This raises the question of how we can ensure that the adjustment burden does not fall excessively on the world's poor countries and people. Part of the adjustment works through reducing emissions. It is tempting, as some have done, to argue that the problem is a "rich" countries' problem, but this misses the point. As the graph shows, while industrial countries were responsible for three-quarters of the emissions in 1990, this has fallen to around 60 percent at present, and will fall even more to around one-half by 2020. The bulk of incremental emissions will come from fast-growing developing countries. Efforts to curb emissions must be targeted toward those countries where the marginal cost of conservation is lower, but the global community must ensure that this does not run counter to poverty reduction.

The recent EU commitment to curtail emissions, shown here as a wedge, represents an important first step, but must be matched by similar commitments from others.

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Mr. Chairman, in closing I would simply reiterate my opening message about the special challenge that these issues pose to multilateralism – and in particular, ***the capacity and commitment of multilateral institutions to produce durable answers to difficult problems***. Lagging aid flows pose one such challenge, as does the failure to achieve closure on the Doha Round. Likewise, the need to agree on and implement a global response to climate change will require an enormous transformation in the way in which the global community operates. My question is simply this: *are we prepared for these challenges?* And my second question is: *can we afford not to be?*