

Think Piece for EADI/DSA/IDS/ActionAid High Level Policy Forum on the MDGs

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Poverty Reduction and the MDGs Paradigm

The MDGs have kept absolute poverty and multi-dimensional deprivation on the world's agenda for far longer than any previous development paradigm. This has survived and been consolidated over recent years, which have seen new targets – for example universal access to reproductive health services. This unprecedented near 20 year record for a consensus development paradigm has been achieved despite scepticism in certain quarters about the achievability of the MDGs, and about the absence of critical factors from the list (eg growth which is of course so critical in reducing poverty). Their pre-eminent position is maintained by a coalition of UN agencies and their member governments, donor governments, civil society organisations and networks.

While the MDGs have orchestrated and justified much development assistance and thinking about development in the international agencies and the north, they have had less power in the south, where development policies have been predictably more contested. Ministries of Finance in particular have perceived trade-offs for public investment between growth and social policy objectives. A new consensus, more driven by the south, has gradually emerged on the need to rebalance social and economic expenditure. There was an earlier debate about the choice of indicators to monitor Poverty Reduction Strategies and national development plans, which was largely resolved in most countries in favour of context-specific incorporation of elements of the MDG framework into national frameworks. This indicated that the MDGs did indeed make sense in many contexts. What is important is that policies are genuinely a part of any national social contract, and progress and national expenditure plans are assessed against relevant context-specific benchmarks – not just the international targets.

I have argued elsewhere that just as important as the goals and targets themselves are the underlying fundamentals.¹ These include: economic growth and stability, sustained peace, progress towards gender equality, reduced vulnerability of the population and especially the poor, and a progressive evolving state-citizen contract. The Millennium Declaration addresses some but not all of these, but is widely ignored; the goals themselves arguably now address gender equality reasonably well (the problem lies in implementation), but do not address the other fundamentals. This

¹ Achieving the MDGs: the fundamentals. ODI Briefing Paper 43, September 2008.
<http://www.odi.org.uk/odi-on/call-to-action-mdgs/index.asp>

is not a criticism of the goals, merely an observation. Addressing the fundamentals is important if the goals (and targets) are to be achieved.

The influence of global changes on the MDGs to 2015

There are two overriding challenges to the MDGs to 2015 – the consequences of the food and fuel price crisis and global recession, and the consequences of increased climate variability and of the international negotiations on climate change. Both of these present opportunities to address one of the MDG fundamentals identified above – the vulnerability of the poor and not so poor in developing countries. This opportunity should be seized, building political momentum and harnessing available knowledge on what works.

Social protection response to the FFF crisis

The current food, fuel and financial crisis suggests that the MDGs constitute a fragile paradigm. The crisis has produced a very real welfare crunch for the poor, the not-so poor, and the poorest, especially focused on food, but now also on loss of employment, remittances and prospects for continued economic growth into the future, especially in the most vulnerable countries. The lesson is that the world can easily be blown off course. The additional estimated hundreds of millions of people who have become \$1-a day poor, under-nourished and otherwise deprived suggest that the instruments available to achieve MDG targets are not powerful enough to withstand shocks - which are not outside the range of what could be predicted, given the business cycle, and the implications of uneven global economic growth. The question going forward is how to make progress at the bottom of the world social scale more sustainable through inevitable crises. Social protection is an obvious potential approach to this, although it has not been designed to address global shocks. Nevertheless, the crisis provides the biggest opportunity yet to invest in social protection – a parallel with the 1930s New Deal.

The impacts of the crises in developing countries are multiple. Immediately increased poverty and under-nutrition caused largely by food price inflation and reduced remittances and now wages as unemployment increases, all of which with particularly negative consequences for women and children; and in the medium term reduced growth prospects, leading to revenue shortfalls, lower public expenditure, aid and human development. Impoverishment will have significant medium and long term consequences, some of which will be irreversible. Assets will be sold, malnourished children may be impaired for life. Social and political consequences are more uncertain, but will be there.²

Developing countries have varied in their social protection policy responses to the crisis.³ Some have protected civil servants' pensions. Some have struggled to meet existing commitments; some have increased the size of transfers to beneficiaries; a few have extended coverage of existing schemes – the latter is more difficult for many

² Otieno, T. (2009) *Global financial crisis: risks for fragile states in Africa* London, ODI, Opinion 130, April

³ Te Velde, D.W. et al (2009) *The global financial crisis and developing countries: preliminary synthesis of 10 draft country reports*, London, ODI; McCord, A and Vandemoortele, M (2009, forthcoming) *The global financial crisis: poverty implications and the social protection response* London, ODI, Briefing Paper

schemes which have regular cycles for identifying beneficiaries. Others have reduced social expenditure in favour of macro-economic stability, or introduced a fiscal stimulus package. It looks like the political opportunity to really focus on extending and deepening the provision of social protection is not yet being taken.

Seizing this opportunity requires a strengthened social movement. Civil society has a role to play, both north and south – and there are challenges here, since civil society organisations focused on development have come late to support social protection, or still do not, arguing that it promotes dependency. These arguments are largely spurious, however.⁴ Some developing country governments have championed social protection – principally in Latin America (conditional cash transfers) and South and southeast Asia. Others have remained sceptical, or instigated limited experiments. A south-south movement is needed here, with enthusiastic politicians and governments letting others know the benefits and costs as they have experienced them, viewed from a political as well as an economic angle – social protection helping with government legitimacy and the state-citizen contract, and winning elections.

The pre-occupation with not undermining growth prospects is legitimate, but the evidence is contested, and in any case growth is clearly not the only legitimate development objective – security is also important to most people. International donors are to some extent convinced, although the level of expenditure on social protection is not nearly what it needs to be to get support low income countries rapidly towards adequate coverage and depth. Of course, it's not just a matter of resources, but also of implementation capacity. However, the crisis is a good time to start building that capacity, and exploring different approaches, especially in weaker states where capacity is so limited, and political stability at such a premium.

The MDGs have sat alongside the Washington Consensus, that other major development paradigm. To some extent, and in some countries, they have sat in tension with that consensus to the extent that higher and more stable public spending is needed than can be obtained given accepted macro-economic policies. (In others, eg India, the revenues have now possibly outstripped the ability to spend usefully, though the Employment Guarantee has been contested.) The imminent crisis of public finances which will result from the combination of financial, fuel and food prices crises in some developing countries will test national macro-economic policies once again, as in the 1980s. Finding economic stability without further damaging prospects for human development and poverty reduction will require a different approach to macro-economics.⁵ Monitoring the IMF's programmes in developing countries will be critical.

Finding the resources to support large scale additional social protection in this atmosphere will be especially challenging. Given the slowness with which aid targets are being delivered, and the absolute reductions in aid consequent on reductions in rich country GDP, it is almost certain that resources need to be 'brought forward', borrowed from the future. Donors will also have to make long term commitments, beyond the terms of any normal period of elected government in order to provide

⁴ Shepherd, A (2008) *Social assistance against chronic poverty: is there a problem of dependency* Chronic Poverty Research Centre, draft Policy Brief, currently available from the author

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⁵ Cornia, G. (2009) *Pro-poor Macro-economics* UNRISD and Palgrave

developing country governments with incentives to commit their own scarce public revenues to social protection for the medium-long term. All of this requires courageous political leadership.

Social protection response to climate vulnerability?

Climate change scenarios for developing countries agree on the likelihood of continued increases in variability and the probability of extreme weather events. Losses from extreme weather events have been on the rise for 3 decades. 140 million people in Africa now live under the threat of drought or flood. Insurance is the logical response to such risks; however, since most of these are co-variant and will affect large proportions of a national population, the insurance system needs to be global. There is massive need and scope for innovative mechanisms which will take the world beyond existing humanitarian responses to disasters. While insurance and re-insurance markets in developing countries are limited or non-existent, and will benefit from significant international attention in the coming years, it is global insurance which will be most critical in enhancing the response to climate variability. Very little of the weather related risks in emerging markets are covered by insurance; large scale public-private partnerships will almost certainly be required to develop such systems. These are proving slow to develop, though Climate Change adaptation funds may change that. Currently pilot weather-indexed insurance pilots will need evaluating and promising versions scaled up.⁶

In the meantime, while insurance systems are gearing up, national social protection systems, supported by public international financial mechanisms could conceivably fill part of the gap to the extent that their coverage can be extended and/or deepened to cope with the inevitable crises which will occur, and will impoverish. However, this also challenges the premises on which many social protection schemes are currently designed: they privilege the chronically poor, the poorest, rather than all those losing out from a crisis; and many have relatively slow responses to change – beneficiaries are carefully selected every so often, and remain eligible for a period of time such that they have a chance to build or rebuild assets. Some social protection schemes can be expanded and contracted (public works schemes are regularly used in this way), but others cannot easily (eg pensions, means-tested grants).

Bringing the social protection and climate change discourses closer together is a major challenge for 2009 and for the next few years.

A post-2015 scenario

The MDGs are pretty basic as aspirations, and in one form or another will persist beyond 2015. The challenge will be to go beyond the development orthodoxy – growth, with human development – which will have produced whatever gains have been made by 2015 – to achieve the goals rather than the 2015 targets, by some future date.⁷ This will be in a context where the world is still recovering from a recession – the effects of the global recession will be felt in developing countries well into the

⁶ Piero, R and Desai, B (2008) The potential role of disaster insurance for disaster risk reduction and climate change adaptation, Institute of Development Studies and Christian Aid Research Report.

http://cdg.lathyrus.co.uk/docs/Disaster%20Insurance_CCA_DRR_ChristianAid.pdf . see also IDS's

⁷ Chronic Poverty Research Centre (2008) *Escaping Poverty Traps: the Chronic Poverty Report 2008-9* www.chronicpoverty.org

next decade; and where a new climate treaty has been negotiated. Achieving the goals will also be harder – the chronically poor

Recession itself will likely prompt changes in key middle income countries (eg China, Vietnam and India) which will restrain growth: they will come under pressure to increase public expenditure on social protection to cope with greater un- and under-employment, and fewer market based opportunities. This will mean that economic growth is unlikely to return to the high levels achieved in recent years, and knock-on effects will be felt across the resource-supplying economies of the developing world. Growth based poverty reduction opportunities will consequently be lower compared to the recent period; reducing inequalities between and within countries will have to be a more important approach. And of course, it's a more difficult approach politically because there are more losers for the same amount of progress. A further greater difficulty will be that the measures required to end the discrimination, exclusion, adverse incorporation experienced by the chronically poor require more sophisticated policies and policy implementing machineries than do the provision of infrastructure and basic services which have been relied on to date. So there will be a need for significant global and national political leadership to prepare publics, and taxpayers especially, for the greater challenge which lies ahead.

MDG 7 is currently a mess, and needs to be updated and rethought from a developing country perspective. Climate change negotiations can be expected to require a huge global hike in investment in green technologies, and massive mitigation measures. Some of the former may well benefit developing countries – for example, the location of solar energy plants in the Sahara and Sahel. To the extent that developing countries can produce greener products and get price recognition for this, benefits should flow south. Fair trade and sustainability labelling can be the harbingers. The relationship between adaptation to climate change and the MDGs needs to be thought out in context. National Adaptation Plans and Poverty Reduction Strategies or national development plans have largely been developed in silos, and will need to be integrated. The Swedish Commission on Climate Change and Development has issued a clarion call to Fight Poverty and Climate Change Together, which relies on social protection as a critical adaptation measure.⁸

Mitigation measures may have particular dampening effects on growth and poverty reduction in developing countries – and a co-ordinated attempt to prevent this is needed during the Copenhagen process and beyond. Integrating the poverty and climate discourses is thus both a short term and longer term project of some urgency.

A final thought: a social protection MDG target

Reducing vulnerability, increasing livelihood resilience, and social protection provides the thread running through this contribution. Arguably helping people manage risk is the basic function of a good state. At least ensuring social protection is something we know that states can do. It is not asking the impossible. By 2010 there will have even been enough experimentation in low income countries to know what works there too. Systematic international support for low income countries' social protection policies can surely be constructed by 2015.

⁸ <http://www.ids.ac.uk/index.cfm?objectid=3FE7D042-DE4F-7007-456AEBB40D5683B8>

The argument has been made for a social protection target from 2010, on the grounds that it will help achieve (almost all) the other targets.⁹ The counter-argument is that this will make the MDGs more complicated, and appear as another northern imposition. Well, the news about social protection is a southern production – emanating from Latin America and south and southeast Asia, and the global social protection movement needs to ensure leadership to developing country politicians and intellectuals.

⁹ See footnote 6.