Macroeconomic, Trade, and Aid Developments in Developing Countries

Growth and macroeconomic adjustment in developing countries

The global economy is expected to recover, but only very gradually. While the road to recovery in advanced economies will remain bumpy, downside risks to the outlook have eased as policy intentions in advanced economies have become clearer and commodity price volatility has abated. Although important downside risks remain—including adjustment fatigue in advanced economies and overinvestment and high asset prices in emerging market and developing countries—overall risks are now more symmetric. In emerging market and developing countries, economic activity is picking up. A broadly appropriate current policy stance in emerging market and developing countries is supporting continued strong growth in these countries, but some tightening of the policy stance appears appropriate over the medium term, beginning with monetary policy and prudential measures. Commodity prices trended down through most of 2012 and are expected to remain stable in 2013, providing room for a flexible implementation of monetary policy, particularly in emerging market and developing countries.

Despite sustained economic growth, progress in rebuilding policy buffers in low-income countries has been modest. There are large differences across countries, however. Still-high international commodity prices are providing commodity exporters with relatively larger buffers than commodity-importing countries. The downside risk of a protracted global growth slowdown extending through 2015 would have a significantly negative impact on growth in low-income countries. With policy buffers not yet restored to levels preceding the 2009 crisis and against the backdrop of reduced traditional sources of financing, most low-income countries would likely need to undertake adjustments in the face of such a shock.

This year’s Global Monitoring Report (GMR) focuses on agglomeration as an important driver of development. As factors of production agglomerate, they become more productive because it becomes easier to exploit economies of scale and scope. These economic aspects of agglomeration are most often looked at from a microeconomic perspective, but broad-based changes in where people work and live also have profound macroeconomic consequences. Using a World Bank agglomeration index, evidence
is presented below suggesting that there are relatively higher returns to agglomeration on the lower rungs of development. Recent research at the International Monetary Fund (IMF) suggests that greater economic diversification is associated with improved macroeconomic performance. Another strand of research, which has benchmarked structural transformation in Africa with that of Asia’s, provides some optimism with regard to Africa’s economic prospects.

**Growth should rebound by 2014, but risks remain**

Global economic growth continued to slow in 2012 to 3.2 percent, from 4.0 percent in 2011 (table 1.1). Growth slowed in advanced economies as well as in emerging market and developing countries, but the former group of countries grew significantly less than the latter group (1.2 percent and 5.1 percent respectively). The growth slowdown in 2012 was more pronounced than foreseen in GMR 2012. Importantly, however, the two country groupings most challenged in meeting the Millennium Development Goals (MDGs)—low-income countries and fragile states—both grew broadly as expected (5.5 and 5.8 percent, respectively).¹ The low and falling growth in the global economy was accompanied by low consumer price inflation in most countries.

There were large regional differences in growth performance across emerging market and developing countries in 2012. The recession in the euro area weighed heavily on central and eastern European countries. With Poland and Turkey tightening policies and several southeastern European countries falling back into recession, growth in this region fell to just 1.6 percent. As in previous years, growth in emerging market and developing countries was led by those in Asia (6.6 percent). Growth in the Middle East and North Africa countries recovered to 4.8 percent (from 4.0 percent in 2011), as these countries progressed in their political and social transitions, in particular in Libya, where gross domestic product (GDP) more than doubled after the economic collapse the year before. In Sub-Saharan Africa, robust growth continued in 2012, but the average growth rate of 4.8 percent masks large cross-country differences. Whereas conflicts negatively affected growth in Guinea-Bissau and Mali, growth in Côte d’Ivoire rebounded following election-related disturbances in 2011. Despite the

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<th>TABLE 1.1  Global output  Annual % change</th>
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<td>Emerging market countries⁵</td>
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<td>Fragile states c</td>
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Source: World Economic Outlook.

a. Low-income countries are those eligible for financial assistance under IMF’s Poverty Reduction and Growth Trust, and Zimbabwe.

b. Emerging market countries are emerging market and developing countries that are not low-income countries.

c. A subset of emerging market and developing countries included in the World Bank’s list of Fragile and Conflict-Affected States.
weaker overall economic outcome, per capita incomes rose in most countries (figure 1.1).

The IMF’s World Economic Outlook projects 3.3 percent global growth in 2013. The expected growth is subdued as the underlying fragilities that caused the slowdown in 2012 take time to unwind. The ongoing fiscal consolidation and financial sector deleveraging will continue to weigh on the euro area, and its economy is projected to contract for a second year in a row. Other advanced economies are projected to expand, but growth will be held back by headwinds that include subdued external demand in, and financial spillover effects from, the euro area, and fiscal consolidation (for example, in the United States). Overall, advanced economies are projected to grow 1.2 percent as in 2012.

In the emerging market and developing countries, prospects are for a strengthening of growth to 5.3 percent in 2013. Growth is being supported by appropriate policies for the most part, but held back by weak demand in advanced economies. Lower commodity prices will also lead to terms-of-trade losses for commodity exporters, with knock-on effects on growth. Diminished policy space, policy uncertainty, and supply bottlenecks hamper growth in some countries (for example, India). As in 2012, the countries in central and eastern Europe and the Asian countries would be the slowest and fastest growing groups of countries (projected to grow by 2.2 and 7.1 percent respectively). The countries in central and eastern Europe—with their deep trade and financial links to western Europe—will continue to be negatively affected by spillovers from the euro area, while the strong growth in Asia is predicated on continued expansion in China and a strong recovery in India. Growth in the Middle East and North Africa will be modest, reflecting ongoing political transitions and a slowdown among the region’s oil exporters. Notwithstanding a somewhat weaker outlook for commodity prices, Sub-Saharan African economies are expected to expand by 5.6 percent.

Strong domestic government revenue mobilization is key to emerging market and developing countries having the resources needed to address their development challenges, including enhancing infrastructure provision and achieving the Millennium Development Goals (MDGs). In that regard, the 2009 global crisis was a major setback as the crisis led to a drop in revenues of 3 percentage points of GDP. Since then, revenues have recovered somewhat, but not fully, and are expected to remain below pre-crisis levels through 2015 (table 1.2).

Global current account imbalances—which widened in the run-up to the crisis—narrowed as the crisis hit and have since remained broadly stable (figure 1.2). Robust net financial flows to emerging market and developing countries have also remained fairly constant from 2009 onward, with prospects of no major changes for 2013 (table 1.3). Emerging market countries receive on average about 8 percent of GDP in net financial flows, with most of these flows being private sector financial flows (including transfers). Relative to GDP, low-income countries receive net financial inflows that are about twice as high, averaging 14 percent of GDP in recent years. Relative to emerging market countries, low-income countries receive more private capital flows and private transfers, but the main factor behind the higher inflows to low-income countries is key to emerging market and developing countries having the resources needed to address their development challenges, including enhancing infrastructure provision and achieving the Millennium Development Goals (MDGs). In that regard, the 2009 global crisis was a major setback as the crisis led to a drop in revenues of 3 percentage points of GDP. Since then, revenues have recovered somewhat, but not fully, and are expected to remain below pre-crisis levels through 2015 (table 1.2).

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countries is the significantly higher level of official inflows (capital and transfers). Fragile states receive significantly higher net inflows (relative to their GDP). In 2012, fragile states received net inflows that averaged 16 percent of GDP and the prospects are for a similar level of inflows in 2013.

World trade was stagnant in 2012, reflecting weak import demand in advanced economies and relatively stable international commodity prices. Trade in emerging market and developing countries expanded by 4 percent, down sharply from 25 percent the previous year (in nominal U.S. dollars). In contrast,
advanced economies’ trade contracted by 2 percent. The typical low-income country is highly integrated into the world economy with import and export shares of GDP of about 50 and 30 percent, respectively (figure 1.3). The current account deficits (including foreign direct investments) in these countries remain higher than before the 2009 crisis and little change is expected for 2013. Official reserves, in months of imports—a standard measure of reserve adequacy for an emerging market or low-income country—changed little in 2012, reflecting modest increases in both imports and reserve accumulation (figure 1.4). About a quarter of all emerging market and developing countries maintain reserves of less than three months imports.

**Macroeconomic policies**

In 2012, the continuing challenge for policymakers in most advanced economies was how concurrently to support a feeble recovery and address concerns about medium-term fiscal sustainability. With inflation expectations well-anchored, monetary policy continued to remain supportive, while firm expenditure controls allowed room for a narrowing of fiscal deficits. Food and other commodity

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**Table 1.3 Net financial flows**

<table>
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<th>2008</th>
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*Source: World Economic Outlook.*

*a.* Equally weighted.

*b.* A subset of emerging market and developing countries included in the World Bank’s list of Fragile and Conflict-Affected States.
prices in global markets rose sharply from late 2010 to late 2011, followed by some pull-back through most of 2012 (figures 1.5 and 1.6). In emerging market and developing countries, commodity price movements impact consumer prices, terms of trade, and income to a larger extent than in advanced economies. For that reason, commodity price volatility complicates macroeconomic policy making in emerging market and developing countries.

Fiscal deficits in 2012 remained broadly stable in both emerging market and low-income countries (figure 1.7). Thus, the trend toward reinforcing fiscal buffers has stalled. In the 2009 crisis, large buffers made possible an unprecedented countercyclical fiscal response on the order of about 3 percentage points of GDP, but three years after the crisis, less than half of this buffer has been reconstituted.

Slightly more than half of all emerging market countries continued to tighten monetary policy in 2012 (figure 1.8). Among the countries that loosened monetary policy, the loosening took the form of reduced nominal short-term interest rates and depreciation of the currency in about equal measure. In low-income countries, a significant majority of countries loosened monetary policy in 2012, in sharp contrast to 2011. In these countries, the monetary loosening mostly took the form of currency depreciation although the number of countries using the interest rate instrument increased significantly from 2011 to 2012. Against this background, growth in monetary aggregates relative to GDP in emerging market countries broadly reverted to trends prevailing before the 2009 crisis (figure 1.9).

The macroeconomic policy mix varied sharply across emerging market countries and low-income countries in 2012; the mix also changed appreciably from 2011 to 2012 (figure 1.10). Among emerging market countries, twice as many countries (close to 40 percent) loosened both monetary and fiscal policy than tightened both policies. Among low-income countries, more countries tightened than loosened both type of policies. Among low-income countries, more countries tightened than loosened both type of policies. Emerging market countries shifted markedly toward relaxing fiscal policy in 2012, with an offsetting tightening of monetary policy. In low-income countries, the trend was in the opposite direction.

**Quality of macroeconomic policies in low-income countries**

Since 2003, the quality of macroeconomic policies in low-income countries has been...
FIGURE 1.5 Commodity price indexes

Source: World Economic Outlook.
Note: Indexes are in U.S. dollars.

FIGURE 1.6 Changes in commodity prices and changes in GDP per capita, terms of trade, and inflation

Source: World Economic Outlook.
Note: Bars represent the range between the 25th and 75th percentiles.

a. Annual changes in percent; for 2007–08 and 2010–11, it is the average of annual changes in percent.
assessed through annual surveys of IMF country desks. Over the years, significant progress has been made in several areas of economic policy. Low-income countries in Sub-Saharan Africa have registered relatively higher improvements. The number of countries with unsatisfactory policies has declined substantially since 2005 in most categories. However, the quality of policies differs considerably across the different policy areas, with concerns typically focusing on fiscal issues (figure 1.11). In 2012, the share of countries rated positively on the composition of public spending—an important driver for the attainment of the MDGs—reversed some of the modest gains achieved since 2005. In fiscal transparency, a number of relatively strong-performing countries scored higher in 2012 than they did in 2011, while the number of countries with unsatisfactory policies relating to governance in the public sector declined. Monetary policy and governance in monetary and financial institutions continue to remain relatively strong areas of macroeconomic policies. The assessment of consistency of macroeconomic policies remains mixed. From 2011 to 2012, the number of countries with unsatisfactory policies increased slightly while the number of relatively strong-performing countries fell.

Managing macroeconomic risks in low-income countries

Most low-income countries recovered quickly from the 2009 crisis and have experienced strong growth since early 2010. The continuing recovery was helped by deepening

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**FIGURE 1.7 Fiscal deficit**

![Fiscal deficit chart](chart)

Source: World Economic Outlook.


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**FIGURE 1.8 Monetary policy loosening**

![Monetary policy loosening chart](chart)

Source: World Economic Outlook.

Note: Monetary policy loosening is based on Monetary Conditions Index (MCI) calculations. MCI is a linear combination of nominal short-term interest rates and the nominal effective exchange rate (with a one-third weight for the latter).
FIGURE 1.9  Average year-on-year growth in money and the money gap in emerging market countries

Note: The money gap is the difference between year-on-year growth rates of the money supply (M2) and nominal GDP. The sample includes emerging market economies that have data on both for the whole sample period shown.

FIGURE 1.10  Macroeconomic policy mix

Note: Fiscal conditions are defined based on annual change in the government balance (net lending/net borrowing) as a percent of GDP in 2008, 2009, 2010, 2011, and 2012. Monetary conditions are based on the change in the Monetary Conditions Index (MCI); changes are calculated Q4 over Q4. MCI is a linear combination of nominal short-term interest rates and the nominal effective exchange rate (with a one-third weight for the latter).
FIGURE 1.11 Quality of macroeconomic policies in low-income countries

- a. Fiscal policy
- b. Composition of public spending
- c. Fiscal transparency
- d. Monetary policy
- e. Consistency of macroeconomic policy
- f. Governance in monetary and financial institutions
- g. Governance in the public sector
- h. Access to foreign exchange

Source: IMF staff estimates.
Note: IMF staff have assessed each low-income country according to a common set of criteria. Policies are assessed as unsatisfactory, adequate, and good for this purpose. For example, a country with an unsustainable level of public debt and a large deficit would be judged to have an unsatisfactory fiscal policy.
links with emerging markets, which complemented traditional export demand from advanced economies. In addition to the traditional trade channels, low-income countries have become linked to emerging markets through remittances and financial linkages (IMF 2011).

Despite sustained economic growth, however, the recent progress in rebuilding policy buffers has been modest for most low-income countries and has been partially reversed in some others over the past two years. The situation varies widely across different country groups (figure 1.12). For example, commodity-exporting countries have relatively high external and fiscal buffers, while small countries seem to be in a somewhat worse position than the rest. Greater emphasis on rebuilding buffers would position low-income countries better to protect spending levels and growth in the event of future shocks. At the same time, the rebuilding of buffers has to be balanced with the need to maintain adequate space for development-enhancing expenditures, particularly for infrastructure and other expenditures aimed at achieving the MDGs.

An analytical framework developed by the IMF that assesses low-income countries’ vulnerabilities to global risks was used to simulate the impact of a protracted growth downturn—a low probability event driven by a slowdown in potential growth in advanced and emerging markets (IMF 2012a). Under this scenario, global growth is assumed to be lower than the baseline projection by 0.5 percentage point in 2013, 1.7 percentage points in 2014, and 2.0 percentage points in 2015. The weaker global growth is assumed to lead to weaker demand for commodities, which would depress oil and non-oil commodity prices.

The protracted global growth slowdown scenario is estimated to have a large negative impact on growth in low-income countries, which would get progressively worse over time. The impact stems from below-trend demand for low-income-country exports, as well as a reduction in remittances and inflows of foreign direct investment to low-income countries, particularly from emerging markets. The cumulative output loss in 2013–15 in the median low-income country could reach 3.2 percentage points, with output losses ranging from 1.9 to 5.7 points across all low-income countries. Under such a scenario, and before taking account of potential policy responses, fiscal and external buffers in low-income countries would progressively weaken as the permanent output loss accumulates over time (figure 1.13). The cumulative widening in fiscal balances in 2013–15 in the median low-income country could increase by 1.9 percentage points of GDP. This in turn could lead to significant public debt accumulation, compared to the gradual improvement in debt ratios projected in the baseline over the same period. Also, the cumulative deterioration in external balances would increase by 5.1 percentage points of GDP, resulting in sharp declines in reserve coverage across many low-income countries. Such imbalances could not be financed indefinitely. Additional cumulative financing needs could be as large as $26 billion by the end of 2014, and about $61 billion by the end of 2015. This comes against the backdrop of reduced access to traditional sources of financing, reflecting budgetary pressures in donor countries. Therefore, most low-income countries would most likely need to undertake medium-term adjustment in the face of such a protracted shock to global growth, while at the same time the IMF would likely be called upon to provide additional financial assistance.

If the risk of a protracted global downturn materializes, the appropriate policy response would need to reflect the permanent nature of the shock and the existing magnitude of policy buffers:

- **The magnitude of the required fiscal adjustment would depend on available fiscal space and debt sustainability.** Fragile low-income countries and those in Latin America and the Caribbean—especially small states that suffer from high debt and little, if any, fiscal space—may not have room for accommodative fiscal policy. Low-income countries in Asia and
FIGURE 1.12  Selected macroeconomic indicators for low-income countries, 2007–13

Source: World Economic Outlook.
Note: FDI = foreign direct investment.
the Pacific would have room for a small increase in deficits to accommodate the shock, given their stronger macroeconomic positions.6

- **The magnitude and timing of adjustment would also depend on growth prospects.** Countries with strong cyclical positions (high growth) but weaker macroeconomic positions would benefit from immediate adjustment. In contrast, a more gradual adjustment would be desirable in countries with a weak cyclical position (low growth), because rapid consolidation could depress growth and further weaken the fiscal position.

- **The composition of the adjustment would also need to strike a balance between revenue mobilization and expenditure measures.** Strengthening tax administration and avoiding ad hoc tax reductions would help limit the burden of adjustment falling excessively on the expenditure side and protect high-priority expenditures (such as infrastructure and social sector spending). Making budgetary spending more growth friendly (by reallocating spending from untargeted subsidies to productive investments, for example) would improve the quality of adjustment and support domestic demand.

Optimally, fiscal adjustment should also be complemented by adjustment in monetary and exchange rate policies and include some important structural measures. The majority of low-income countries would have sufficient policy space to reduce interest rates in response to a protracted global growth
slowdown, because weaker domestic demand and commodity prices would lead to moderation in inflation. Some external adjustment could be also implemented, in particular in countries with overvalued exchange rates. In addition, some adjustment in private sector behavior would help to partially offset the impact of lower external demand by reducing imports consistent with the new weaker economic growth path and lower relative prices. The implementation of structural reforms could include measures to deepen the financial sector and develop domestic debt markets, coupled with strengthening the supervisory framework, as well as better-targeted investments in infrastructure to increase productivity and living standards.

**Economic diversification and structural transformation**

The theme of this year’s GMR is “Rural-Urban Dynamics and the Millennium Development Goals.” Agglomeration is an important driver of development: as factors of production agglomerate—that is, become geographically more concentrated—they become more productive because it becomes easier to exploit economies of scale and scope (Commission on Growth and Development 2008). Network effects and other positive externalities in turn also positively impact productivity and economic growth. While agglomeration can be immensely beneficial, there are constraints: increasing congestion costs can provide a powerful check on productivity gains.

Agglomeration is part of a broader set of changes—including, for example, the demographic transition—that together constitute the transformation of traditional low-productivity economies into modern high-productivity economies. This transformation also typically encompasses the structural shift to manufacturing and service activities from agriculture. This section includes three different takes on the agglomeration process through a macroeconomic prism. The first explores to what extent differences in the degree of agglomeration across countries can provide insights into differences in macroeconomic outcomes such as growth. The latter two address economic diversification in low-income countries and structural transformation in Sub-Saharan Africa.

**Macroeconomic performance and agglomeration**

For World Development Report 2009: Reshaping Economic Geography (WDR 2009), Bank staff developed an index that measures on a uniform basis country-specific levels of agglomeration. A recent update of the index provides a snapshot of the degree of agglomeration in 162 countries in 2010. The combined population of the countries for which data are available is 6.8 billion (98 percent of the world’s population). The index ranges from a 7 percent urban population share in Papua New Guinea to a 100 percent urban population share in Singapore. The population-weighted average urban population share is 54 percent.

The distribution of the degree of agglomeration across countries is highly uneven, but less so than that of income because the share of population living in urban areas cannot exceed 100 percent whereas there is no upper limit to income levels (figure 1.14). As would be expected, there is a positive and statistically significant correlation between the degree of agglomeration and the level of per capita income. The Pearson and Spearman rank correlation coefficients between the two variables are 0.52 and 0.72 respectively (both statistically significant at the 5 percent level). This positive correlation should, of course, not be interpreted to mean that there is a causal link from agglomeration to income (or vice versa), but rather that a broader underlying development process impacts both agglomeration and income outcomes.

To further explore the interrelationship between countries’ level of agglomeration and level of income, countries are divided into low-, medium-, and high-agglomeration/income countries using the methodology of Nielsen (2011 and forthcoming). Countries with an agglomeration share of 40 percent or lower (64 percent or higher) are designated...
as low-agglomeration (high-agglomeration) countries. Medium-agglomeration countries are those with an agglomeration share between 40 percent and 64 percent. Using the same method, countries with a per capita income of $6,500 or lower ($27,000 or higher) are designated as low-income (high-income) countries. Medium-income countries are those with a per capita income between $6,500 and $27,000 (map 1.1).

There is a large degree of overlap between the categorization of countries as low-, medium-, and high-agglomeration countries and the analytical country categorization of low-income, emerging market, and advanced economies (table 1.4).10 Most low-income countries are low-agglomeration countries and most advanced economies are high-agglomeration economies. Among emerging market countries about half are medium-agglomeration countries. The correlation between the two country classification systems is statistically significant.11 Per capita income increases with the level of agglomeration for both low-income and emerging market countries, but the relative increases are more pronounced for low-income countries. Among advanced economies, there is no “return” to agglomeration (the higher per capita income level of the small group of medium-agglomeration advanced economies is because most Nordic countries are included here). These findings suggest that the positive correlation between agglomeration and development is more strongly felt in the poorer countries that are most challenged in attaining the MDGs.

Looking at economic growth over the last 10 years through the prism of agglomeration, growth in medium-agglomeration countries has outpaced that of both low- and high-agglomeration countries (table 1.5). Given the large degree of overlap between countries categorized according to their level of agglomeration or development, this is not a surprising result (compare table 1.5 with table 1.1 and figure 1.1).

Of more interest, therefore, is a comparison of macroeconomic outcomes across levels of agglomeration within different geographical areas. For example, growth in low- and medium-agglomeration emerging market and developing countries in Europe and Asia has been higher than growth in

### TABLE 1.4 IMF and World Bank member countries: Selected indicators, 2010

<table>
<thead>
<tr>
<th></th>
<th>Low-income countries</th>
<th>Emerging market countries</th>
<th>Advanced economies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of countries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-agglomeration countries</td>
<td>44</td>
<td>13</td>
<td>0</td>
<td>57</td>
</tr>
<tr>
<td>Medium-agglomeration countries</td>
<td>20</td>
<td>42</td>
<td>9</td>
<td>71</td>
</tr>
<tr>
<td>High-agglomeration countries</td>
<td>9</td>
<td>28</td>
<td>23</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>73</td>
<td>83</td>
<td>32</td>
<td>188</td>
</tr>
<tr>
<td><strong>Population (in millions)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-agglomeration countries</td>
<td>710</td>
<td>104</td>
<td>0</td>
<td>815</td>
</tr>
<tr>
<td>Medium-agglomeration countries</td>
<td>525</td>
<td>3,917</td>
<td>57</td>
<td>4,499</td>
</tr>
<tr>
<td>High-agglomeration countries</td>
<td>33</td>
<td>477</td>
<td>962</td>
<td>1,473</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,268</td>
<td>4,499</td>
<td>1,019</td>
<td>6,787</td>
</tr>
<tr>
<td><strong>GDP per capita (in U.S. dollars)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low-agglomeration countries</td>
<td>1,083</td>
<td>6,020</td>
<td>0</td>
<td>1,954</td>
</tr>
<tr>
<td>Medium-agglomeration countries</td>
<td>1,415</td>
<td>6,957</td>
<td>43,516</td>
<td>10,263</td>
</tr>
<tr>
<td>High-agglomeration countries</td>
<td>4,491</td>
<td>15,258</td>
<td>39,409</td>
<td>23,171</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,608</td>
<td>9,984</td>
<td>40,529</td>
<td>12,306</td>
</tr>
</tbody>
</table>

Source: World Economic Outlook.
Note: Numbers may not add to totals because of rounding.
MAP 1.1  Do agglomeration and income differences across countries align?

a. Agglomeration

b. Income
high-agglomeration countries in Europe and Asia. For emerging market and developing countries in Africa and the Middle-East, the opposite result holds. In these regions, high-growth countries were for the most part high-agglomeration countries.

Turning to low-income countries, average annual per capita economic growth in 2003–12 in high-agglomeration countries was 5.6 percent annually, compared with 3.0 percent and 2.8 percent respectively in low- and medium-agglomeration countries. The large differences in growth outcomes between high-agglomeration low-income countries, on the one hand, and low- and medium-agglomeration low-income countries, on the other hand, are statistically significant (table 1.6). In contrast, the difference in growth outcomes between low- and medium-agglomeration low-income countries (0.2 percent) is not statistically significant.

Agglomeration is an important aspect of development, but it is usually looked at from a microeconomic perspective. Looking at agglomeration differences across countries, however, can provide additional insights into macroeconomic performance. The evidence presented here suggests that there are high returns to agglomeration, particularly for countries on the lower rung of development. For countries on higher rungs, the relative benefits and costs of concentrating people and other economic factors of production in urban settings is less clear.

### Economic diversification in low-income countries

Limited diversification in production is an underlying characteristic of many low-income countries. As countries grow, their economies often become more diverse, but only up to a point: at higher income levels economies again become less diverse. Low levels of diversity in low-income economies

<table>
<thead>
<tr>
<th>Mean differences between</th>
<th>Low-income countries</th>
<th>Emerging market countries</th>
<th>Advanced market economies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low/high-agglomeration countries</td>
<td>S</td>
<td>N</td>
<td>n.a.</td>
<td>N</td>
</tr>
<tr>
<td>Low/medium-agglomeration countries</td>
<td>N</td>
<td>N</td>
<td>n.a.</td>
<td>N</td>
</tr>
<tr>
<td>High/medium-agglomeration countries</td>
<td>S</td>
<td>S</td>
<td>N</td>
<td>S</td>
</tr>
</tbody>
</table>

Source: IMF staff estimates.
Note: n.a. = Not applicable.
S = statistically significant; N = not statistically significant.

<table>
<thead>
<tr>
<th>World</th>
<th>Low-agglomeration countries</th>
<th>Medium-agglomeration countries</th>
<th>High-agglomeration countries</th>
<th>All countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced economies</td>
<td>3.0</td>
<td>3.5</td>
<td>2.4</td>
<td>3.0</td>
</tr>
<tr>
<td>Emerging and developing countries</td>
<td>3.0</td>
<td>3.9</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>n.a.</td>
<td>3.8</td>
<td>3.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Commonwealth of Independent States</td>
<td>n.a.</td>
<td>6.5</td>
<td>6.5</td>
<td>6.5</td>
</tr>
<tr>
<td>Developing Asia</td>
<td>4.7</td>
<td>5.7</td>
<td>3.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>0.7</td>
<td>2.5</td>
<td>3.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>2.6</td>
<td>2.0</td>
<td>3.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Western Hemisphere</td>
<td>1.5</td>
<td>3.1</td>
<td>2.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>3.0</td>
<td>2.8</td>
<td>5.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Of which: Fragile states</td>
<td>1.8</td>
<td>0.7</td>
<td>n.a.</td>
<td>1.7</td>
</tr>
<tr>
<td>Emerging market countries</td>
<td>3.2</td>
<td>4.5</td>
<td>3.0</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: World Economic Outlook.
Note: For 162 countries for which data on the agglomeration index are available.
n.a. = Not applicable.
a. Low-income countries are those eligible for financial assistance under IMF’s Poverty Reduction and Growth Trust, and Zimbabwe.
b. A subset of low-income countries included in the World Bank’s list of Fragile and Conflict-Affected States.
c. Emerging market countries are emerging market and developing countries that are not low-income countries.
can reflect a broad range of market and government failures, and the result can be concentration in sectors with limited scope for productivity growth and quality upgrading, such as primary commodities. In turn, this can lead to less broad-based and sustainable growth, as well as increased exposure to adverse external shocks and macroeconomic instability.

A recent IMF Staff Discussion Note (Papageorgiou and Spatafora 2012) sheds more light on the role of diversification in the macroeconomic performance of low-income countries, examining diversification not just in trade but also in the broader domestic economy. Using existing data, as well as a new IMF cross-country dataset covering output in 12 sectors and several new country case studies, this work reviews and extends the evidence pointing to diversification as a crucial aspect of the development process.

For an extended period, many low-income countries enjoyed little success in diversifying exports and production. The situation broadly improved after the mid-1990s, with significant changes in both the type and quality of goods produced and exported. Regions and countries differed greatly, however, in the degree to which they succeeded in carrying out this economic transformation. In particular, Sub-Saharan Africa is far less diversified and produces relatively lower-quality goods than Asia.

Greater diversification is associated with improved macroeconomic performance, including both lower volatility and higher growth. “Diversification spurts,” that is, episodes of rapid, sustained diversification, are associated with a 17 percent average reduction in the volatility of output growth in emerging market and developing countries, and a 30 percent decrease in output volatility in low-income countries.

Analogously, diversification spurts are associated with sharp subsequent accelerations in growth. This is especially true for nonfragile low-income countries (figure 1.15). More broadly, initial diversification is, on average, positively associated with subsequent growth, although there is much cross-country heterogeneity.

These findings raise a key policy question: What factors can spur or, alternatively, impede diversification? Both policy and institutional factors can influence the transition to more diverse production structures and thereby affect the pace at which growth can be sustained. For instance, policy barriers and structural rigidities in labor and product markets, or underdeveloped financial systems, may hamper the process of diversification. Likewise, insufficient or low-quality public infrastructure may retard the development of those sectors that rely disproportionately upon it; this factor may prove especially important in low-income countries, where a large portion of investment stems from the public sector.

Case studies provide some tentative evidence in support of findings. First, diversification and structural transformation are often underpinned by reforms and policy measures that are general in scope. Macroeconomic stabilization is a clear example. But even microeconomic measures are often broad-based, focusing on improving the quantity and quality of infrastructure or essential business services, or on setting up a welcoming environment for foreign investors.

**FIGURE 1.15 Diversification spurts and growth accelerations**

![Graph showing diversification spurts and growth accelerations](image-url)

Sources: COMTRADE, World Economic Outlook; and IMF staff estimates.
It remains an open issue to what extent industry-focused and narrowly targeted measures have historically helped underpin diversification efforts.

Second, effective policy measures come in “waves” and aim at exploiting the evolving comparative advantages of the economy in changing external conditions. The types of reforms underpinning diversification and structural transformation in the early stages of development are different from those required at later stages. In general, reforms need to be adapted to the external environment faced by the economy.

Finally, the frequency with which new products are introduced and the rate at which they grow can point to potential policy-driven bottlenecks. Little entry may indicate that barriers deter firms from exporting or experimenting. If survival rates are low, firms may face more obstacles than expected. If surviving firms cannot expand, they may have inadequate access to finance.

**Structural transformation in Sub-Saharan Africa**

Sub-Saharan Africa has been experiencing an episode of high growth since the mid-1990s. Many of the countries of the region have benefited from relatively high commodity prices. One key question is whether higher growth has been accompanied by structural transformation, defined as the pattern of change in economic activity across sectors—from the primary to secondary and tertiary sectors—and across space—from rural to urban areas.

The IMF’s *Regional Economic Outlook: Sub-Saharan Africa* (2012) analyzes one of the dimensions of structural transformation, namely, whether growth has been accompanied by a shift of workers from low to high average productivity activities and sectors. Since on average more than half of the labor force is employed in agriculture in these economies, and agriculture accounts for about one-third of output, average labor productivity in the sector is very low. Thus, structural transformation in Sub-Saharan Africa typically involves increasing the productivity of the agricultural sector, which frees up labor, allowing the shift of agricultural workers to industry and services.

Using data from 1995 to 2010 on agricultural output from the Food and Agricultural Organization (FAO) of the United Nations, GDP by sector from the IMF, and employment by sector from household surveys, the analysis of average labor productivity and the shift of workers across sectors shows that most countries in the region have experienced some degree of structural transformation, although there has been significant variation in its speed and type. In particular, transformation in Sub-Saharan Africa has been slower than that experienced by several countries in Asia: many of the African countries have experienced relatively slow productivity growth in agriculture and a less pronounced shift from agriculture to services and, to an even lesser extent, to manufacturing.

Figure 1.16 compares a sample of Sub-Saharan African countries (Cameroon, Ghana, Mauritius, South Africa, and Tanzania) with a group of low- and middle-income Asian economies that have experienced rapid structural transformation and started their growth takeoffs with similar or lower levels of GDP per capita than the average African country at the time. As can be seen, Ghana and Tanzania have experienced declines in agricultural output and employment shares over time, with Tanzania matching the experience of the comparator Asian economies quite closely. Middle-income countries have experienced declining manufacturing ratios for the past two decades, consistent with the process in more advanced Asian countries, where services play an ever-increasing role in the economy. Relatively few low-income countries in Sub-Saharan Africa have been able to raise their manufacturing output and employment shares on a sustained basis.

An alternative presentation of the data on employment shares shows broad increases in employment in sectors with higher productivity. Figures 1.17 and 1.18 depict annual
FIGURE 1.16  Sub-Saharan Africa: Sectoral output and employment, 1995–2010

Sources: CEIC database and Haver Analytics database.
changes in employment shares against average relative productivity levels for agriculture, manufacturing, mining, and the tertiary sector for Sub-Saharan African and Southeast Asian countries, respectively. Points in the lower left quadrants indicate sectors with below average productivity and declining employment shares, while those in the upper right quadrants indicate sectors with above average productivity and rising employment shares.

Structural transformation has taken place to the extent that the observations for manufacturing and services in most countries are located in the upper right quadrant, corresponding to movements from low to high average labor productivity sectors. In fact, only Cameroon and Zambia show change in the employment share in the opposite direction, namely, from high to low average labor productivity sectors. In all the other Sub-Saharan African countries, workers have moved out of the agricultural sector. This suggests that the findings of McMillan and Rodrik (2011), whose analysis of a smaller subset of countries through 2005 found workers moving into low-productivity sectors, may actually be reversed when considering a broader set of countries through 2010.

Country groups within Sub-Saharan Africa display important differences. Most oil exporters, middle-income, and nonfragile low-income countries have seen sustained increases in average labor productivity, often underpinned by rising productivity in agriculture and resulting in a declining share of GDP from that sector. Fragile countries, in contrast, have generally experienced low and irregular growth, largely as a result of conflict; this poor growth is reflected in the absence of significant structural transformation in most of these countries.

Most countries in Sub-Saharan Africa that have been growing faster than in the past have not experienced an increase in the share of manufacturing in employment or GDP, in contrast to the experience in Asia. This pattern is not necessarily surprising. To some extent, it is what would be expected given the differences between the two regions in resource endowments and in comparative advantage: when Asia started its take-off, most countries were abundant in labor, whereas Sub-Saharan Africa is abundant in natural resources. The challenge is that
many of those natural resource sectors, such as mining, are capital intensive and will not provide the jobs needed to accommodate the rapidly growing working-age population in the region.

The recent growth in real wage levels in China, together with Sub-Saharan Africa’s demographic dividend—implying declining dependency ratios in the future—suggest that manufacturing in Sub-Saharan Africa could become increasingly competitive. But irrespective of whether economies grow through strengthening the manufacturing sector (Mozambique, Tanzania) or services (Kenya, Mauritius), it is unlikely that they can do so without first experiencing a major acceleration of agricultural productivity growth.

**Update on trade trends and trade policy developments**

**Post-crisis recovery in trade has been uneven**

Since the outbreak of the financial crisis over four years ago, global interdependency has been underscored by the largely synchronized nature of trade trends between high-income and developing countries. As of November 2012, neither the United States nor the European Union had surpassed pre-crisis levels of imports, although their combined share of world imports remains sizable, at roughly one-quarter of the total. On the other hand, Japan and large emerging economies like Brazil, the Russian Federation, India, China, and South Africa (BRICS) have seen their import levels rise steadily above pre-crisis levels, a trend that began in early 2009 (figure 1.19). These divergent recovery trends have translated into weak trade performance in regions that have traditionally relied on U.S. and EU markets. Exports from Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa all hover only slightly above pre-crisis levels. The situation is especially dire for countries in the Middle East and North Africa that are not members of the Gulf Cooperation Council; in these nonmember countries, political developments combined with external economic factors have led to a steady decline in exports since late 2011. Meanwhile, other regions have adjusted with more success. The East Asia and Pacific region has experienced steady positive real export growth, fueled not only by China, but also by smaller economies such as Cambodia, Vietnam, Thailand, and the Lao People’s Democratic Republic. In South Asia, positive real export growth in Bangladesh and India helped the region experience the strongest export recovery, peaking in December 2010 at a level one and a half times higher than pre-crisis levels. Since then, however, South Asia’s export performance has been lackluster.

Global trade in 2012 was hampered by a mid-year slump in global imports and steadily contracting import demand on the part of high income countries, with the Euro area at the epicenter. Growth rates for world imports of industrial goods during the first half of 2012, year-over-year, were negative (World Bank 2013). At the same time, increased import demand in developing countries helped mitigate the dearth of demand in high income economies. Developing countries’ real exports also fluctuated considerably in 2012, with differences across countries and regions.

**Protectionist outbreak avoided despite uncertain future for global economy**

According to the World Trade Organization’s (WTO) monitoring of trade protectionist measures, 190 new trade-restrictive measures were introduced by Group of 20 (G-20) countries between mid-October 2011 and mid-October 2012 (figure 1.20). While this represents a slowdown compared with previous years, the new measures add to the stock of restrictions put in place since the outbreak of the crisis. The growing accumulation of trade restrictions is of concern not only because it undermines the benefits of trade openness, but it also exacerbates the combined effects of the new measures with pre-crisis restrictions and distortions, such as agriculture subsidies and tariff peaks. Nevertheless, in the five months leading up to October 2012, the pace of removal of previous measures was better.
trade-restrictive measures, now account for an increasing share of those measures: 74 percent in 2012, up from 60 percent in 2009 according to the Global Trade Alert (GTA), which provides broader coverage than the WTO in terms of both countries and policy measures included in the database. Argentina, Brazil, the European Union, India, and Russia are among the countries that have implemented the highest number. Globally, the most frequently used trade-restrictive measures are state aids and antidumping, followed by import tariff increases and non-tariff measures. Initially, restrictive measures were seen as policy responses to mitigate the temporary effects of the global financial crisis. However, recent measures appear to be more embedded in national industrial plans, and hence longer term in nature (World Bank 2013). G-20 countries are simultaneously responsible for a majority (66 percent) of all trade-liberalizing measures. However, trade-liberalizing measures represent only a quarter of all measures enacted to date (figure 1.21).

FIGURE 1.19  Trade developments since 2008

Note: Data are in constant U.S. dollars, Jan. 2008–Nov. 2012. BRIC = Brazil, Russian Federation, India, China, and South Africa.

FIGURE 1.20  G-20’s new trade-restrictive measures

Source: World Trade Organization.
Note: Different methods of codification may lead to small discrepancies between these and other tallies of trade-restrictive measures.

than in previous periods (21 percent overall have been removed since October 2008).

G-20 countries, which have repeatedly committed to refrain from adopting
The need for multilateral agreement remains critical to mitigate the use of trade restrictive measures and promote trade openness. However, the prospects for successfully concluding the Doha Development Agenda (DDA) negotiations—now entering their twelfth year—remain dim, with recent reports that WTO members have turned their attention in 2013 to “realistic” deliverables, rather than a conclusion to the whole round. The deadlock is costly. In terms of the market access dimension of what has been negotiated to date, there is a potential global welfare boost of some $160 billion at stake (Hoekman 2011). But often overlooked is the opportunity cost of the WTO not being able to deliver on its “legislative” function as an arbiter of new rules of the game in policy matters outside the framework of the DDA. These include “green” industrial policy measures, natural resource- and climate-related trade policies (such as carbon border adjustments), and export restrictions on food products to insulate domestic markets. DDA paralysis carries the risk of countries pursuing unilateral, potentially damaging, responses to the externalities of these policies.

According to experts, much could be gained if a critical mass of the 15–20 or so largest WTO members were to agree to reduce applied barriers to trade and bind current levels of openness, but currently some large countries want more than other large countries are willing to offer (Hoekman 2011). Over the course of 2012, topics including trade facilitation, agriculture, special and differential treatment, least-developed country issues, and dispute settlement were advanced—according to the chairs of the various Doha negotiating groups—while others, like services, barely moved at all, and are unlikely to move forward in the months ahead. Successful negotiations at the upcoming December 2013 ninth ministerial conference in Bali are being viewed as a pivotal stepping stone—and necessary precondition—for ending the Doha Round, though there is little optimism that the conference itself will end the round (ICTSD 2012). At the most recent World Economic Forum in Davos, trade ministers from over 20 WTO member countries gathered informally and imposed an unofficial Easter deadline for taking stock of whether “meaningful results” in Bali will be possible. They agreed that success at the conference would have to include gains in the areas of trade facilitation, least-developed country issues, and agriculture (ICTSD 2013).
Aid and international financial institutions

Over the past decade, official development assistance (ODA) steadily increased, reaching its peak in 2010. The general trend of rising annual flows during the 2000s slowed only after the global financial crisis at the end of 2008, with a 1 percent deceleration in growth in 2009. Official development assistance continued to be a stable source of development financing even after the global financial crisis, helping to alleviate the immediate impact of previous financial crises. In 2011 and 2012, however, as the effects of the recession hit donors’ aid budgets, the recipients of ODA suffered the first two consecutive years of lower aid disbursements since 1997 (excluding fluctuations affected by exceptional debt relief).

Bilateral and multilateral aid

Members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) disbursed $128.3 billion (in constant 2011 dollars and exchange rates) in 2012, compared with $133.7 billion the previous year, a decrease in real terms of 4 percent. In current prices, ODA in 2012 equaled $125.5 billion, down from $133.7 billion in 2011 a decline of 6 percent. As a percentage of donors’ combined gross national income (GNI), ODA continued to slip from 0.32 percent in 2010 to 0.31 percent in 2011, to end up at 0.29 in 2012 (figure 1.22). The current situation represents some concern, because developing countries have also been affected by the crisis. Within total net ODA, the bilateral share of net ODA decreased from 70 percent in 2011 to 65 percent in 2012, indicating an increase in the share of multilateral aid to close to 35 percent. One of the broad trends in the recent international aid architecture is the rapid increase of “multi-bilateral” ODA, which is defined as bilateral ODA earmarked for a specific purpose and channeled through the multilateral system. According to OECD DAC, multi-bilateral ODA increased from $9 billion to $16.7 billion between 2007 and 2010, representing 12 percent of gross ODA excluding debt relief. The World Bank channels over a quarter of such multi-bilateral ODA, becoming the single largest multilateral channel for trust funds.

Gleneagles

At the Group of Eight (G-8) summit in Gleneagles, Scotland, in 2005, important commitments related to ODA and external debt forgiveness were made. Indeed, the international agreement on debt relief (Multilateral Debt Relief Initiative, or MDRI) canceled $56.5 billion in loans owed to the World Bank, the African Development Bank, and the IMF. In addition, DAC donors agreed to increase ODA by $50 billion between 2004 and 2010, at least half of which would be designated for Sub-Saharan and North Africa. This promised increase was made in 2004 prices and exchange rates, and the targeted level of ODA in 2010 prices was estimated to be $152.2 billion. Given the actual amount of $128.5 billion available, a gap of more than $25 billion remains. The DAC’s 2012 annual ODA report shows that only a little more than $1.2 billion of the shortfall can be attributed to lower than expected GNI levels stemming
from the economic crisis (OECD 2012b). At Gleneagles, the G-8 donors also envisaged an increase in total ODA to Africa of $25 billion in 2004 prices and exchange rates. In current prices and exchange rates, that translates into an increase of an estimated $29 billion in 2010. Yet estimates show that Africa only received an additional $11.8 billion in 2010. Given the decline in ODA in 2011 and 2012, it is clear that this situation has not improved.

Regional aid

Although ODA disbursements were lower in 2011 than in 2010, the trend in regional ODA remained stable. Aid is mainly concentrated in Sub-Saharan Africa, which received 43 percent of net ODA disbursements in 2011, South Asia (21 percent), and the Middle East and North Africa (11 percent) (figure 1.23).

While Sub-Saharan Africa still received most of the aid, this region suffered a further decrease in 2012, with flows of $26.2 billion, or a decline of 7.9 percent in real terms compared with 2011. Europe and Central Asia also saw a fall in net bilateral ODA flows of 17 percent in real terms from 2010; between 2010 and 2011, the decline was around 6 percent as the region made strong gains toward poverty alleviation. Latin America sustained a decrease of 3 percent in 2011, while South Asia registered a shortfall of 2 percent. The only region with an increase in net ODA disbursements was the Middle East and North Africa, with the revolutions in this region triggering more aid.

Special groups

Low-income countries received 3 percent more aid in 2011 compared with 2010. Middle-income countries, on the other hand, suffered a decline of 17.2 percent from 2010. For lower-middle-income countries, net ODA disbursements decreased 8.9 percent from 2010, to $5.7 billion (figure 1.24).

When all developing countries are considered, ODA disbursements per capita have increased for countries with no more than two of the MDGs achieved (figure 1.25).

Even though aid fell in 2011, the flows are still being directed to those countries lagging the most (that is, the countries furthest from achieving the MDGs). For example, the group of countries in a fragile situation that have met or are currently on
track to achieve no more than two MDGs received an annual average of $64 per capita in 2009–11 (figure 1.26). Fragile, small, and heavily indebted poor countries (HIPC s) also suffered the consequences of a smaller amount of ODA disbursements from 2010 to 2011 (figure 1.27). Fragile states and small states received 6 percent less in ODA disbursements than they did in 2010; and the flow to HIPCs decreased by 4.1 percent.

Fragile states—those countries often in internal conflict or with severe political instability—are the developing countries most challenged in meeting the Millennium Development Goals. These countries are typically characterized by weak institutions and macroeconomic instability. For obvious reasons, peace- or state-building activities take priority over economic policy making. Macroeconomic policy advice and implementation are hampered by lack of timely and reliable statistics. Effective engagement by international organizations and development partners requires a recognition of the limited capacity and large financing needs of these fragile countries.

Fragile states are vulnerable countries with few if any resources available with which to address vulnerabilities. In a possible
protracted slowdown of global growth, these countries would be hard pressed to counteract the accompanying negative shocks to their economies, either by depleting available policy buffers or adjusting macroeconomic policies. With domestic policy space severely limited, these countries would have to turn to the international community for additional assistance if such a downside risk scenario were to materialize. The decline in ODA for these countries is thus especially worrisome because well-targeted external financial aid can be effective in supporting countries exiting from fragile situations (World Bank 2011).

**BRICS**

ODA DAC resources are not the only resources that countries can use to attain the MDGs; various new donors and philanthropists have become part of the development community, providing resources to countries to use in progressing toward the MDGs and for development in general. In particular, South-South cooperation has become increasingly important, with estimates of financial aid flows from the so-called BRICS to developing countries of up to $4 billion in 2009 (Adugna et al. 2011). These aid volumes do not fully capture the significance and impact of BRICS on the financial inflows of low-income countries, however. For example, since 2000, trade between BRICS and Sub-Saharan Africa has increased 25 percent annually, reaching $206 billion in 2011.

Trade, foreign direct investment, and development aid are often intertwined and come as a package based on the idea of South-South solidarity, shared experiences, and self-reliance (based on the meeting in Yamoussoukro, Côte d’Ivoire, 2008). Even though foreign assistance is diverse among BRICS, development cooperation focuses on trade partners, and consequently, often on neighboring countries and regional integration, to stimulate trade, investments, and growth as the main vehicles for improvement in development outcomes. It also focuses aid on technical rather than financial assistance (EU 2012).

**Looking forward: ODA flows through 2015**

For the ODA flow to developing countries to remain constant in per capita terms, an increase in total ODA by 2015 of $6.6 billion in 2011 prices and exchange rates is needed. Given the ongoing fragility of the economic recovery in most of the developed world, this increase might be quite a difficult undertaking to accomplish at a time when any additional assistance to facilitate the attainment of the MDGs could prove critical. Continuing at the current level of ODA would result in a fall of 1.3 percent annually until 2015.

Country programmable aid (CPA) is a core subset of ODA, representing about 67 percent of total DAC ODA, with 95 percent of multilateral agencies and 45 percent of bilateral aid agencies reporting on their programmable aid flows. CPA data provide information about the forward spending plans by DAC donors on development. A reliable predictor of actual disbursements, CPA had predictability ratios of 103, 95, and 92 percent in 2009, 2010, and 2011, respectively. A ratio of 92 percent means that, on average, donors disbursed 8 percent less than planned the year before.

The 2013 DAC report on predictability presents the results of the 2013 DAC survey on forward spending plans for 2013 to 2016, including the final year by which the current set of MDGs should be achieved. The survey data indicate that the annual amount of CPA in 2013 is anticipated to jump by 9 percent in real terms compared with 2012. It is then projected to remain constant for the period 2014–16. The result is a slight decline in per capita CPA from $18.18 in 2013 to $17.78 in 2015 (in 2012 prices and exchange rates). The implications of this decline are more pronounced in Sub-Saharan Africa, which received $47.70 per capita CPA in 2012 and will see its allocation decline to $45.08 per capita by 2015. Although the initial recovery bodes well for the availability of ODA to assist with the attainment of the MDGs, the downturn in the outer years does not.
Aid effectiveness

Since the Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea, in late 2011, the international community has shifted from concentrating on aid effectiveness to a broader focus on effective development cooperation. Although the aid effectiveness agenda remains important, this shift reflects a recent evolution of the development landscape that includes:

- Support for country-led management of development with a focus on results, in lieu of the traditional discussion focused on donor harmonization and alignment.
- The expanding role in development of new partners, such as middle-income countries, the private sector, and civil society organizations.
- The growing importance of aid as a resource for catalytic change and institutional development.
- The changing global financial base for development, with private financing playing a growing developmental role.
- The emergence of new technologies to increase global connectivity and transparency and accountability.

The Busan Partnership for Effective Development Co-operation calls for the establishment of a “new, inclusive, and representative Global Partnership for Effective Development Co-operation to support and ensure accountability for the implementation of commitments at the political level.” At its most recent meeting in June 2012, the Working Party on Aid Effectiveness (which has led the aid effectiveness agenda at the global level since the Paris Declaration on Aid Effectiveness in 2005) formally agreed to establish this Global Partnership. Operational since late 2012, the Partnership brings together developing countries, including major providers of South-South cooperation such as BRICS, together with donor countries, civil society organizations, and private funders, serving as a forum for knowledge exchange and regular monitoring of progress. Its main functions are to maintain and strengthen political support for more effective development cooperation; to monitor the implementation of the Busan commitments; to facilitate knowledge exchange and lesson learning; and to support the implementation of the Busan commitments at the country level (box 1.1). To date, more than 160 countries and 45 organizations from around the world have endorsed the Partnership.

Notwithstanding the changes that will potentially emerge from the new Global Partnership, monitoring of the promised progress by the DAC donor community should continue as a means to improve aid effectiveness as set forth in the Paris Declaration on Aid Effectiveness. The Paris Declaration, which placed country ownership of policies and programs at the center of a reform agenda to make aid more effective, committed donors and developing countries to be mutually accountable for implementing the declaration through a set of thirteen measurable targets (OECD 2012a). By the 2010 deadline, only one of the targets had been met: to strengthen capacity by coordinated support (target 4).

Disaggregating the data for the various multilateral development banks and other international organizations, such as the United Nations and the EU institutions, yields a more nuanced picture, however (table 1.7). For example, the Inter-American Development Bank has met four of the eight indicators for which disaggregated data exist, the World Bank three (see box 1.2 for additional information about World Bank performance in development cooperation), and the EU institutions two. All other multilateral development banks have met one indicator.

Table 1.7 also shows that individual international organizations have made progress in many areas, but each of them has also fallen back on at least one target. The African Development Bank and the Asian Development Bank show deteriorations in four of the eight indicators analyzed. The World Bank is closest to reaching all indicators, with an average gap of 17 percent remaining on five of its unmet indicators, while the Inter-American Development Bank has an average
BOX 1.1  Putting the Busan Partnership for Effective Development Cooperation into operation

During the Fourth High Level Forum, the international community renewed its commitment to moving the effective development cooperation agenda forward while keeping its focus on the unfinished aid effectiveness agenda. Three key vehicles used to bring these agendas forward are the Global Partnership for Effective Development Co-operation, the Global Monitoring Mechanism, and Building Blocks for Post-Busan Implementation.

To follow up, the international community established the Post-Busan Interim Group, which held several meetings in the first half of 2012 and agreed on the Global Partnership mandate and the global monitoring framework. The Global Partnership mandate focuses on maintaining and strengthening political momentum for more effective development cooperation; ensuring accountability for implementing the Busan commitments; facilitating knowledge exchange and sharing lessons learned; and supporting implementation of the Busan commitments at the country level.

The indicators and associated targets of the global monitoring framework (successor to the 2005–10 Paris Declaration Monitoring Survey) intend to promote international accountability for implementing the Busan Global Partnership agreement. Five of the indicators are from the Paris Declaration Monitoring Survey (such as use of countries’ public financial management and procurement systems), which ensures continuity with the unfinished aid effectiveness agenda. The remaining five indicators are new and reflect the evolution of the development landscape by including civil society and private sector engagement. The Building Blocks launched at the Busan forum are initiatives to help further progress in eight key areas: conflict and fragility; South-South cooperation; the private sector; climate finance; transparency; effective institutions and policies; results and mutual accountability; and management of diversity and reduction of fragmentation.

To date, 3 minister-level cochairs and 18 steering committee members have been appointed from partner countries, development partners, the private sector, and civil service organizations. The first steering committee meeting to discuss focus areas of the Global Partnership was held in December 2012. The global monitoring framework is being finalized. Given their voluntary nature, the progress on the Building Blocks varies across initiatives. Going forward, a key challenge for the Global Partnership is to connect with other international forums and initiatives, most notably the discussion on the post-2015 MDG goals.

### TABLE 1.7  Progress on Paris Declaration survey indicators by multilateral development banks, UN, and EU institutions

<table>
<thead>
<tr>
<th>Global target</th>
<th>Overall result</th>
<th>Multilateral Development Banks</th>
<th>World Bank</th>
<th>African Development Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>2010 (%)</td>
<td>2010 (%)</td>
<td>Progress since 2005</td>
</tr>
<tr>
<td>3 – Aid flows are aligned with national priorities</td>
<td>85</td>
<td>72</td>
<td>36</td>
<td>=</td>
</tr>
<tr>
<td>4 – Strengthen capacity by coordinating support</td>
<td>50</td>
<td>58</td>
<td>50</td>
<td>+</td>
</tr>
<tr>
<td>5 – How much aid for the government sectors uses country systems</td>
<td>55</td>
<td>35</td>
<td>20</td>
<td>+</td>
</tr>
<tr>
<td>6 – Strengthen capacity by avoiding parallel PIUs</td>
<td>67</td>
<td>32</td>
<td>49</td>
<td>+</td>
</tr>
<tr>
<td>7 – Aid is more predictable</td>
<td>71</td>
<td>43</td>
<td>29</td>
<td>–</td>
</tr>
<tr>
<td>9 – Use of common arrangements or procedures</td>
<td>66</td>
<td>45</td>
<td>32</td>
<td>+</td>
</tr>
<tr>
<td>10.a – Joint missions</td>
<td>40</td>
<td>19</td>
<td>18</td>
<td>+</td>
</tr>
<tr>
<td>10.b – Joint country analytical work</td>
<td>66</td>
<td>43</td>
<td>32</td>
<td>=</td>
</tr>
</tbody>
</table>

Source: OECD DAC 2012.
Note: PIU = project implementation unit; + = improvement, – = deterioration.
remaining gap of well over 60 percent on its remaining four indicators. The United Nations was only halfway toward reaching its remaining targets in 2010.

**Acceleration toward the MDGs**

Various other mechanisms exist to accelerate progress toward the MDGs in addition to improvements in aid effectiveness. For example, in 2010, the United Nations Development Programme (UNDP) developed an MDG acceleration framework (MAF) to provide a systematic way of identifying bottlenecks and possible high-impact solutions that could assist countries to pick up the pace on attaining the MDGs. The framework was rolled out in 10 countries across a range of MDGs in 2010 and has been used since then to assist 44 countries across almost all of the MDGs. This work has led to concrete plans of action with coordinated roles for governments and all development partners involved in achieving countries’ MDG priorities.

The results from the MAFs completed to date are encouraging and have led to increased collaboration between the World Bank and the UN in this area. The initial lessons learned include the importance of strong national ownership, facilitation of cross-sectoral collaboration, and participation by civil service and nongovernmental organizations. Of critical importance for the countries themselves is actual implementation of the agreed-upon MDG action plan, which includes ensuring that gaps in institutional capacity and sector governance are addressed, that the MDG action plan is adequately incorporated into annual or multiyear partner support plans, and that both intermediate and final indicators of MDG achievement are regularly monitored, all to ensure that efforts are yielding the desired results.

Various other initiatives have been put in place to accelerate progress toward the MDGs such as the Sanitation and Water for All initiative. This is a global partnership between developing countries, donors, multi-lateral agencies, civil society, and other development partners working together to achieve universal and sustainable access to sanitation and safe drinking water, with an immediate focus on achieving the Millennium Development Goals in the most off-track countries. To accelerate progress on MDG 1c (reduction of underweight in children under five), the Scaling Up Nutrition (SUN) global movement was set up to support nutrition sensitive interactions in 33 SUN countries. Investments are supported that are aligned to national nutrition plans and contribute directly to the process of

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### Table 1.7 Progress on Paris Declaration survey indicators by multilateral development banks, UN, and EU institutions

<table>
<thead>
<tr>
<th>Asian Development Bank</th>
<th>Inter American Development Bank</th>
<th>United Nations</th>
<th>EU institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 (%)</td>
<td>Gap</td>
<td>Progress since 2005</td>
<td>2010 (%)</td>
</tr>
<tr>
<td>64</td>
<td>25%</td>
<td>–</td>
<td>48</td>
</tr>
<tr>
<td>44</td>
<td>12%</td>
<td>+</td>
<td>65</td>
</tr>
<tr>
<td>29</td>
<td>47%</td>
<td>–</td>
<td>5</td>
</tr>
<tr>
<td>95</td>
<td>Met</td>
<td>+</td>
<td>7</td>
</tr>
<tr>
<td>54</td>
<td>24%</td>
<td>–</td>
<td>48</td>
</tr>
<tr>
<td>50</td>
<td>24%</td>
<td>+</td>
<td>80</td>
</tr>
<tr>
<td>15</td>
<td>63%</td>
<td>+</td>
<td>67</td>
</tr>
<tr>
<td>39</td>
<td>41%</td>
<td>–</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: OECD DAC 2012.

Note: PIU = project implementation unit; + = improvement, – = deterioration.
The World Bank’s performance on development cooperation has continuously improved and is among the strongest of all development partners. Evidence from international assessments, including the Paris Declaration Monitoring Survey, confirms the Bank’s sustained commitment to improving its own effectiveness in support of stronger development outcomes. With the Global Partnership for Effective Development Co-operation in mind, the Bank focuses on the following priorities:

**Partner Country Leadership and Ownership.** The Bank promotes better development cooperation and more effective institutions by:

- Aligning its support with each country’s development priorities.
- Focusing on capacity development, investing in human capital, and strengthening stakeholder ownership to facilitate achievement of national development goals.
- Supporting public sector institutions and systems through better diagnostic, analytical, and measurement tools.
- Enabling stronger government-led management of development support and greater integration of aid and other support into national budgets.
- Strengthening and using country systems—for budget and project management, procurement, financial management, environmental and social safeguards, and results measurement—with the ultimate objective of transforming development support into sustainable results.

**Results.** The Bank adopts results-orientation implementation by:

- Implementing a Corporate Scorecard, an institutional-level IDA Results Measurement System, and an Annual Results Report.
- Mainstreaming a results culture with systematic results frameworks for all lending projects, programs, and country assistance strategies, as well as adopting new results-oriented financing instruments such as the Program for Results (P4R); and increasing impact evaluations and evidence-based decision making through the collaborative Bank-partner country Development Impact Evaluation Initiative (DIME).
- Supporting country capacity to implement results-based approaches; building country statistical capacity to support enhanced and rigorous monitoring and evaluation; and working with regional Communities of Practice for cross-country knowledge exchange and capacity development on results management.
- Using innovative tools such as geo-mapping, beneficiary feedback, third-party monitoring, and other mechanisms to enhance social accountability and improve service delivery.

**Transparency.** The Bank has made great strides in the area of transparency by:

- Launching an Access to Information Policy, the Open Data and Open Knowledge initiatives, and the Open Access Repository. These initiatives encourage public access, help improve accountability, and link funding to development outcomes and results.
- Being identified as a global leader on transparency by the Aid Transparency Index from Publish What You Fund and the transparency component of the Center for Global Development’s QuODA assessment.
- Demonstrating leadership as an active proponent and implementer of the International Aid Transparency Initiative (IATI), which sets a common standard for all development partners to share aid data.
- Supporting recipient country Open Government initiatives and efforts to improve budget management and transparency for domestic accountability.
- Promoting aid predictability to facilitate greater transparency.
- Maintaining AidFlows (http://www.aidflows.org/), a publicly available web-based source of information about aid flows that seeks to better inform the global conversation about development funding. AidFlows began as a partnership between the OECD-DAC and the World Bank. AidFlows provides easy access to country-by-country information in an intuitive visual format. The site has been well received by a range of users, including government officials in donor and recipient countries, aid agencies, MDBs, NGOs, and civil society organizations.

(box continues next page)
achieving high coverage of vulnerable target populations (pregnant women and children up to age 24 months) with evidence-based direct nutrition services. Another example of a special focus to improve achievement of the MDGs is in this case a World Bank initiative. The World Bank’s five-year (2010–2015) Reproductive Health Action Plan (RHAP) is accelerating progress on maternal and child health by targeting 57 high priority countries, mostly in Africa and South Asia, with the highest burden of maternal and neonatal deaths, high prevalence of sexually transmitted infections, and high fertility rates. Projects include increasing skilled attendance at births, training health care workers, and expanding girls’ education. As of March 2013, more than half (56) of the World Bank’s 102 active health projects address high fertility and maternal mortality, and 52 projects address child health. Focusing on health system strengthening and targeting the poor and vulnerable through innovative mechanisms, such as results-based financing, these projects are showing promising results. For example, in Burundi, support from the Burundi Health Sector Development Support Project for the nationwide results-based financing (RBF) program has helped to increase utilization of maternal and child health services including: (a) a rise in births at health facilities by 25 percent; (b) an increase in prenatal consultations by 20 percent; (c) a 35 percent increase in curative care consultations for pregnant women; and (d) a 27 percent increase in family planning services obtained through health facilities—during the just first year of implementation.

Using ICT to improve the effectiveness of projects

The use of information and communication technology (ICT) for economic development was recognized when the official list of MDG indicators was adopted as part of MDG 8, which focuses on the deepening of a global
partnership for development. A specific description of this sub-MDG was chosen and indicators identified. Target 8F states that, in cooperation with the private sector, the benefits of new technologies, especially those related to information and communications, will be made available.

An evaluation of these indicators shows that mobile phone subscriptions have risen exponentially across the globe, while growth in the number of fixed telephone lines has stagnated. Impressive increases have also taken place in Internet usage, although here progress is more diverse, with stronger growth in high-income countries than in low- and middle-income countries. Even though access challenges remain, particularly in low-income countries, the extraordinary rise in mobile phone penetration has led to the emergence of a variety of innovations that allow citizens, governments, and international organizations to be more engaged and better informed, and that enable aid providers to identify and communicate more directly with beneficiaries.

In addition to the various business opportunities it has made possible, the evolution of ICT has also opened up a range of opportunities to improve the effectiveness of government programs and associated aid financing, consequently accelerating attainment of the MDGs. Table 1.8 illustrates how mobile telephone technology has assisted countries in making progress toward each MDG. Many more examples demonstrate how ICT can facilitate service delivery. Indeed many governments around the globe, in varying stages of development, are adopting ICT, particularly mobile communication technologies, to assist in this endeavor. At the same time, various international aid agencies are exploring opportunities to deliver aid more effectively using ICT (for example, the Swiss Agency for Development and Cooperation).

### What can governments do to foster ICT for development?

Numerous studies have found a positive relationship between ICT adoption and economic development in general. The widespread availability of ICT and mobile phone usage has created opportunities for governments to strengthen service delivery and enhance governance.

An evaluation of initial experiences suggests that the benefits accrue to those countries that put in place policies and programs that not only enable technological transformation but also support institutional reforms and process redesign through which services are delivered (World Bank 2012). Fostering an accelerated diffusion of ICT in developing countries requires undertaking country-specific analysis to take into account local conditions and translating these findings into policy actions that enable and encourage development of the demand and supply sides of ICT. On the demand side, affordability of mobile devices and services is a concern, while on the supply side, common bottlenecks such as spectrum and backbone networks must be addressed.

### What can international organizations do to foster ICT for aid effectiveness?

International agencies have been increasingly interested in leveraging the rapid spread of ICT such as mobile phones to better hear the voices of beneficiaries in developing countries. By reducing barriers to accessing information, technology can facilitate transparency and contribute to accountability. Information and communication technology can help solicit, provide, and respond to feedback regarding projects and programs for development. In addition, ICT can also help reduce the transaction costs of, for example, payment systems and improve access to finance.

Introducing new technologies to improve citizens’ feedback has significantly reduced the barriers of cost, time, and space that have historically constrained direct interactions with citizens (box 1.3). By using these ever-evolving tools, governments and international aid agencies can improve the success of feedback mechanisms to increase the effectiveness of development programs.
### Table 1.8: Mobile technology and the Millennium Development Goals

<table>
<thead>
<tr>
<th>MDG</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty and hunger</td>
<td>A study of grain traders in Niger found that cell phones improved consumer welfare (Aker and Mbiti 2008). Access to cell phones allowed traders to obtain better information about grain prices across the country without the high cost of having to travel to different markets. On average, grain traders with cell phones had 29 percent higher profits than those without cell phones. In Niger, demand for cell phones sprang up organically rather than through a specific program.</td>
</tr>
<tr>
<td>Universal education</td>
<td>According to a survey of teachers in villages in four African countries, one-quarter reported that the use of mobile phones helped increase student attendance. A main factor was that teachers could contact parents to enquire about their child’s whereabouts (Puri et al. n.d.). Mobile phones have also been used in Uganda to track school attendance and detect patterns in attendance, for instance by village, by day of the week, and by season. Tracking pupils’ attendance also indirectly tracks absenteeism among teachers (Twaweza 2010).</td>
</tr>
<tr>
<td>Gender equality</td>
<td>A study looking at gender differences in the availability and use of mobile phones in developing countries reported that 93 percent of women who had mobile phones felt safer because of having the phone, 85 percent felt more independent, and 41 percent had increased income or professional opportunities (GSM Association 2011).</td>
</tr>
<tr>
<td>Child health</td>
<td>A program using text messaging to identify malnutrition among rural children in Malawi is notable for its impact on the speed and quality of data flows.a Using a system called RapidSMS, health workers in rural areas were able to transmit weight and height information in two minutes—it took two months with the previous system. The data entry error rate was significantly improved, to just 2.8 percent from 14.2 percent in the old system. The improved information flow enabled experts to analyze data more quickly and accurately, identify children at risk, and provide treatment information to health staff in the field.</td>
</tr>
<tr>
<td>Maternal health</td>
<td>One of the earliest uses of mobile technology to improve maternal health took place in rural districts of Uganda in the late 1990s. Traditional birth attendants were provided with walkie-talkies, allowing them to stay in contact with health centers and obtain advice. An assessment of the program found that it cut maternal mortality roughly in half (Musoke 2002).</td>
</tr>
<tr>
<td>HIV/AIDS</td>
<td>In Kenya, weekly text messages were sent to AIDS patients to remind them to take their antiretroviral drugs (Lester et al. 2010). Those who received the text messages had significantly higher rates of taking the drugs than those who did not. The study noted that text messaging intervention was less expensive than in-person community adherence interventions on the basis of travel costs alone and could theoretically translate into huge health and economic benefits if scaled up.</td>
</tr>
<tr>
<td>Environment</td>
<td>According to one forecast, mobile technology could lower greenhouse gas emissions 2 percent by the year 2020 (GSM Association 2009). This reduction could be met, among other ways, through widespread adoption of various mobile-enabled technologies such as smart transportation and logistics, smart grids and meters, smart buildings, and “dematerialization” (or replacing the physical movement of goods and services with online transmission). Mobile phones can also be used as tools for environmental monitoring. For example, cab drivers in Accra, Ghana, were outfitted with mobile phones with GPS and a tube containing a carbon monoxide sensor to test pollution levels.b</td>
</tr>
<tr>
<td>Partnership</td>
<td>MDG target 8F states: “In cooperation with the private sector, make available benefits of new technologies, especially information and communications.” Mobile phone penetration in low-income economies grew from less than one per 100 people in 2000 to almost one per every three in 2010—largely as a result of private sector investment. Of some 800 telecommunication projects in developing countries with private sector participation between 1990 and 2009, almost three-quarters involved greenfield operations, primarily in mobile telephony.c</td>
</tr>
</tbody>
</table>


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BOX 1.3 Potential uses of mobile phone surveys

As mobile phone ownership rates have risen dramatically in Africa, interest has increased in using mobile telephones as a data collection platform. Face-to-face household surveys are usually expensive and time consuming, and mobile phone surveys are proving to be a cost-effective, flexible, and rapid way to collect data on a wide range of topics and over time.

South Sudan and Tanzania have both piloted mobile phone surveys, with reasonable success. In South Sudan, 1,000 respondents in 10 urban areas were given cell phones in 2010 and surveyed on a monthly basis. In Tanzania, 550 households were administered a baseline survey in 2010, and an adult respondent was selected for a weekly mobile phone survey (for 25 weeks), later administered every 2 weeks (for 8 weeks). Both surveys collected information on a wide variety of issues, including health, education, water, security, nutrition, travel times, prices, electricity, and governance. The surveys also asked respondents for their perceptions on the most pressing problems to be addressed by the city government and their opinion about a draft constitution, and collected baseline information for large-scale programs on food fortification.

The cost per interview in each round in Tanzania ranged between $4.10 and $7.30, or about $0.42 a question (plus $50–$150 for a baseline interview). Thus for long surveys, face-to-face interviews may be more cost-effective. However, the evidence from South Sudan and Tanzania suggests that mobile surveys can collect quality data in a timely manner that is of use to a wide range of data users. Attrition and nonresponse need to be dealt with at implementation, but the ability to modify surveys easily in subsequent survey rounds is a key benefit.

Last, the data collected in Tanzania were widely disseminated through a dedicated website, with additional help from a local television journalist who ensured that information was widely publicized. Accountability for public services has reportedly increased, suggesting that results need to be disseminated systematically to civil society, the media, and the government to be fully effective.

Source: Croke et al. 2013.

Notes

1. The classification of countries is the one used in the IMF’s World Economic Outlook. Emerging market and developing countries are those countries that are not designated as advanced countries. Countries that are eligible for financial assistance under the IMF’s Poverty Reduction and Growth Trust constitute a subset of emerging market and developing countries; these countries are denoted low-income countries although eligibility is based on other considerations in addition to income levels. Emerging market and developing countries that are not eligible for financial assistance under the Poverty Reduction and Growth Trust are designated as emerging market countries. Fragile states are countries included in the World Bank’s list of Fragile and Conflict-Affected States as of early 2013. Appendix table A1.2 includes the list of all countries and economies.

2. Each low-income country has been assessed according to a common set of criteria. For example, a country with a large fiscal deficit and an unsustainable level of public debt would be judged to have an unsatisfactory fiscal policy stance.

3. Somalia and South Sudan have been excluded from the IMF’s vulnerability exercise for low-income countries, because of lack of data.

4. Small low-income countries are those with a population less than 1.5 million.

5. All data under the vulnerability exercise refer to the median observation for 72 low-income countries, unless otherwise noted.

6. Fiscal consolidation would also be needed in some resource-rich countries to build buffers over time that would help manage challenges arising from volatility and exhaustibility of natural resources.

7. The index uses a globally consistent definition of settlement concentration based
on population density, the population of a “large” urban center, and travel time to that large urban center.

8. In comparison, the United Nations World Urbanization Prospects, the 2011 Revision, (April 2012) estimates the average urban population share to be 52 percent in 2010. The United Nations database is a more comprehensive and detailed data source; however, the definition of urbanization is not necessarily the same across countries.

9. The methodology provides a way to construct a linear approximation of a Lorenz curve that minimizes the difference between the linear approximation and the actual Lorenz curve. The linear segments represent different categories of countries. In this application, these linear segments represent low-, medium-, and high-agglomeration or -income countries.

10. World Bank and IMF member countries as of early 2013. For the 26 countries for which no agglomeration data are available, countries were assigned agglomeration status based on heuristic comparisons with like countries. GDP per capita income estimates exclude ten countries owing to lack of data.

11. The Spearman rank correlation coefficient is 0.58 (statistically significant at the 5 percent level).

12. The initials appearing in the graphs correspond to the following countries: Bangladesh (BD), Cambodia (KH), Cameroon (CM), Ghana (GH), Guinea (GN), Indonesia (ID), Mali (ML), Mauritius (MUS), Mozambique (MO), Namibia (NAM), Philippines (PH), Rwanda (RW), Senegal (SE), South Africa (ZA), Tanzania (TA), Uganda (UA), Vietnam (VI), and Zambia (ZM).

13. www.globaltradealert.org

14. The realistic deliverables refer to the topics in which negotiations saw progress over the past 12 months, including trade facilitation, agriculture, special and differential treatment, least-developed country issues, and dispute settlement.

15. Country programmable aid is total ODA corrected for aid that is inherently unpredictable (humanitarian and disaster relief aid); that entails no flows to the recipient country (such as donor administrative cost); and whose use is determined through dialogue between the donor agency and partner government. In addition, loan repayments are netted out because they are not normally part of aid allocation decisions by donor governments (OECD 2010).


References


