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The Millennium Development Goals – Thinking beyond the Sachs Report

The Sachs Report is innovative in that it develops strategies designed to dynamize the economies of the poorest developing countries with "investments to empower poor people". It develops and points to approaches for "pro-poor growth" policies. Yet international development policy would be well advised to think beyond the Sachs Report:

1. To ensure that it is used effectively, ODA (Official Development Assistance) should rise successively, not jump sharply.

2. Rising ODA investments must be linked to clear-cut incentives and conditionalities designed to improve good governance in developing countries.

3. ODA should be increased substantially, starting with the world's 15-20 poorest countries with good governance, although this would make sense only if the donors subscribed, in this country group, to an approach based in large measure on a division of labor – the EU member states could provide a good example by taking the lead here. Germany should focus its engagement on roughly five of these developing countries.

4. The donors must work to ensure good governance in the bi- and multilateral development agencies. Clear-cut task profiles and a division of labor geared to advantages of specialization are among the conditions needed for coordination, effectiveness, and cost reduction in international development cooperation.

With the Millennium Development Goals (MDGs) the international community has taken on a major challenge. It centers on the pledge to halve absolute poverty by the year 2015. In September 2005, at the beginning of the 60th UN General Assembly in New York, a conference of heads of state and government will address the issue of how to achieve the MDGs in the ten years that remain, and to achieve them not only globally but in all world regions. Another issue on the agenda is whether or not the strategies pursued by both developing countries and international development policy are ones that hold promise of success in achieving the MDGs. The conference has the potential to become a starting point to step up the efforts of international development policy to reach the Millennium Goals. Should this not succeed, international cooperation will find itself faced with a legitimacy crisis.

In February 2005 the UN Millennium Project, headed by Jeffrey Sachs, issued its report "Investing in Development. A Practical Plan to Achieve the Millennium Development Goals", which will serve as the central development-related basis of the UN Millennium+5 Summit in September 2005. In addition, UN Secretary-General Kofi Annan's report "In Larger Freedom. Towards Development, Security and Human Rights for All" (March 2005) has presented a number of important recommendations for the September UN conference.

"Pro-poor growth" instead of naive growth policies or short-winded basic needs strategies

The strength of the Sachs Report must be seen in the way in which it systematically works out the interventions needed to achieve the MDGs. Most of what the ten task forces of international experts have assembled in terms of strategies for the MDG-related intervention areas is not new. Their contribution must be seen in the fact that they have brought together the knowledge available worldwide and systematically distinguished between the goal level and the intervention level. Concrete analysis of the strategies and interventions needed to reach each of the MDGs, and aggregation of them across all of the goals, clearly shows that that there is a need for comprehensive development strategies that generate both economic dynamics and contribute directly to improving the living conditions of poor people. This direction of search is generally convincing, even though the Sachs Report does have one conspicuous blind spot: It pays little heed to the interdependencies between the environment, poverty reduction, and economic dynamics, i.e. the ecological bases of sustainable development (WBGU 2005).

It is, however, important to note that one misunderstanding that occurs again and again has now been settled, viz. that, in essence, social-policy interventions can be used to reach "social" goals (see e.g. the UNDP Human Development Report 2003). The Sachs Report shows instead that what is called for in sub-Saharan Africa in particular is massive investments in infrastructure (transportation, energy, water) and efforts to expand education systems beyond the level of basic education.

The development strategy outlined by the Millennium Project is innovative in that it overcomes the unfruitful dogmatic dispute between basic needs strategies, which have led to poverty reduction being conceived as a welfare program and at the same time tended to neglect the key importance of economic dynamics for sustainable social development, and one-sidedly growth-oriented approaches, which assume that poverty reduction can be achieved through automatic "trickle-down effects" and see no need for instruments designed to build bridges between the weakest and the most dynamic economic sectors. For decades now development policy has oscillated between these two poles of direct poverty reduction through social policy and economic growth strategies – without coming up with any really convincing results.

The Sachs Report rightly emphasizes that an MDG-oriented development policy must instead be keyed equally to three objectives:

First, it must engage in *direct poverty reduction*, improve the social situation and life perspectives of the poorest population segments, and in this way create the conditions needed for future economic development. The Sachs Report underscores three central approaches to improving the basic social conditions of the poorest people in least developed countries: guaranteed and universal access to basic healthcare systems, investments in education, and equal treatment and opportunities for girls.

Second, it must contribute to raising the *productive potentials of poor population groups*. The focus here is on investments designed to modernize agriculture, improve food security, and stabilize precarious subsistence agriculture. In the urban sectors the concern must be to rehabilitate slum areas and to develop strategies designed to improve productivity in the informal sectors and enable them to join the modern economic sectors. The focus here is on "investments to empower the poor" and economic modernization – not on social policy or redistribution.

Third, it must contribute to efforts aimed at strengthening the *dynamic sectors of the economy*, boosting their competitiveness, and supporting networking between more modern businesses and the "economy of the poor." Investments in innovation and technology transfer, development of export infrastructures and border-crossing infrastructure networks (roads, energy systems) are crucial to adapting the economic base of the poorest developing countries to the requirements and standards of the world economy. What is needed to overcome islands of economic efficiency is investments in infrastructure and education/training that serve to facilitate the transition from "the economy of the poor" to the sectors in the process of modernization.

It will be possible to reach the MDGs only if this integrative model is concretized and implemented on a country-specific basis. The Sachs Report builds in this connection on existing PRSP processes and comes out in favor of deriving the three- to five-year PRSPs from a ten-year perspective geared to achieving the MDGs by 2015. The long-term perspective is meant to impel both developing countries and donors to in fact base their policies on the MDGs.

Without good governance and development-oriented elites, the MDGs are doomed to failure

Experience shows that investments and prudent strategies can only prove successful if the elites in developing countries in fact commit themselves to an MDG-oriented development process and principles of good governance carry the day. This is the reason why the governments of developing countries must be seen as the actors that bear the first and primary responsibility for the reform processes presently envisioned. Development policy can support governments and endogenous reform agendas and set financial and political incentives designed to influence the direction of change, but it can never serve as a replacement for such efforts.

Another crucial factor is that the model of "investment to empower the poor" outlined above is not only based on the "sound economic and social policies" on which the international financial institutions have concentrated up to now but is at the same time, and in particular, reliant on strategies designed to develop or strengthen MDG-relevant institutions. Consistent anti-corruption efforts, investments to strengthen the effectiveness of public administrations, establishment of the rule of law, promotion of accountability and transparency in politics and business, and efforts to strengthen human rights are key building blocks of any successful MDG strategy.

The Sachs Report qualifies the importance of good governance for the countries of sub-Saharan Africa, asserting that governance problems must in essence be interpreted as a consequence of funding bottlenecks, and in this way provoking the ongoing debate on sub-Saharan Africa. Countries like Nigeria and Zimbabwe show that this interpretation falls short of the mark. As correct as it is that without investments even the best governance will not lead to growth, it would simply be wrong to invest massively in countries whose elites show no clear-cut signs of a will to embark on governance reforms.

Linking rising ODA investments to good governance conditionalities

The Millennium Project has estimated the costs of a worldwide implementation of the MDGs by the year 2015. The Sachs Report calls for an increase of ODA to US$ 135 billion by the year 2006 (roughly 0.44 % of the GDP of the industrialized countries [ICs]) and a rise to US$ 195 billion by 2015 (roughly 0.54 % of the GDP of the ICs). There is little doubt that a successive and longer-term increase of ODA is a condition required to reach the MDGs. But the Sachs Report leaves a number of questions unanswered.

To cite an example: In view of extremely differentiated country situations, the needs assessments presented by the Sachs team should be read with caution. They are based on a methodology that was tested by the Millennium Project as early as in late 2003 in five pilot countries (Bangladesh, Cambodia, Ghana, Tanzania, and Uganda). If we take a closer look at these country studies, we find that they contain very rough calculations of investment needs in selected sectors, without paying adequate heed either to the issue of absorption capacities or the pressing need to build and develop institutions and "human capacities." The project is now set to make up for this by presenting a series of far more detailed needs assessment that have been worked out with the support of the Millennium Project in several additional countries in the framework of "MDG-based poverty reduction strategies." Thus far no coordinated "multisector 10-year scale-up plan" has been worked out for any of these countries. What we find instead is that both the methodology of needs assessments and the political process involved in preparing them contain quite a number of pitfalls which, in the more technocratic perspective adopted by the Millennium Project, were at first systematically underestimated.

Finally, there is also reason to doubt whether the proposed doubling of ODA within a very brief period of time would set the right incentives. In many countries of sub-Saharan Africa more than half of government expenditure is financed by donors. A further massive increase of this external funding would tend more to undercut the accountability of governments to their own citizens. Furthermore, experience shows that any rapid rise in government expenditure – as reasonable as it may be in given cases – leads to declining effectiveness of public expenditure. And: How and when are donors to cut back again on these massive transfers? Without an appropriate "exit strategy," perhaps based on a link between aid provision and mobilization of national funds, there is every reason to doubt the sustainability of this process.

It is here that we find one of the crucial weaknesses of the Sachs Report: Arguing in essence in macroeconomic terms, in aggregate dimensions and relations, the report neglects the sphere of political economy, a fact which leads it to formulate some more or less sweeping recommendations concerning the mode of operation of international cooperation. The report suggests that a "big push" would, as it were automatically, translate out into socio-economic development processes. The report pays too little heed to development blockades entrenched in society (e.g. political power structures, which political elites in developing countries often show very little interest in changing), obstacles rooted in political economy (e.g. lack of development incentives in some of Africa's resource-rich, rent-based economies), and unintended consequences of international cooperation (e.g. self-perpetuating subsidization mentalities). Yet only a development policy that finds answers to these challenges has any prospects of long-term success. Here it is worthwhile to take a careful look at the "Annan Report", which sees step-by-step democratization as a sine qua non for overcoming development blockades and a condition essential to achieving the MDGs.

It may thus be said that in many places the Sachs Report argues too technocratically and "unpolitically." To cite an example, the report imperturbably assumes that general budget support per se is the right instrument to strengthen partner ownership, to shift responsibility to governments and parliaments, and to foster the necessary reform processes. However, critical observers in partner countries are often unable to see how this approach is to help overcome bureaucratic inertia, combat corruption, and foster social dynamics. Budget support is an instrument designed to reduce transaction costs and finance reform policies. But it is also important to link rising ODA and budget support to incentives, but also to conditionalities aimed at improving good governance in developing countries – and if this fails, there is no reason to expect ways out of the poverty trap to develop.

In what countries should ODA be increased?

In the Sachs Report efforts aimed at achieving the MDGs are centered on the world's roughly 70 poorest countries, many of which are far from being able to reach the MDGs. According to the Sachs Report, however, no more than 15-25 of these countries are, theoretically, in a position to absorb substantially increased funding over the short term ("fast track countries"). Gauged in terms of different "governance indices" (e.g. from the World Bank, the US government, Transparency International), these countries are ruled by development-minded elites and are marked by a minimum of good governance and poverty-oriented policies in keeping with their level of development. The conditions encountered in these countries can be said to be favorable to achieving rapid progress in development.

The fast-track countries might initially include the 17 countries whose good policies have qualified them for debt relief under the HIPC Initiative:

Ethiopia, Benin, Bolivia, Burkina Faso, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Zambia, Senegal, Tanzania, Uganda.

In the coming years a number of additional countries could qualify on the basis of the HIPC criteria.

The donors should provide substantial and longer-term support for these countries' reform efforts by significantly increasing their ODA – also with an eye to signaling to poorly governed countries that "good governance" will be rewarded by the international community. It would, however, be counterproductive for a large number of actors to provide uncoordinated and rising amounts of ODA in the fast-track countries. It would be important for the donors to define a clear-cut division of labor for this country group. Germany should take the initiative on a strategy designed to come up with an effective division of labor among the EU member states, massively increase its cooperation efforts in some five fast-track countries, and aim here to take on leadership roles in donor coordination.

The other of the world's poorest countries are struggling with precarious conflict and post-conflict situations, their governments lack the necessary development orientation, or their governance and the quality of their institutions is not adequate. It would make little sense to rapidly scale up ODA investments in such "poorly governed countries." For this country group it is essential to develop longer-term strategies to create the institutional and political conditions needed for successful MDG reforms.

Viewed against this background, the present fixation on the year 2015 is not unproblematic. In many developing countries the necessary reform processes will take time, and funding needs will increase successively, not jump sharply. The BMZ's phased plan to step up German ODA to 0.5 % of German GDP by the year 2010 and to further increase it to a level of 0.7 % by 2015 is more in line with this vision than the Sachs Report's call for donors to double their ODA in the short term.

Improving governance in the architecture of international development policy

Good governance poses a challenge not only for the developing countries but for development agencies as well. For, as the Sachs Report rightly puts it, the donors are often part of the problem, not always part of the solution. It makes sense to significantly increase ODA only if the architecture of international development policy is reformed at the same time. International development policy must provide, together with the governments of developing countries, coordinated contributions to national MDG agendas instead – as in the past – of dissipating its efforts in a large number of individual measures. Every donor is called upon to set out, in the framework of the complex model of poverty reduction, his own contributions toward achieving the MDGs.

The sheer number of donor organizations, with their multiplicity of planning, implementation, and evaluation procedures, entails huge transaction costs for the developing countries. Poor African countries are not at all in need of support by the ten donor nations, the World Bank, the African Development Bank, and the EU to solve problems in their public administrations and health sectors – indeed, cooperation with two or three external agencies could serve to lower costs and boost development-related impacts. Not least German development policy must, with a view to this background, continue on its path of setting country-specific and sectoral priorities and back up this strategy by seeking an effective division of labor with other donors – in particular in the framework of the EU.

The Sachs Report's call to deploy ODA largely via multilateral channels – because multilateral aid tends more than bilateral aid to arrive in partner countries in the form of investments and budget support – would, however, lead to a system uniformity that could, for one thing, tend more to increase the risks for partner countries. For another, approaches of this kind overlook the weaknesses of the multilateral development system, which are addressed very openly in the Secretary-General's report: "*... the United Nations as a whole is still not delivering services in the coherent, effective way that world's citizens need ... In the medium and long term we will need to consider much more radical reforms ... Such reforms could include groupings of various agencies, funds and programmes ... And these regroupings might involve eliminating or merging those funds, programmes and agencies which have ... overlapping mandates and expertise.*"

This frank self-criticism has implications going far beyond the General Assembly reform summit scheduled for September 2005. As stakeholders, Germany and other donors are called upon to come up with viable solutions to the problems of multilateral development agencies outlined by Kofi Annan (Messner et al. 2005).

The agreements reached in the framework of the Paris Declaration on Aid Effectiveness adopted in March 2005 point in the right direction. In essence, they center on the need for the multiplicity of bi- and multilateral development agencies to gear their activities more than they have in the past to their specific comparative strengths and specialization advantages. Clear-cut task profiles and division of labor are a sine qua non for coordination, coherence, effectiveness, and cost reduction in international development policy.

All this goes to show: Achievement of the MDG hinges in very large measure on breakthroughs in the field of good governance in developing countries as well as on reform of the international development architecture. On the donor and recipient sides alike, good governance is the crucial key to a sustainable reduction of worldwide poverty.

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