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Committee for Development Policy

The United Nations Development Strategy Beyond 2015

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Policy Note

The United Nations Development Strategy Beyond 2015

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DESA

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Foreword

At the 2010 High-level Plenary meeting of the General Assembly on the Millennium Development Goals (MDGs), Member States of the United Nations reaffirmed their commitment to achieving the internationally agreed development goals, including the MDGs. They also recognized the need to consider further steps to advance the United Nations development agenda beyond 2015. In response, the United Nations system mobilized international effort on the post-2015 United Nations development agenda, in order to support the consultation process with analytical inputs, expertise and outreach. This collaboration is critical to ensure an open, inclusive consultation process that engages all relevant stakeholders.

The MDGs have provided a powerful tool to sustain global attention and galvanize support in many countries. The process of defining a post-2015 United Nations development agenda should build on the principles of the Millennium Declaration and the experience with the MDG framework, both successes and areas for improvement. The international community must also consider new challenges which have emerged in addition to the old challenges that may remain unresolved, if not intensified.

At its fourteenth session in March 2012, the Committee for Development Policy examined some of the core issues relating to United Nations development agenda beyond 2015. Participants also reflected on the development strategies required to fully realize the vision expressed in the Millennium Declaration—a world where globalization becomes a positive force for all.

This Policy Note reflects the conclusions of this examination, and suggests some general contours of the future development strategy. In this regard, it is particularly important for the global community to take a comprehensive view of development, remembering to encompass the economic, social and environmental dimensions, while ensuring respect for human rights and sustaining progress already achieved. This Note is a welcome contribution to efforts by the international community to find effective solutions that move the international development agenda forward.

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Summary

The United Nations Millennium Declaration embodied an international appeal for globalization to become a positive force for all, based on principles of solidarity, equality, dignity and respect for nature. An expression of that consensus, the resulting Millennium Development Goals (MDGs) have been instrumental in galvanizing international efforts in eradicating poverty and promoting development as global priorities. Looking forward, it is imperative that the world community continues to be committed to the unified vision embodied in the Millennium Declaration. In order to realize this vision, a transformative framework with a broader, more nuanced and context-specific development strategy is essential.

The present Policy Note proposes principles and policy alternatives for a post-2015 development agenda, in the light of lessons learned from the MDG experience and the key development challenges that have emerged in recent years.

The MDGs have effectively forged a global consensus and mobilized public support for eradicating global poverty. However, they were narrow in scope and did not sufficiently address the specificities at the country level. The MDGs put great emphasis on social spending, and have kept the agenda transparent and focused, but this approach brought an oversimplification of the policy agenda. Furthermore, the world is now confronting a series of challenges, both old and new, which requires new policies and international frameworks that: generate a more balanced distribution of both the benefits of globalization and the responsibility for its costs, consider the interdependence among issues and enhance coherence at various levels, and pay increased attention to inter-temporal decisions in order to manage risks and improve security of achievements accomplished.

The Committee considers that the post-2015 development framework should incorporate the core principles articulated in the Millennium Declaration and be built around the central objective of expanding people's freedoms in a sustainable and equitable way with security from adverse shocks. Formulation and implementation of the global development agenda must also accord with the fundamental principle of inclusive participation. This framework should be applicable to all countries, not only developing countries.

The development model underlying the MDGs has not worked as intended. Progress on poverty eradication has been slow and uneven. Multiple and intertwined crises have emerged with financial, energy and food security crises coexisting against the background of an unsustainable depletion of the world's natural resource base. In this regard, countries should define national sustainable development strategies that integrate the macroeconomic, productive, social and environmental dimensions. Such strategies should aim at increasing the level of productive diversification and technological complexity of national economies in order to create decent employment on a sustainable basis, while social equity and environmental sustainability are promoted.

The success of alternative development strategies also depends on a fundamental revision of development cooperation and global partnership. The challenges of reaching inclusive and sustainable global development require a thorough reconsideration of existing trade, financial and other architectures to provide much needed global public goods in a coherent and efficient manner. A pro-development framework in the areas of finance, trade, international labour movement, and technology transfer is essential. This framework should be supported by a stronger and more democratic international governance structure and legislation that covers issues not being addressed at present.

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Explanatory Notes

The following abbreviations have been used in the present publication:

BWIs	Bretton Woods Institutions
CDP	Committee for Development Policy
DAC	Development Assistance Committee
FDI	foreign direct investment
FTA	free trade agreement
GDP	gross domestic product
GFA	global financial architecture
IFFIm	International Finance Facility for Immunisation
IMF	International Monetary Fund
IPR	intellectual property right
LDCs	least developed countries
LICs	low-income countries
MDGs	Millennium Development Goals
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PPP	Purchasing Power Parity
PRSPs	Poverty Reduction Strategy Papers
SDT	special and differential treatment
SMEs	small and medium enterprises
TRIMs	Trade-Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNFCCC	United Nations Framework Convention on Climate Change
VAT	value added tax
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

The United Nations Development Strategy Beyond 2015

Introduction

The 21st century began with a new consensus — that ending poverty is the central purpose of development. Supported by an unprecedented political commitment to international cooperation, the 2000 United Nations General Assembly adopted the Millennium Declaration, which outlined three central objectives of the global community for the 21st century: development and the eradication of poverty; peace and security; and democracy and human rights. Accordingly, world leaders pledged to "spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty".[1]

The Declaration was a visionary document which reiterated the shared values of solidarity, equality, dignity and respect for nature as the driving motivation of world leaders. The Declaration was especially powerful as it outlined concrete and specific goals for development to be achieved by 2015. These were elaborated into the Millennium Development Goals (MDGs), introduced one year later in the "road map", the Secretary-General's implementation plan for the Declaration. A total of 8 goals, 18 targets and 48 indicators were laid out in the Annex of the document, with its stated purpose being to "harmonize reporting on the Millennium Declaration".[2]

The Millennium Development Goals have provided a framework for benchmarking progress in relation to the 2015 targets. Considerable progress has been made; however, many targets will not be met. Poverty

1 United Nations, General Assembly resolution A/55/2 of 8 September 2000, para. 11.

2 United Nations, "Report of the Secretary-General on the road map towards the implementation of the United Nations Millennium Declaration", 6 September 2001, A/56/326, p. 56.

remains a major global challenge and priority. What then would be the most effective way to take the international development agenda forward after 2015?

In the outcome document of the High-level Plenary Meeting of the General Assembly on the Millennium Development Goals, Member States requested the Secretary-General to make recommendations for further steps to advance the United Nations development agenda beyond 2015.[3] They also reaffirmed the role of the Economic and Social Council "as the principal body for coordination, policy review, policy dialogue and recommendations on issues of economic and social development and for the follow up to the Millennium Development Goals". Accordingly, this Note should be considered as an input to the Council's deliberations on the future development agenda whose coordination and monitoring follow under its mandate.

This Policy Note considers principles and policy alternatives for a post-2015 development agenda in the light of the analysis of lessons learned from the MDG experience and the key challenges that have emerged in recent years. It argues that while the MDGs effectively used global goals to forge consensus and mobilize public support for eradicating poverty, they were too narrow in scope. In fact, the MDGs concentrated the policy agenda around social spending in order to keep the agenda transparent and focused. This approach brought an unintended downside effect: it oversimplied the policy agenda and neglected important priorities. Many of these missing or underemphasized dimensions have emerged in recent decades as the most pressing priorities across the world, including: employment creation, particularly for youth; climate change and environmental sustainability; inequality within and between countries; threats from violence; instability in global markets for finance, fuel and food; and democratic governance that gives voice to and is accountable to people.

The present Note proposes that new global goals should be set to advance the core values and objectives of the Millennium Declaration, but designed on a broader basis. It also identifies a range of alternative

3 United Nations, "Report of the Secretary-General on keeping the promise: a forward-looking review to promote an agreed action agenda to achieve the Millennium Development Goals by 2015", 12 February 2010, A/64/665.

economic and social policy approaches for promoting growth that would also achieve greater equity, sustainability and security, and thereby advance the vision of the Millennium Declaration for transformative development with social justice.

This Note is organized as follows: the next section will briefly review the importance, achievements and limitations of the MDGs. The following section will address the key challenges the international development strategy should confront, identify core principles for developing post-2015 goals and strategies, and consider the priority areas for which goals are needed. The Note will then analyse options for national strategies to achieve development goals and incorporate sustainability, a reduction in inequalities, and improved security as critical components. Subsequently, it will consider those actions to be taken at the international level to promote an enabling environment for development for the benefit of all. The final section concludes.

The Millennium Development Goals

The importance of the MDGs

The consensus on ending human poverty as the central objective of international development was a major achievement of the global community. The MDGs have since forged renewed consensus that the extent of poverty around the world and the slow pace of its eradication are unacceptable. Derived from the Millennium Declaration, the Goals emphasize a human-centred approach, defining poverty as multidimensional deprivation in several social and economic areas of people's lives including education, health, environment, food, employment, housing, and gender inequality. Moreover, the MDGs make clear that the global partnership is essential to securing progress towards poverty eradication.

The MDGs have been adopted by national Governments, donors and other development stakeholders, and have mobilized numerous initiatives on the part of national and local Governments, civil society and businesses across the world. As such, the MDGs have been a powerful tool for galvanizing public opinion around a central ideal. The importance of such consensus and awareness should not be underestimated, considering that democratic governance of a fully integrated world requires shared commitments to global priorities, not only among Governments but also among the public at large.

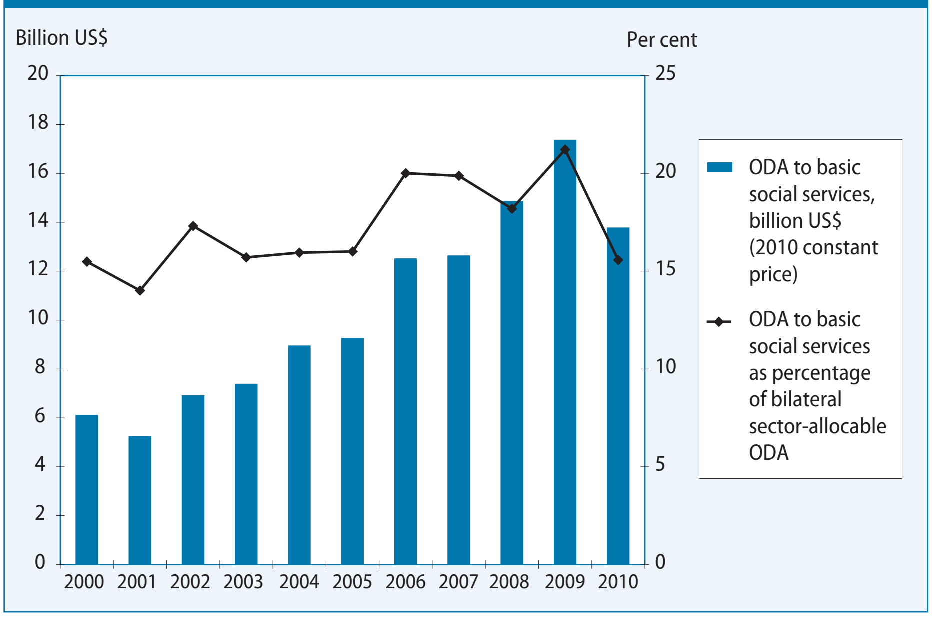
In fact, there has been a perceptible increase in funding to social sectors for primary basic services (see figure 1). The aid allocated by the Member countries of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) to basic social services increased from $6.1 billion to $17.4 billion in 2009, but then dropped to $13.8 billion in 2010 in view of fiscal adjustment in these countries. The proportion of aid allocation to basic social services also showed a steady increase from 15.5 per cent in 2000 to 21.2 per cent in 2009, but decreased to 15.6 per cent in 2010. Overall, there was a clear upward trend in aid to basic social services over the last decade. However, the increase was not maintained in 2010, owing to pressure from the global economic crisis on fiscal balance in donor countries. Moreover, the decline occurred despite the fact that aid is most needed in times of crises to offset the negative impact of such shocks.

Nonetheless, the main impact of the adoption of the MDGs seems to have tilted towards framing the global development debate and fostering specific initiatives rather than promoting the introduction of new national strategies specifically formulated to achieve those goals. While most policy frameworks of bilateral donors consistently mentioned the Goals as overall objectives, none of the donors have adopted MDGs explicitly as a framework for allocation of resources and for programming purposes.[4] Insufficient integration between the MDGs and donors' policies is likely to have contributed to the sudden decrease in both the volume and the relative share of social services in ODA flows in 2010, as shown in Figure 1.

4 Sakiko Fukuda-Parr, "Are the MDGs priority in development strategies and aid programmes? Only few are!", IPC Working Paper, No. 48 (New York: United Nations Development Programme, International Policy Centre for Inclusive Growth, October 2008).

Figure 1

Total bilateral sector-allocable Official Development Assistance of OECD/DAC donors to basic social services, 2000-2010



Source: OECD, OECD Stat Extract. Available from http://stats.oecd.org/index.aspx?.

Note: Basic social services include basic education, primary health care, nutrition, safe water and sanitation.

Likewise, national Governments have adopted the MDGs and the poverty reduction framework in defining their central development objectives, but it is less clear whether these actions have led to a reallocation of resources and new policy approaches. For example, a review of 22 Poverty Reduction Strategy Papers (PRSPs)[5] available in 2008 found that they consistently referred to the MDGs as a central objective and incorporated the

5 Poverty Reduction Strategy Papers (PRSPs) are prepared by Governments of low-income countries and serve as a framework for reaching agreement with the donors on development priorities and financing requirements. The PRSPs considered here are "second strategy papers", that is to say, prepared after the completion point (and after having obtained debt relief). See Sakiko Fukuda-Parr, ibid.

2015 targets. Yet the measures to implement these goals were not always articulated; many PRSPs assumed that aggregate national economic growth would lead to the achievement of the MDGs and did not give enough consideration to distributional challenges. Lastly, the goals were embraced in a selective manner. Most emphasized income poverty, education and health, but there was less attention to employment, environment, hunger and maternal mortality targets.

New goals, old policies

The evolution of development thought and policy over the last half century has been marked by some historical shifts, such as the idea of basic needs in the 1970s, a market-based approach involving the implementation of privatization and liberalization reforms in the 1980s, and the idea of human development in the 1990s. Yet surprisingly, the consensus on poverty as a priority has not generated new thinking about policy alternatives for faster poverty reduction.

While poverty reduction was identified as the overarching objective, development strategies continued to rely on the overall approach of the 1990s. That approach has emphasized macroeconomic stabilization and adoption of Washington Consensus–style macroeconomic policies to promote aggregate economic growth based on private investments and market liberalization. Additionally, greater focus was placed on social sector investments to meet basic needs and social protection policies.

When new approaches did emerge, they originated in the developing countries and not from mainstream thinking or advice from the international community. In fact, some developing countries have successfully pursued equitable growth strategies that have not only led to growth with income poverty reduction but also to reduced inequality and improved social outcomes as measured by the MDGs. These countries have taken a more interventionist approach by promoting expansionary macroeconomic policies, raising taxation and public expenditure, expanding employment, and raising incomes of the poor through minimum wage legislation and conditional cash transfers.[6] Effective macroeconomic policies for the achievement of the MDGs are discussed below.

6 Giovanni Andrea Cornia, "Economic integration, inequality and growth: Latin America vs. the European economies in transition", DESA Working Paper, No. 101 (New York: Department of Economic and Social Affairs of the United Nations Secretariat, January 2011).

MDG Outcomes

According to United Nations monitoring reports[7], the developing world as a whole will reach many of the MDGs and progress has occurred in many countries, including those in sub-Saharan Africa.[8] Clearly, it is difficult to assess the impact of MDGs on the pace of poverty reduction lacking knowledge of what would have happened without them. Yet current trends show significant progress in poverty reduction at the global level (see table 1), with the number of poor people in the world decreasing from 1.9 billion in 1990 to 1.29 billion in 2008.

Trends, however, have been uneven across regions and disappointingly slow, with inconsistent acceleration. For example, nearly all the reduction in global poverty was concentrated in a small number of countries in Asia (see table 1). In sub-Saharan Africa, the absolute number of poor increased from 290 million to 386 million between 1990 and 2008. Some countries and regions are still not on track to reach the Goals and require intensified efforts to reduce poverty and child and maternal mortality rates and to improve access to drinking water and sanitation.

It is also important that, while some global targets are likely to be met, other targets require additional and accelerated efforts by the international community. Globally, the 2015 target for income poverty (Target 1.A) and the target for safe drinking water (Target 7.C) are on track to be met, while steady but insufficient progress has been made for other targets, including universal primary education (Target 2.A), reducing child mortality (Target 4.A), and combating malaria and other global diseases (Target 6.C). Furthermore, there has been either stagnation or regress for some targets: the proportion of people who suffer from hunger (Target 1.C) has stagnated at 16 per cent since 2000-2002 and the number of undernourished people has grown from 828 million in 1990-1992 to 837 million in 2005-2007. Employment and decent work (Target 1.B) has shown a setback in many countries in recent years.[9]

7 *MDG Gap Task Force Report 2011: The Global Partnership for Development: Time to Deliver* (United Nations publication, Sales No. E.11.I.11).

8 Sakiko Fukuda-Parr and Joshua Greenstein, "How should MDG implementation be measured: faster progress or meeting targets?" IPC Working Paper, No. 63 (New York: United Nations Development Programme, International Policy Centre for Inclusive Growth, May 2010).

9 *The Millennium Development Goals Report 2011* (United Nations publication, Sales No. E.11.I.10).

Table 1:
Number of poor (millions, measured by people living on less than $1.25 a day in Purchasing Power Parity (PPP)), 1990-2008

Region	1990	1993	1996	1999	2002	2005	2008
East Asia & Pacific	926.4	870.8	639.7	655.6	523.1	332.1	284.4
Europe & Central Asia	8.9	13.8	18.2	17.8	10.6	6.3	2.2
Latin America & Caribbean	53.4	52.5	53.7	60.1	62.7	47.7	36.9
Middle East & North Africa	12.9	11.5	12.3	13.6	12	10.5	8.6
South Asia	617.3	631.9	630.8	619.5	640.5	598.3	570.9
Sub-Saharan Africa	289.7	329.9	349.2	375.9	390.2	394.8	386.0
World	1,908.6	1,910.3	1,703.8	1,742.6	1,639.1	1,389.0	1,289.0

Source: World Bank, PovcalNet. Available from http://iresearch.worldbank.org/PovcalNet/index.htm?1#.

Critique of the MDG framework

The MDGs have generated critical debates among development practitioners that challenge their reliability as a framework for development planning or for monitoring progress. Issues have been raised about the methodology used[10] which identified targets that are unrealistic for many countries[11] and biased against those with low starting points[12]. At the same time, the 2015 targets are set at levels that are too low for other countries. In some cases, they have distorted national priorities, thus undermining civil society efforts to press Governments to do more. For example, the goal of universal primary education took the agenda backwards in countries where the

10 William Easterly, "How the Millennium Development Goals are unfair to Africa", *World Development*, vol. 35, No. 5 (2009), pp. 735-751; Ashwani Saith, "From universal values to Millennium Development Goals: lost in translation", *Development and Change*, vol. 37, No. 6 (2006), pp. 1167-1199.

11 Michale Clemens, Charles Kenny and Todd Moss, "The trouble with the MDGs: confronting expectations of aid and development success", *World Development*, vol. 35, No. 5 (2007), pp. 735-751.

12 Easterly, op. cit.; Clemens, Kenny and Moss, ibid.

challenge was to improve quality in primary schooling and advance access to secondary education. This led one activist to rename the MDGs as the "Most Distracting Gimmick".[13]

Another issue has been their narrow scope and the neglect of many important priorities, such as reproductive health and employment,[14] inequality within and between countries,[15] climate change, productive capacity and the macroeconomy.[16] Empowerment and democratic governance, human rights and security have also been overlooked. The human rights community has been particularly critical of the MDGs,[17] which overlap with many economic and social rights but do not reflect core principles of concern for the most vulnerable and the excluded, the principles of equality and participation, and the standards of universalism.[18]

The processes of formulation and implementation of the Goals have also been controversial. Although the MDGs were built on the Millennium Declaration agreed by all Member States and the outcome documents adopted at the United Nations conferences of the 1990s, which were highly participatory, they were put together by a technical committee

13 Peggy Atrobus, "Critiquing the MDGs from a Caribbean perspective", *Gender and Development*, vol. 13, No.1 (2005), pp. 94-104.

14 In 2005, some of these concerns were addressed with the addition of some targets and indicators.

15 P.J. Nelson, "Human rights, the Millennium Development Goals and the future of development cooperation", *World Development*, vol. 35, No. 12 (2007), pp. 2041-2055; Sakiko Fukuda-Parr, op. cit.; Ashwani Saith, op. cit.

16 H-J Chang, "Hamlet without the Prince of Denmark: how development has disappeared from today's 'development' discourse", in *Towards New Developmentalism: Market as a Means rather than Master*, S. Khan and J. Christiansen, eds. (Abingdon, United Kingdom: Routledge, forthcoming); Charles Gore, "The MDG paradigm, productive capacities and the future of poverty reduction", IDS Bulletin, vol. 41, No.1 (2010), pp. 70-79.

17 Philip Alston, "Ships passing in the night: the current state of the human rights and development debate seen through the lens of the Millennium Development Goals", *Human Rights Quarterly*, vol. 27, No. 3 (2005), pp. 755-829.

18 Office of the High Commissioner for Human Rights, *Claiming the MDGs: A Human Rights Approach* (Geneva, 2008); P. J. Nelson, op. cit.; Ashwani Saith, op. cit.

of the United Nations, the World Bank and the DAC, and were not widely debated before they were formulated. This led to sharp criticisms from civil society organizations[19] and lukewarm responses from developing country governments when they were first introduced.

While acceptance of the Goals has become widespread, controversies persist over how to measure achievement. Some have argued that the targets were intended to be achieved at the global level and not at the country level;[20] others have held that they would only have operational meaning as a basis for resource mobilization. The subsequent United Nations official documents leave the question unanswered. In practice, United Nations monitoring reports[21] apply the Goals to each country, though many countries have also adapted the Goals to their national contexts. A related deficiency refers to the fact that the MDGs are implicitly applied only to developing countries when poverty is a challenge in all countries of the world.

Another important criticism concerns how performance is monitored. Official monitoring reports focus on whether countries, regions and the world as a whole are on track to achieve the 2015 targets. As mentioned above, critics have argued that this method is biased against countries with low starting points. A more appropriate metric would be to focus on the pace of progress rather than the level of achievement.[22] Sub-Saharan African countries, for example, are off track for reaching many Goals, but have performed particularly well when the rate of progress is considered.

The Millennium Declaration: vision and ethical commitments

A fundamental problem with the MDGs is their narrow scope and their oversimplification of the development process which leaves out some central aspects of development. They are a list of goals focussed on meeting

19 Roberto Bissio, "Civil society and the MDGs", *Development Policy Journal*, vol. 3, No.2 (April).

20 Jan Vandemoortele, "MDGs conundrum: meeting the targets without missing the point", *Development Policy Review*, vol. 27, No. 4 (2009), pp. 355-371.

21 The annual progress reports report global and regional aggregates. Country progress is tracked in the on-line system that also rates whether countries are "on track" or not to achieving the 2015 targets.

22 Sakiko Fukuda-Parr and Joshua Greenstein, op. cit.

basic needs. As such, they do not capture the holistic approach of the Millennium Declaration, which includes chapters on environment (IV) and human rights, democracy and good governance (V). The Goals also do not include, or give little attention to, issues that are emerging as the most pressing in recent years, including employment, sustainability and climate change, and inequality within and between countries.

The Millennium Declaration and the MDGs: lost in translation?

The original idea behind including quantitative targets in the Millennium Declaration was to give concreteness to the normative commitments made to end poverty.[23] But the Goals communicate the challenges of international development so powerfully that they have come to shape the way development is understood, and even defined, and are taken literally as the definitive list of priorities. It is therefore troubling that the simplified scenario for development represented by the MDGs does not capture the ethical commitments and vision of the Millennium Declaration.

The Declaration commits Governments to the pursuit of a particular type of growth and development path, one that is equitable and human-rights based. The core norm of equality is articulated throughout the document. The commitment to equality reflects not only equality among but also within countries, including gender equality (paragraph 6) and equitable and non-discriminatory trading and financial systems (paragraph 13). It gives specific attention to the vulnerable (chapter VI) and to the special needs of Africa (chapter VII).

Most importantly, inclusive globalization is the central theme. As articulated in paragraph 5, "the central challenge we face today is to ensure that globalization becomes a positive force for *all* the world's people. For while globalization offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed." Box 1 presents a brief a background on the ethical principles surrounding the MDGs.

The development strategy in the Millennium Declaration is characterized by a commitment to the realization of all human rights — economic, social, cultural, civil and political. It focuses on the well-being of the individual as the key purpose of development, applying the core principles

23 Sakiko Fukuda-Parr and Davis Hulme, "International norm dynamics and the 'end of poverty': understanding the Millennium Development Goals", *Global Governance*, vol. 17, No. 1 (2011); Jan Vandemoortele, op. cit.

Box 1

The Millennium Declaration: ethical foundations

The ethical framework of the document derives from the international norms agreed in the Charter of the United Nations. These norms have evolved over the decades and been codified in international law. This ethical framework goes beyond the economic concept of development "with equity" and seeks a world that is "just" (paragraph 1). It draws explicitly on international human rights norms and principles, reflected in the core themes of "human dignity and freedom, equality and equity" (paragraph 1) and the respect for economic, social, cultural, civil and political rights (paragraph 25).

The Millennium Declaration reaffirms commitment to the United Nations Charter (paragraph 1), the Universal Declaration of Human Rights (paragraph 25), the Convention on the Elimination of All Forms of Discrimination against Women (paragraph 25) and the Convention on the Rights of the Child (paragraph 26). Interestingly, it also refers to the right to development (paragraph 24), the only international human rights concept that addresses development as a process. In this regard, the 1986 Declaration on the Right to Development recognizes development as a human right, defines development as a "constant improvement in the well-being of individuals", and articulates responsibilities for development as involving both individual and collective actions of States. The Millennium Declaration not only sets out desirable development objectives, but also the obligations of States: "as leaders we have a duty therefore to all peoples of the world, especially the most vulnerable" (paragraph 2). The Declaration further resolves to strengthen international cooperation (paragraph 26).

of equality and non-discrimination, empowerment and participation in the development process — all rooted in the norms of international human rights law. These ideas contrast with a concept of development that focuses narrowly on economic growth and the improvement of living conditions, including meeting basic (material) needs.

Furthermore, the simplified MDG narrative gives no recognition of the existing power structures — both within and between countries — that produce poverty. It leaves out much of the important economic policy agenda put forth by developing countries in international negotiations.

Issues of asymmetric power and lack of voice in international rules related to trade, investments and finance, as well as policy space and control over national economic policies, are barely reflected in the MDGs. While they do include a specific goal on the building of a global partnership for development (Goal 8), its wording is weak and lacks quantitative targets in several aspects.

In sum, the MDGs have created a new narrative of international development that has convincingly appealed to and resonated with the publics and parliaments of developed countries and philanthropists. However, they fail to mention equity, empowerment of people, sustainability, security, and building sustainable productive capacity for economic growth. The simplification of development into eight goals amenable to quantitative measurement has reduced the development agenda to a plan for meeting basic material needs, leaving it stripped of the distinct vision for development found in the Millennium Declaration, one that emphasizes social justice and human rights for all.

Moving the Millennium Vision Forward

Key challenges

Addressing the shortcomings of the MDG narrative is critical for identifying the most effective way to take the Millennium Declaration agenda forward after 2015. But this will not be enough; it is also necessary to take into account the major challenges which the global economy is now facing, or will face in the coming decades.[24]

First, changes in demographic dynamics resulting from declining fertility and increased longevity have led to a profound transformation of the age structure of populations, with varying trends across countries. Most low-income countries will experience a significant increase in their labour

24 *World Economic and Social Survey 2010: Retooling Global Development* (United Nations publication, Sales No. E.10.II.C.1); Rob Vos, "Globalization at a cross roads: key challenges for the twenty-first century", DESA Working Paper (New York: Department of Economic and Social Affairs of the United Nations Secretariat, forthcoming).

force in the next decades. For these countries, the need to invest in the development of their human resources and generate productive employment opportunities is imperative. Other countries will experience a shrinking in their labour forces. For these countries, which also include middle-income developing countries, a major concern is whether a relatively smaller labour force will be able to support a growing dependent population at an acceptable level of welfare. Increasing productivity will be a major challenge, especially in areas where per capita income is lowest and economic opportunities for productive employment appear to be missing.[25]

Second, growth has been accompanied by persistent inequalities at the global and national levels. Despite noticeable progress in income distribution by some countries, including those in Latin America,[26] reducing inequalities remains a major challenge for the international development agenda.

Third, environmental pressures have grown. Continuation of the previous patterns of economic growth will further exacerbate the pressures exerted on the world's resources and the natural environment, approaching limits where livelihoods are no longer sustainable. The growing world population and income have been supported in part by the degradation of the world's natural environment. Almost one half of the forests that covered the Earth are gone, groundwater sources are rapidly diminishing, enormous reductions in biodiversity have already taken place, and, through the burning of fossil fuels, about 30 billion tons of carbon dioxide are currently being emitted each year. Hence, there is an urgent need to find new development pathways which would ensure environmental sustainability and reverse ecological destruction while managing to provide, now and in the future, a decent livelihood for all people.

25 Ana L. Cortez , "The international development strategy beyond 2015: Taking demographic dynamics into account", DESA Working Paper (New York: Department of Economic and Social Affairs of the United Nations Secretariat, forthcoming).

26 Francisco H.G. Ferreira and Martin Ravallion, "Global poverty and inequality: a review of the evidence", Policy Research Working Paper, No. 4623 (Washington, D.C.: World Bank, 2008); World Bank, *World Development Report 2006: Equity and Development* (Washington, D.C., 2005); United Nations Development Programme, *Human Development Report: Globalization with a Human Face* (New York: Oxford University Press, 1999).

Fourth, instabilities in global markets have presented a severe challenge for all countries in all continents. The simultaneous occurrence of crises in global finance along with food and fuel prices is no coincidence. The pattern of globalization of the past decades has increased interdependencies of countries and exposure to risks. Unregulated international finance, emergence of a debt-dependent trading system, climate change and increasing migratory flows are challenges with global ramifications. Yet the policies, rules and institutions established to govern these processes are mostly national, while global mechanisms are strongly compartmentalized. Without reform, tensions will grow between decision-making processes at the national level and those at the global level.

Fifth, the inadequacies of governance in responding to the voices of people have become increasingly apparent with popular manifestations demanding fair, participatory and democratic approaches. As demonstrated in many parts of the world, increasing gaps in opportunities among population groups can lead to political and social instability, despite the overall improvement in living standards. While the dynamics of such movements are country specific, failure to generate inclusive growth that benefits all tends to be one of the consistent sources of discontent in many countries.

Sixth, today the global aid architecture is more complex and fragmented than before; the low level of coordination among actors is compromising aid effectiveness. With the new actors, the development cooperation system has also increased the range of its available instruments. Yet the proliferation of actors and instruments has led to a system that lacks coherence. Moreover, the space of the international public goods has stretched, but there is not a suitable mechanism of coordination and cooperation for providing these goods, such as environmental goods, health, security, knowledge. As a consequence, overlaps and contradictory efforts have lowered the level of effectiveness of the whole system.

To address these future challenges, the vision embodied in the Declaration remains the core starting point. But moving forward, a new approach is needed that takes into account past experience, including addressing the shortcomings that emerged in the operationalization of this vision into the MDGs. At the root of these problems has been: failure to address the systemic impediments to protecting developing countries from the adverse consequences of globalization; failure to modify the unequalizing impact of the market within particular countries; and failure to improve the capacity of international cooperation to meet critical challenges. In this regard, the need for transformative change that encompasses the objectives of equity, sustainability, security and empowerment is applicable to all countries, not only developing countries.

Seen in this light, the MDGs may arguably have provided a convenient "cover" behind which macroeconomic policies continued to pursue the Washington Consensus agenda of liberalization and privatization, leading to widening gaps between the "winners" and "losers", without providing adequate protection for the losers. To an extent, the MDGs co-opted the language of human development. Consequently, critical debates about the impact of the liberalization agenda on poverty and inequality were "defanged". The need for alternative macroeconomic policies that would favour job creation for the unskilled and reduce inequality did not resonate with policymakers as urgent issues for international development debates.

Core principles for developing post-2015 goals and strategies

Thinking about directions for global development post-2015 provides an opportunity to correct the deficiencies of the MDG approach identified above, and to address new priorities that are emerging as the trends of the twenty first century unfold. While no one would question the focus on poverty, it is apparent that poverty reduction must be placed in a wider context in order to encompass some new goals, and to focus on effective instruments for achieving both new and existing objectives.

Defining progress is essential. In this regard, the important contribution by Amartya Sen should be closely considered. Sen understands development as the expansion of people's freedoms, where freedoms are defined in a multidimensional way to include economic, social, cultural and political freedoms, among others. We need to add three important considerations to this framework: first, that the expansion of freedoms must be sustainable and, above all, it must meet the challenge of climate change; second, that disparities in achievements across nations, groups, between genders and individuals should be reduced (in other words, reducing inequality, as it is broadly interpreted, should be central); and third, that security from downside risks is centrally included, as embodied in the concept of human security defined by Mahbub ul Haq. As freedoms expand, it is important to minimize threats — from wars, crime, natural disasters, health hazards and economic recessions — which may undermine achievements.

Furthermore, participation and empowerment combine to form a critical requirement for post-2015 development, giving people the capacity to control their own lives, and ensuring that groups are not marginalized from political processes. The legitimacy and implementation of any strategy is contingent on participation. The requirement for participation needs to be applied to the definition of the goals themselves, both at global and national levels. While nations and civil society may formulate global goals, countries should set their own agenda, adopted through participatory processes, and report to the global community but not be dictated by it. Broad consultations at national, regional and local levels are necessary. Stronger accountability mechanisms may be put in place at national levels by setting up national commissions that would work out the implications of the goals for policy and also monitor implementation.

To achieve a truly participatory agenda, as well as its implementation, requires real democratic institutions, not simply the trappings of democracy. It also requires policies of education, dissemination of information, and institutional organization to facilitate the empowerment of weaker groups. In this regard, it is imperative to address the rules, social norms, perceptions and endowments which constrain participation and, in turn, prevent economies from reaching their full potential for development.

Finally, universality is needed. To be truly global, the new international development agenda must apply to the whole world, not just to developing countries, as in practice since 2000. People all around the world continue to suffer from poverty and insecurity; therefore, all countries should be committed to making development progress, both individually and collectively.

Do we need goals beyond 2015?

While a consensus on development is necessary to facilitate international dialogue and coordinated action, without the communication power of the MDGs, the normative commitments of the Declaration would have been forgotten. Another important reason for setting new global goals is that the MDGs are no longer an instrument for international cooperation only. They have taken on more meaning at the local levels as civil society groups around the world have begun to espouse them and use them in advocating policy change to national Governments.

The question, therefore, is what should the goals for post-2015 look like? The composition of the MDGs was flawed, so the new set of goals should be rebalanced to better reflect the equitable growth and rights-based development strategy expressed in the Millennium Declaration, as discussed above.

From principles to goals

Drawing on the framework suggested above, the new goals should (a) focus on improvements in human lives—sustainability, equity and security— as the purpose of development; (b) encompass development as a broad multi-sectoral process; and (c) be limited in number and structured to include goals, targets and indicators.

Strengthening and enhancing the MDGs for achieving the vision expressed in the Millennium Declaration would require the following:

First, incorporating reduced inequality in its many facets, across and within nations and groups, requires that a target of reduced inequality should apply to *all specific goals*. It also requires a goal, on its own, to underscore the intrinsic value of equality as an overriding objective. This would reflect a strong commitment to the core human rights principles of equity and non-discrimination.

Second, the interpretation of Goal 7 (environmental sustainability) should be broadened to incorporate targets on carbon emissions. This is an overriding challenge, where failure is likely to threaten all other goals. It also requires major shifts in policy as well as international cooperation (see below).

Third, the goals should be extended to encompass political freedoms (human rights, democracy and good governance) as included in chapter V of the Declaration. Thus, the set of goals should systematically draw on the human rights norms and principles codified in international legal instruments. Accordingly, they should reflect core economic and social rights: education, food, health, housing, decent work, standard of living and social security. They should also reflect the elements of civil and political rights that are an important part of democratic governance. This includes democracy and specific attention to respecting the rights of minorities and migrants, as well as the elimination of discrimination against women.

Fourth, an important element of the Millennium Declaration is the commitment to international cooperation. This extends beyond aid to trade and investment to encompass assistance to poverty eradication initiatives as well as cooperation in setting up an enabling economic environment for development worldwide. In order to achieve inclusive global development, fundamental changes in the global partnership are called for to address current and emerging challenges in such areas as food security, low-carbon development, energy, migration, employment, gender empowerment and climate change adaption. The provisions for partnership in Goal 8 of the MDGs need to be strengthened and include quantitative, time-bound targets, besides those established for ODA flows.

Fifth, improved security should be a fundamental aspect of all goals (rather than a goal in itself). The crises of the last decade have shown that *instability* in global markets (e.g., finance, food, fuel) is a key issue demanding priority attention. In addition, rising natural disasters, partly caused by climate change, as well as political violence and poor health conditions continue to contribute to human insecurity. Improved security should be incorporated in the framework, and, as applicable, into every goal, while the necessary measures are taken to minimize the occurrence and impact of adverse risks for human security. Accordingly, policies towards and monitoring of each goal should not only assess absolute achievements but also track fluctuations caused by insecurity.

The goals should be applicable *universally* and address problems of poverty, equity, sustainability and security in the industrialized as well as developing countries. The selection of indicators should address poverty, exclusion and inequality in the developed world as well.

Like the MDGs, the purpose of any new goals, targets and indicators is to harmonize reporting and facilitate monitoring of progress towards the achievement of the expansion of freedoms, with equity, sustainability and security. Important progress in measurement of economic development and social progress has occurred in recent years, but continued efforts to improve the monitoring and assessment methodology and countries' statistical capacity is required.[27] In this regard, box 2 describes areas that require special attention.

Alternative strategies for transformative development: the national level

As principles and goals are identified, alternative development strategies applicable to countries in differing circumstances are needed in order to expand people's freedoms in a sustainable way. The 2000 MDG framework was focused only on defining the goals, not on how to achieve them. In the new international development framework, it is therefore important to identify enabling conditions and desired characteristics of policies towards the macroeconomic environment, social development and the international environment for development. Thus, the post-2015 development agenda will need to consider alternative macro and meso strategies to facilitate the achievement of the goals, taking into account sustainability, a reduction in inequalities, and improved security as critical components.

It is also important to identify potential trade-offs between the goals and consider how these can best be reduced in the next development strategy. For instance, while social development and economic advances are likely to reinforce each other, it is often difficult to draw international and national agreement on which aspects of human development should receive

27 Commission on the Measurement of Economic Performance and Social Progress, "Report by the Commission on the Measurement of Economic Performance and Social Progress" (France, 2009). Available from http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf.

Box 2

Monitoring process

For the post-2015 development framework, a more harmonized monitoring and assessment framework is called for. In the monitoring and reporting process for the MDGs, there has been a division of responsibilities in terms of the ownership and leading role in coordinating global, regional and country MDG reports. But while global and regional reports are analytical tools as well as advocacy tools, the country reports lack a more rigorous assessment of implementation and outcomes. Moreover, most of the MDG monitoring and assessment exercises conducted so far have used ad hoc frameworks, reflecting differences in methodological approaches and priorities among different stakeholders. As a result, comparisons among assessments and across time have been quite challenging.

The following areas require further consideration:

- The methodology for assessing performance used by official national and international monitoring reports needs to be improved. The current methodology for MDG progress evaluations focuses on the level of achievement relative to the target, biased against countries with low starting points;
- Coordination should be made to ensure the necessary consistency and alignment of data production within the United Nations system and at the country level;
- Data should be collected in a disaggregated way so that the monitoring reports are able to report gaps in progress for diverse sub-groups of population;
- Capacity development should be encouraged in data gathering, mobilization of statistics and dissemination, and also in public and policy advocacy for use of data.

The balance between monitoring and implementation activities should be carefully calibrated in the development strategy beyond 2015. Particularly in the Least Developed Countries (LDCs) and small developing countries, the regular monitoring exercises, often involving detailed field surveys and publication of advocacy documents, may risk being excessively resource-intensive, and could thereby pre-empt already scarce resources from actual implementation programmes.

a higher priority. Likewise, it is a difficult task to decide how much environmental degradation is acceptable in order to achieve rapid economic growth; growth itself will not be sustainable in the long run unless environmental sustainability is achieved. Thus, harmonizing long-term development goals and short-term achievements presents a challenge with respect to intergenerational allocation of resources.

This section discusses the general principles, enabling conditions and related measures that must be considered to achieve the goals suggested above, with respect to macroeconomic policies, social policies, and decentralized governance. The new international development framework for transformative change should be universally applicable to both developing and developed countries. As a first step, the present Policy Note focuses on the developing countries, proposing some guiding principles tailored to the initial conditions of selected groups of developing countries, while individual country characteristics will need to be taken into account for specific policy design at the country level. While not addressed here, alternative development strategies incorporating the principles discussed in the Note should also be elaborated for industrialized countries. Strategies for developed countries need to take into account the necessary changes at the multilateral level, in view of the important economic weight of these economies and their increasing global economic integration.

Macro and distributive policies

While the current MDG framework emphasizes the importance of economic growth and employment generation to poverty reduction, it is silent about how growth can be promoted in a sustained and equitable way, and vague about the policies needed to achieve the Goals. The Washington Consensus, the implicit macro model of the MDG framework, has led to greater global economic integration but also to slow growth, rising instability and persisting inequalities. There is a need therefore to design a new unified "pro-poor, pro-growth, and pro-environment" paradigm. This new paradigm would specify those policies needed to achieve a broader set of goals (social, economic and environmental, with security) while dealing with the four intertwined crises currently afflicting the developing countries and the world economy (food, finance, inequality and environmental). The appropriate policy set is likely to differ according to country conditions.

Identifying growth drivers

A first key issue is identifying "growth drivers" that will ensure growth, structural transformation, food security and environmental balance in different types of developing economies at the same time. Hereafter, approaches suitable to three types of developing economies are explored. Approaches for other types of economies, including the industrialized countries, need to be developed by considering these economies' specific circumstances as well. The pattern of globalization of the past decades increased interdependencies among diverse country groups. The simultaneous occurrence of multiple global crises — including the financial and economic crisis, crises of food and energy security, and the emerging environmental crisis — was a compelling force in furthering such interdependence. Nonetheless, for the time being attention is focused on low-income, lower-middle income and other countries which face specific constraints and have advanced very little in their structural transformation over the past years.

Low-income countries. In low-income countries (LICs), where the workforce is predominantly engaged in agriculture, low levels of land and labor productivity are the main causes of underdevelopment, food insecurity and environmental damage. Low agricultural productivity is also a contributing factor to the current food crisis. Thus, raising domestic production is essential to income growth and food security, with positive impacts in both rural and urban areas. Agricultural growth in these economies, when managed well, can have a small impact on the environment but a large positive impact on reducing income inequality.[28] As shown by economic theory and the experience of India, China and Vietnam, among others, no

28 Martin Ravallion and Gaurav Datt, "Why has economic growth been more pro-poor in some states of India than others?", *Journal of Development Economics*, vol. 68, no. 2 (2002), pp. 381-400.

development can take place in the absence of an equitable modernization of agriculture. The new paradigm must therefore correct for the past neglect of agriculture and the decline in investment and cultivated land over the last 30 years. Given the weakness or absence of rural credit, input and market factors, the development of agriculture cannot rely solely on market forces but must also count on monitorable public interventions aimed at a number of factors:

(a) Increasing the use of improved seeds and modern inputs (including irrigation and fertilizers) in a broadly egalitarian agriculture;

(b) Restoring selected and sustainable subsidies to modern agricultural inputs as well as price stabilization mechanisms that were eliminated during the structural adjustment era;

(c) Raising the allocation of public expenditure on extension services for an equitable diffusion of new agricultural technology and cooperative credit. To avoid inflationary pressures, the increase in public expenditure on agriculture needs to be accompanied by an increase in tax revenue and greater foreign aid to agriculture;

(d) Ensuring that, as during the "green revolution" of the 1960s, a fundamental role is played by the international community (the Consultative Group on International Agricultural Research or its successor) in carrying out research on neglected crops, many of which are African crops. In doing so, special attention should be given to the anticipated changes to the natural environment brought about by climate change and the need to adjust crops to these new conditions. There is an urgent need to make agricultural production environmentally sustainable, while at the same time substantially raising productivity. It is hard to imagine how this can be attained without a major overhaul of existing production systems, technologies and supporting infrastructure.[29] The improved seeds and technologies for the African agriculture should remain (as they were in the past but not at present) international public goods;

29 *World Economic and Social Survey 2011: The Great Green Technological Transformation* (United Nations publication, Sales No. E.11.II.C.1).

(e) Phasing out agricultural subsidies in developed countries (a factor behind the rapidly increasing food imports and declines in agricultural production in the LDCs).

Commodity exporters. Commodity exporters, in particular those exporting fuels, metals and minerals, face considerable challenges linked to the volatility of their real exchange rate, Dutch disease, high income inequality, strong dependence on imported food, environmental degradation, and lack of diversification. Measures which have proven to address these issues include the following:

(a) Sterilization in offshore sovereign funds of exports proceeds that cannot be absorbed productively into the economy and which would cause Dutch disease problems and penalize future generations;
(b) Active promotion of a diversification of domestic production through the management of the exchange rate, which tends to appreciate, and a sustainable industrial policy (see below);
(c) Creation of domestic fiscal stabilization funds (such as the Chilean Copper Stabilization Fund), which help to avoid sharp swings in economic activity by stabilizing public revenue during both boom and boost phases of commodity price cycles;
(d) Explicit taxation of the resource sector, not only to finance the diversification of the economy but also to reduce some of the highest income inequality via non-contributory income transfers to the poor (as currently done in several South American and south-eastern African countries);

Lower-middle income countries. In many lower-middle income labour abundant countries a key growth driver is labor- and skill-intensive manufacturing and other rural non-farm activities. The latter include, for instance, agribusiness, fisheries, retail trade, marketing services, construction, transport, and various services, i.e., activities which support rural-based industrialization and industrialization tout-court. In Bangladesh and

China, 40-50 per cent of rural employment is generated in rural non-farm activities. The promotion of this structural transformation towards such broad-based industrialization generally requires these measures:

(a) Investing in physical infrastructure (roads, improved transportation and communications, electrification, linkages to nearby domestic markets). The presence of rural-based agro-industry, developed rural towns and low transport costs would improve linkages between rural and urban areas and facilitate production and exchange. A further step could be the creation of mini-industrial parks equipped with electricity, water, gas and storage space, and able to facilitate the transfer of technology among firms;

(b) Skills development and increased access to education and training;

(c) Reduction of transaction costs for the creation of firms, particularly small and medium enterprises (SMEs). Given their lower investment per capita and greater flexibility, SMEs can promote a broad-based (or popular) industrialization and play a central role in absorbing surplus labour;

(d) Increased availability of and access to necessary inputs, including reducing the licensing and administrative barriers to accessing credit, investment goods and technology;

(e) Attracting foreign direct investment (FDI) in the most advanced LICs to build hub-and-spoke SMEs clusters in which the latter work as subcontractors of the foreign firms, benefiting from their technical knowledge and transfers of skilled workers. A number of developing countries (including Costa Rica, the East Asian countries, etc.) have been highly successful in attracting greenfield FDI;

(f) Evaluate ex ante the environmental impact of industrialization and direct investment towards activities with a low impact.

Growth drivers: domestic and external sources

In designing a new development paradigm, it is important to reconsider the degree to which countries should seek to respond to current challenges and achieve global goals via further global trade and financial integration. Should all countries seek further specialization and global integration, as the current discourse suggests? Or should domestic consumption be assigned a greater role (as currently envisaged in China and as practiced to a considerable extent in India)? Should domestic savings and investments have increased roles, as opposed to foreign savings (see also section below on macroeconomic policies and FDI)? To answer these questions, each country must ask if the benefits of economies of scale linked to specialization, technology transfer through imports and FDI, and access to world savings outweigh the risk of contagion, import instability, de-industrialization and a return to colonial patterns of growth (if at more favorable terms of trade). The answers will obviously depend on a number of factors: the size of the country; the establishment of future global safety nets to offset global contagion; the need to find external outlets for domestic production surplus; and the impact of international trade (compared to production for domestic consumption) on carbon emissions and on the environmental footprint in general.

Sources of growth and carbon emission

Lower carbon emissions is a necessary feature of any new development paradigm. Achieving this depends on: (a) GDP growth; (b) the energy intensity of GDP; (c) the carbon intensity of energy; and, (d) population growth. At the same time, a great number of people in developing countries have no access to electricity, and the expansion of the energy infrastructure is essential for these countries to achieve higher levels of income and wellbeing. While it is desirable that GDP growth continues, the link between growth and carbon emissions must be greatly reduced. This can be accomplished by choosing the sectors of production, techniques of production, and modes of consumption which have lower energy intensity and emissions. Additionally, “purpose taxes” on energy consumption and gas emissions combined with research and development in this area will certainly help, but most research is carried out in countries with high GDP per capita or a large GDP (China, for example). Many small developing countries will therefore have to depend on imported clean and energy efficient technologies. Special agreements beyond the Kyoto protocol will be required.

Many countries resist such changes fearing reduced competitiveness. However, if all countries were to adopt low carbon policies, relative competitiveness would not be affected. Moreover, the collective push towards use of new and more appropriate technologies is likely to greatly enhance productivity, as innovation and economies of scale result. In fact, some countries may discover unexpected opportunities for dynamic comparative advantage by developing new specializations in environmentally responsible technologies.

Sectoral policies for the globalized economy

In many developing countries, some of the potentially appropriate structural changes (including in growth drivers) have been constrained by participation in the World Bank, International Monetary Fund (IMF), and the World Trade Organization (WTO). However, the experience of such countries as Australia, China, Chile, Finland, Ireland, Malaysia, Republic of Korea, Singapore, and Vietnam shows that it is possible to pursue an "open economy industrial policy", diversify output and exports, and raise the technological content of production using proactive macroeconomic and industrial policies in combination with comprehensive access to primary and secondary education. For some countries, the first powerful impetus to diversification of output was to adopt a stable and competitive real exchange rate. In addition, a few countries have pursued active industrial policies, promoting sectors where they can expect to have a dynamic comparative advantage. Small developing countries may in turn rely on FDI as a vehicle of industrial policy, as in Costa Rica. A third approach is microeconomic in nature, relying on a long-term alliance between the public and private sector to support the generation of sector-specific research and knowledge and public infrastructure in areas with a potential comparative advantage. This has been effective in Chile in the case of wood, fresh fruit, wine and salmon.

Looking forward, sectoral policies need to be fully integrated into the country's development strategy in a coherent manner. Potential environmental consequences of such sectoral policies need to be realistically assessed and addressed. In particular, sectoral policies should be aligned with macroeconomic policies for sustainable development to promote a dynamic transformation of the country's productive capacity while at the same time generating jobs and meeting the objectives of environmental sustainability, including reorientation towards green growth.[30]

Macroeconomic policies for sustainable development

Important changes are also required in the field of macroeconomic policy. The right macroeconomics can contribute to long-term growth with equity and may also support environmental protection (e.g., by raising public investments in clean technologies). A new set of "open economy macro policies" that avoids the contractionary and unequalizing impact of the liberal approach is needed. Such new macro policies should simultaneously aim at maintaining a reasonably stable macroeconomic environment; pursuing explicitly long-term growth of GDP and employment; and lowering income inequality. Key measures include:

(a) *Limiting foreign indebtedness and mobilizing domestic savings.* Evidence shows that countries relying on external finance often ended up in financial traps characterized by high spreads, exposure to sudden stops, external shocks, and rises in domestic interest rate in line with those charged on foreign loans. As a result, investment/GDP ratios drop. During the last decade, several middle-income countries with a large amount of public foreign debt started to reduce their dependence on foreign capital and financed their private capital accumulation mainly through the mobilization of domestic savings. This seems to have led to higher and more stable rates of investment. Conditions contributing to an increase in private domestic savings include

30 Ibid.

macroeconomic credibility, banking stability and extensive bank coverage. Public savings can then be raised to finance infrastructural development by increasing taxation. There is also a case to be made for countries reducing their dependence on aid as it increases ownership over the country's own development process and can increase public accountability.

(b) *Controlling portfolio flows and harnessing their sectoral allocation*. Portfolio flows are highly unstable with negative consequences for growth and equity. Some modest success in controlling portfolio flows have been recorded recently, as a few countries (Brazil, Chile, Colombia, India, Malaysia, Singapore and Taiwan) imposed capital controls to avoid Dutch disease effects and real exchange-rate appreciation. In addition, some countries attempted to guide the sectoral allocation of capital inflows by regulatory measures. Altogether, it appears that, while capital controls are unable to curb all inflows and outflows, they can — in conjunction with other measures — constitute a deterrent against massive volatility of capital flows.

(c) *An exchange-rate regime which reduces currency crises and promotes growth*. The new paradigm suggests that small-medium countries adopt a managed, stable exchange regime, including comprehensive capital account regulation and, where appropriate, a competitive real exchange-rate system. Empirical research shows that an exchange regime that encourages competitiveness and reduces vulnerability to external shocks provides a key factor for kick-starting growth[31] and reduces the risk of currency crises while, at the same time, providing incentives for the expansion of the traded sector where many low-income workers are employed. Countries that have adopted this approach to the exchange-rate policy also introduced capital controls and allowed the Central Bank to intervene in the currency market. The management of this type of exchange-rate regime also requires prudent fiscal and

31 Dani Rodrik, "The real exchange rate and economic growth", mimeo, 2008. Available from http://www.hks.harvard.edu/fs/drodrik/Research%20papers/RER%20and%20growth.pdf.

monetary policies and the accumulation of international reserves to reduce the risk of default on public or private debt.

(d) *Trade policy*. The new macro paradigm that has been emerging in some regions does not necessarily involve the abandonment of the free-trade policies. It seems possible to adopt a drive towards a trade liberalization that avoids the collapse of import competing sectors, actively seeks to diversify the composition and destination of exports, while removing any anti-export sector bias and promoting regional trade integration, especially in manufacturing.

(e) *A countercyclical and distributive fiscal policy and an increase in tax-GDP ratios*. The new development paradigm involves balancing the fiscal budget over the course of the business cycle, avoiding the pro-deficit bias of many past policies, while allowing for short term increases in deficits during crises. In contrast to much past experience, the closure of the deficit should generally be carried out by increasing taxation — especially progressive taxes — rather than by cutting public expenditure on infrastructure and human capital. This approach was adopted in several regions during the last decade, especially in South America.[32] The role of fiscal policies in promoting human capital development and reducing inequality should not be ignored either. In this regard, the following can be done:

(i) Remove subsidies to large landowners and introducing new taxes on land ownership and asset inheritance;

(ii) Adopt an active tax policy aimed at raising the tax-GDP ratio through a rise in graduated value-added tax (VAT), progressive income and wealth taxes, and purpose taxes to reduce carbon emissions and other environmental damages;

(iii) Place greater attention on progressive public social expenditure on education, health, nutrition and housing. Additionally, fiscal policies can play an important role in promoting the development and use of carbon=free energy and processes.

32 Giovanni Andrea Cornia, Juan Carlos Gómez-Sabaini and Bruno Martorano, "A new fiscal pact, tax policy changes and income inequality: Latin America during the last decade", WIDER Working Paper, No. 70 (Helsinki, Finland: United Nations University-World Institute for Development Economics Research, 2011).

(f) *A countercyclical and accommodating monetary policy*. Contrary to past practices, the emphasis on reducing inflation must be accompanied by greater attention to employment and inequality. The new approach thus accepts a more gradual decline of inflation, which has already declined in many countries. It also involves lower nominal and real interest rates than in the standard approach to adjustment in order to avoid a contraction of investment and growth.

(g) *Bank regulation*. Since 2002, the developing countries witnessed almost no significant external or domestic financial crises, including during 2007-2009. One of the reasons for this crisis avoidance was greater IMF lending (since 2008) with easier access and conditionality. But the main improvement was in banking and prudential macroregulation and financial oversight, which to a large extent explain the greater financial stability of most developing countries. Such an approach should be continued and intensified in the years ahead.

Social policies

Social policy should be conceived as a key instrument that works in tandem with economic policy to ensure equitable and socially sustainable development.[33] In considering the international development paradigm post-2015, options to enhance the efficiency of social policy should be carefully considered and implemented. Country experiences show that active and efficient Government participation and a well-conceived strategy are necessary for providing, regulating and supervising the delivery of social services, for promoting improved welfare for all, and for protecting the progress achieved. These experiences also give some indication of the main characteristics of successful social interventions as well as the limitations.

Social policy in the new international development strategy needs

33 Thandika Mkandawire, "Social policy in a development context," Social Policy and Development Programme Paper, No. 7 (Geneva, United Nations Research Institute for Social Development, 2001).

to have a holistic approach because it is the fundamental instrument of social cohesion, integration and development. During the last two decades, social policy in the context of development has been relegated to a residual safety-net approach. The focus of international development and aid, supported in part by the MDGs, has been on meeting the basic needs of the poorest of the poor, assuming that poverty elimination could be achieved without addressing issues of equity, social inclusion or development strategies that benefit all social groups.[34] Social policy in the post-2105 development framework should be an enabling element for transformative change. When guided by basic principles of universality, solidarity and efficiency, social policy can enhance equity, by acting upon the structural determinants of economic disparities.[35] In this regard, the present Policy Note understands social policies to be those interventions beyond the provision of a safety net that enhances people's capabilities to participate in and contribute to the progress of the societies in which they live. As such, social policies should be developed in tandem with those specific macro and sectoral policies discussed above and be tailored to countries' specific initial conditions and goals. In particular, they need to take into account the specificities of anticipated demographic changes at the country level and resulting challenges. At the same time, social policies also have an intrinsic value in themselves: the promotion of human well-being. Thus, the sections below discuss some general principles for the implementation of social policies that need to be incorporated into the international development strategy.

Social policies: why do we need them?

The debate on the relationship between social welfare and economic performance has a long history, but it is now widely recognized that promoting human development through a set of social policies is an important determinant of economic development, which, in turn, facilitates achievements

34 Thandika Mkandawire, "Targeting and universalism in poverty reduction", Social Policy and Development Programme Paper, No. 23 (Geneva, United Nations Research Institute for Social Development, 2005).

35 José Antonio Ocampo, "A new look at the development agenda", CEPAL Review No. 74 (August), pp. 7-18.

in social welfare. Stewart, Ranis and Ramirez, for example, demonstrated that economic growth and human development reinforce each other, leading to virtuous cycles and sustained outcomes.[36] To the extent that greater freedoms and capabilities improve economic performance, human development will have an important effect on growth. Similarly, to the extent that higher incomes increase the range of choices and capabilities enjoyed by households and Governments, economic growth will enhance human development. Thus, social progress and economic growth must be addressed as complementing and feeding into one another.

Yet the anticipated positive impacts of particular social policies do not lead to their adoption unless they are deemed politically feasible. Social policy has been formulated as a component of a wide range of public policies, and the scope of popular pressure for the institution of social welfare has varied widely across political regimes. Social policies are the outcome of political bargains and conflicts; they touch upon issues of distribution to and access by different political actors. Therefore, social policies have been adopted less often in those countries where popular pressure for equity and inclusion is not present, or in the absence of cultural and societal values that validate such policies.[37]

The launch of the MDGs has contributed to the revival of interest in the role of social policies in development. As seen in section I above, the world has made significant progress in achieving the MDGs owing to targeted social interventions, continued economic growth of some developing countries, and the support of development partners.[38] For example, many developing countries, even some of the poorest, have achieved or are nearing the Goal of universal primary education; targeted social interventions have succeeded in reducing child mortality; and investment in basic services, including access to clean drinking water, has reduced mortality.[39]

Creating and protecting fiscal space for social expenditures is critical to improved social outcomes. Larger public spending is likely to be

36 Frances Stewart, Gustav Ranis and Alejandro Ramirez, "Economic growth and human development", *World Development*, vol. 28, No. 2 (2000), pp. 197-219.

37 Thandika Mkandawire, "Social policy", op. cit.

38 *The Millennium Development Goals Report 2011*, op. cit.

39 United Nations, "Report of the Secretary-General on keeping the promise", op. cit.

associated with positive outcomes in social sectors.[40] Anyanwu, Andrew and Erhijakpor estimated that a 10 per cent increase in public spending on education increases primary education enrolment in Africa by 21 to 28 per cent while increasing secondary education enrolment by 33 to 42 per cent.[41] Available information suggests that the share of public expenditure on social sectors has grown in many countries in recent years.[42]

The global economic crisis of 2008-2009 disrupted the progress made towards achieving the MDGs and raised the importance of social policies within the context of development strategy.[43] Lack of jobs and increased job insecurity have had devastating impacts on various social and economic groups, threatening the employment of growing numbers of workers in developing countries. The impact of economic cycles on MDG indicators is highly asymmetric: the deterioration in bad times is much greater than the improvement during good times.[44] Additionally, the crisis brought renewed attention to the issue of finance for social policies. The crisis has led to a huge fiscal hole in the LICs, reducing budget revenues by $53 billion in 2009 — nearly 10 per cent of their pre-crisis revenues thus preventing adequate expenditures to confront the crisis and reach the MDGs — and by $12 billion in 2010.[45] This created a total additional fiscal gap of $65 billion over the two-year period. Having insipient social protection systems, the Governments of the LICs also have limited capacity to protect vulnerable populations from negative shocks with countercyclical macroeconomic policy mechanisms.

40 E. Baldacci and others, "Social spending, human capital, and growth in developing countries", *World Development*, vol. 36, No. 8 (2008), pp. 1317-1341.

41 John C. Anyanwu, E. Andrew and O. Erhijakpor, "Education expenditures and school enrolment in Africa: illustrations from Nigeria and other SANE countries", Economic Research Working Paper, No. 92 (Belvedere, African Development Bank, 2007).

42 World Bank, *World Development Indicators 2011* (Washington, D.C.).

43 World Bank and International Monetary Fund, *Global Monitoring Report 2010: The MDGs after the Crisis* (Washington, D.C., 2010).

44 P. Conceicao, N. Kim and Y. Zhang, "Overview: economic crises and human development", *Estudios Económicos*, vol. 25, No. 1 (2010), pp. 37-62.

45 Katerina Kyrili and Matthew Martin, "The impact of the global economic crisis on the budgets of low-income countries" (Oxfam and Development Finance International, 2010).

Enhancing efficiency: some lessons learned

Outcomes of social interventions depend on not only the amount of resources devoted to them, but also how these resources are allocated and managed. Some countries, in Latin America and elsewhere, provide successful examples with extensive development of social protection and cash transfer programmes. Combined with the provision of public services, such as in health and education, these popular programmes contributed to an overall improvement in social outcomes and reduced inequality while offering a low cost-to-benefit ratio. With the cost of implementing cash transfer programmes being as little as 1 to 3 per cent of GDP, the benefits to various areas of human development are significant, especially for lower income groups.[46]

Still further evidence suggests that cash transfer programmes are associated with improvement in several key aspects of living conditions and human development. Brazil's *Bolsa Família* and Mexico's *Oportunidades* cash transfer programmes increased both school enrolment and attendance rates while reducing child labour. The cash transfer programmes in Bangladesh and Malawi suggested that targeting households with children caused a significant increase in school enrolment.[47] Zambia's social cash transfer programme increased food and non-food consumption by the poor, achieved a higher satiation level, increased variety in food intake, reduced the incidence of sickness, and increased both asset ownership and

46 United Nations Development Programme, *What will it take to achieve the Millennium Development Goals? – An International Assessment* (New York, 2010); Göran Holmqvist, "External financing of social protection: opportunities and risks", *Development Policy Review*, vol. 30, No. 1 (2012), pp. 5-27.

47 D. Hailu and F.V. Soares, "Cash transfers in Africa and Latin America: an overview", Poverty in Focus, No. 15 (New York: United Nations Development Programme, International Policy Centre for Inclusive Growth, 2008); S. Handa and S. Stewart, "The orphan targeting dilemma in Eastern and Southern Africa", in *Cash transfers in Africa and Latin America: an overview*, Poverty in Focus, No. 15, ibid.

enterprise investments.[48] Ghana's transfer programs have contributed to the reduction of poverty[49] and Chile's *Solidario* also achieved a decline in income inequality.[50]

While the success of such policies has been remarkable in some instances, additional efforts are necessary, particularly in reaching the poorest of the poor and other disadvantaged groups. For instance, inequality in health is still considerable within countries, and is frequently associated with inequalities in income. In almost every country, children born to poorer families face a higher probability of dying before reaching age 5.[51] A similar discrepancy is observed across education levels, urban/rural regions, gender and ethnic groups.

Cash transfer programmes are not without their problems. Targeting needs careful consideration, for instance. There is not enough historical evidence to justify the emphasis on targeting, neither in terms of determining what is politically and administratively feasible nor in determining which methods of combating poverty have been most efficacious.[52] There can also be incentive problems: some beneficiaries might choose to remain under the poverty line by not working, if the potential labour income is not high enough to compensate for the loss of cash transfers.[53]

Securing sustainable financing sources for social policies is also important. In several developing countries, particularly in LICs, foreign aid is an important source of financing for social interventions; about 38 per cent of the total ODA from DAC members was assigned to social sectors

48 E. Schuering, "Social cash transfers in Zambia: a work in progress", in *Cash transfers in Africa and Latin America: an overview*, Poverty in Focus, No. 15, ibid.

49 United Nations Development Programme and the Government of Ghana, *The 2008 Ghana MDG Report* (New York, 2010).

50 United Nations Development Programme, *What will it take to achieve the Millennium Development Goals*, op. cit.; F.V. Soares, R.P. Ribas and R. G. Osório, "Evaluating the impact of Brazil's *Bolsa Família*: cash transfer programmes in comparative perspective", Evaluation Note, No. 1 (United Nations Development Programme, International Policy Centre for Inclusive Growth, 2007).

51 United Nations, Committee for Development Policy, *Implementing the Millennium Development Goals: Health Inequality and the Role of Global Health Partnerships* (United Nations publication, Sales No. E.09.II.A.2).

52 Thandika Mkandawire, "Targeting and universalism", op. cit.; Giovanni Andrea Cornia and Frances Stewart, "Two errors of targeting", *Journal of International Development*, vol.5, No. 5 (1993), pp. 459-496.

53 United Nations Development Programme, *What will it take to achieve the Millennium Development Goals*, op. cit.

in 2010.[54] As noted earlier, some reduction in aid dependency and increase in financing by taxation would be desirable in the medium term. Besides issues of sustainability, there is also need for improvement in the quality of aid received (discussed further below). Moreover, social policies heavily financed by foreign aid have led to concerns regarding coordination and ownership.[55] For instance, in the health sector, country experience suggests that better coordination is required to reduce conflict between disease-specific interventions and the provision of general health services. Donors need to review their criteria for resource allocation to guarantee that recipient countries are able to integrate international aid with their own actions.[56]

Suggested principles and characteristics for post-2015 social policies

Comprehensive policies are needed to address existing inequalities. As highlighted elsewhere, "to enhance equity, social policy should act upon the structural determinants of income distribution: education, employment, wealth distribution and demographic dependence, as well as their gender and ethnic dimensions. These factors are the key elements in the intergenerational transmission of inequality and poverty."[57]

While overall social policy itself should be universal and promote inclusion, targeting could be used as an instrument for making universalism effective, that is, extra benefits are directed to low-income groups within

54 Calculated from the OECDstat online database. The ODA to social sectors refers to the official bilateral aids committed to social infrastructure and services, including education, health, water supply, sanitation, government and civil society, etc.

55 Göran Holmqvist, op. cit.

56 United Nations, "Annual report of the Secretary-General on accelerating progress towards the Millennium Development Goals: options for sustained and inclusive growth and issues for advancing the United Nations development agenda beyond 2015", 11 July 2011, A/66/126.

57 José Antonio Ocampo, op. cit.

the context of a universal policy design.[58] Targeting should be seen as an instrument for attaining universal coverage of basic services, and certainly not as a substitute for universality.[59]

Enhancing efficiency and effectiveness of social policies is critical in achieving development goals and targets. Experiences in the past decade suggest ways to enhance efficiency of social policies, including the introduction of interventions directed at marginalized groups.

Social policies should both promote and protect by offsetting the adverse effects of shocks on individuals' welfare, including those brought about by the structural transformation of the economy. As an instrument for achieving greater human security, social policies and related spending not only protect the vulnerable but also contribute to lowering the volatility of economic growth, which is detrimental for investment and employment generation.

Social policies should be integrated into broader national development strategies. Social policies often do not effectively address the underlying causes of persistent high levels of poverty and economic insecurity. For instance, increased spending on education may help increase schooling levels among poor children. This will not, however, raise future income if broader economic policies fail to generate sufficient employment and there are no complementary policies to address idiosyncratic determinants of economic vulnerability—including ethnic, racial and gender discrimination, which perpetuate low wage returns to some of the poor. Nor will social investment in human development raise incomes if the poor cannot accumulate physical and financial capital, or if recurrent economic downturns force periodic depletion of their limited assets. Social policy alone cannot change the economic environment or the underlying elements in the structure of the economy that contribute to poverty, volatile employment and deficient income conditions for vast numbers of households.

58 Thandika Mkandawire, "Targeting and universalism", op. cit.

59 José Antonio Ocampo, op. cit.

Promoting participation for development: the national and subnational level

The promise of full democratic involvement in decisions about the conditions of a person's life, which is the basis of human development, must be fulfilled. Yet there are increasingly narrow margins of opportunity in education, including higher education, and employment, and, consequently, in all the achievements that they make possible. In this regard, the Occupy movements are an attempt, principally by excluded youth but also by the unemployed in developed countries, to forcibly create such spaces.

Redressing imbalances which foster exclusion and poverty requires attention to real power relations beyond the formal juridical, legal and political institutions that give them viability. In particular, the informal institutions, such as traditional hierarchical patterns of decision-making in communities, gendered assignment of resources and tasks, ideological religious doctrines, and ethnic and social forms of discrimination, must also be taken into account. Strategies for alternative development must include social mobilizations sustained through institutional means, coalitions and structured social pacts, especially with respect to education, well-being and security. A development framework for post-2015 should incorporate national strategies to ensure wide participation for setting global, national and local goals and targets, through a process of democratic consultation.

Participation: is it doable?

Defined in the broadest way, decentralization of government involves the administrative, fiscal, and democratic devolution of power and resources by Governments from its top tiers to its bottom tiers. It aims to give communities voice and influence over the issues that affect their daily lives, even if it may fall short of these aims in practice. As observed in some developing countries over the years, decentralization has attracted more and more attention, as traditional centrally-governed development strategies often resulted in slow or volatile growth, persistent poverty, rising inequalities between urban and rural areas, and failure to meet the need to empower those who were economically and socially disadvantaged.

There is a distinction between decentralized government and decentralized *governance*. The latter is a broader concept and embraces community involvement in governance. Historically, in regions such as South Asia, such involvement was widespread. It took many forms. For instance, judicial councils were run by communities to dispense justice and resolve local conflicts at the village level. There was community management of common-pool resources — forests, waters, marine life, and so on. Many community water management systems go back several centuries. However, the more formal and proactive efforts to involve communities in development are more recent.

There is still a long way to go for the process of local governance to become significantly participatory. Communities, driven by caste, class and gender divides, are far from homogenous units. Although cooperation in commons governance is widespread today, we need to know much more about the contexts in which cooperation, and more generally community participation, emerges and is sustained.

In fact, community participation in decision-making is a complex concept. Different people define participation in different ways. There are varying views also on what we might expect to achieve through participation, and how we might bring it about. Definitions of participation vary greatly, ranging from a narrow focus on nominal membership in a group to a much broader emphasis on interactive processes, in which the disadvantaged have voice and influence in decision-making.[60]

Some see participation (like decentralization) in terms of its intrinsic worth in enhancing equity and empowerment for those economically and socially disadvantaged. Others see it narrowly in terms of its potential efficiency effects. Although participation is meant to operate on democratic principles and to involve and benefit all sections of the community, institutions which seem participatory and inclusive in formal terms can effectively exclude significant sections, especially the poor and women. These "participatory exclusions"[61] can, in turn, unfavourably affect both equity and institutional efficiency. Exclusion can be up front through the rules of entry, or subtle, such as through social norms.

60 See Bina Agarwal "Participatory exclusions, community forestry, and gender: an analysis for South Asia and a conceptual framework", *World Development*, vol. 29, No. 10 (2001), pp. 1623-1648.

61 Ibid.

Be that as it may, today the idea of participation is seen to have both intrinsic and instrumental worth. It is impossible to discuss models and processes of development without also discussing whether they are inclusive, not only in terms of the distribution of economic benefits, but also in terms of involving citizens in decision-making, and giving them a voice in public forums. This too can add to life satisfaction. Effective participation, therefore, could be considered an important development indicator, one which needs to be part of both objective and subjective assessments of well-being.

Suggested principles and measures to promote participation at the national and subnational level

Decentralized governance should be improved by national and subnational policies to enhance bargaining power of the disadvantaged groups. There are a few critical factors which affect the level of decentralization, and these should be addressed by the fundamental principles of promoting participation, in particular:

(a) Rules which determine membership of civil society and decentralized public authority should be formed in such a way that allows equal access to participation. These rules should also be properly advocated, as a lack of awareness of rules or of changes to them can constrain participation of those who are disadvantaged;

(b) Social norms which may restrict wide and equal participation should be identified and addressed. Pre-existing norms which discriminate against women, older persons, the less educated, etc., often prevent communities from reaching their full potential for development;

(c) Social perceptions are also important determinants of participation. For instance, incorrect perceptions regarding the abilities of certain groups of people may be a cause of social reluctance to include those groups in the decision making process;

(d) As personal and household endowments and attributes are closely associated with the degree of participation, measures to enhance participation should be integrated within the framework of poverty reduction and economic growth.

Some of the above-mentioned factors that restrict wide participation, including rules, norms, perceptions and endowments, have deep economic and social roots. Factors which can improve the bargaining power of disadvantaged individuals vis-à-vis the State, the community, and within the household should be carefully monitored and facilitated.

The international environment: supporting national efforts

It is recognized that the success of alternative development strategies depends largely on the internal effort of the countries themselves. There is, however, an important enabling role to be played by the international environment by providing stable international economic growth and appropriate support in the areas of finance, trade, international labour movements, technology and the environment. As emphasized in the Millennium Declaration, the central challenge is to ensure that globalization becomes a positive force for the world's people, ensuring inclusive globalization in all of those areas. These can help the attainment of objectives in the areas of food security, low-carbon development, energy, employment, gender empowerment and climate change adaptation. This section considers changes that may be needed in the rules, practices and policies that govern international economic matters and in the institutions that manage them.

Coherence and coordination

International economic relations are governed by a number of institutions and are subject to a number of legal instruments. These elements do not always operate in tandem with one another and are not necessarily designed to support development. There is a need for improved coherence and better coordination among them and for more explicit development orientation. International rules and the institutions that manage them need to be more accommodating to a variety of policy approaches to development. One criticism that is often made of them is that the neoliberal approach to development is embedded in their rules, policies and institutional culture. A clearer distinction should be made between ends and means; ends are the subject of consensus of the global community, although it is accepted that countries have the right to adopt the mix of policies—the means—that they believe works well for them. The "embedded neo-liberalism" that is characteristic of many institutions and rules needs to be critically reviewed. The aim should be to move towards "embedded flexibility" which allows room for policy experimentation and heterodoxy. Results are what matter, not policy conformity. Along these lines, six cross-cutting issues are proposed:

(i) Rules and practices of the different elements should be constructed with the recognition that true development is *internally driven*. They should provide maximum space for the role of national agents that is consistent with the maintenance of international equity, transparency and non-discrimination;

(ii) *Diversity and heterogeneity of national situations* is an intrinsic property of the global community. The appropriate development policy for any given country will be specific to its particular economic configuration as well as to its cultural and institutional context;

(iii) *Lessons learned play an important role in development*. Policy failures in developing countries should not be used as evidence of incapacity but rather as a learning resource. Trial and error are part of the process of continuous evaluation of the experience of policymaking and policy implementation; given that the domestic environment is complex and the international environment fast-moving. International institutions and practices need to exhibit greater humility, less certainty of correctness, and greater respect for local knowledge. National policymaking capacities should be consciously supported by the international community;

(iv) *Policy space should be maximized*, in accordance with the need for international transparency and equity. Key areas for the exercise of policy space are the role of the State in the economy; the extent and sequencing of trade liberalization; the priority assigned to agriculture, rural livelihoods and food security; the strategic importance of industrialization; the importance of small and medium enterprises (SMEs); and strategies to empower women economically;

(v) *Environmental sustainability must be entrenched as a cross-cutting, overarching criterion of "good policy".* The limits imposed by the life-support systems of the planet cannot be exceeded; the principles of environmental sustainability must be strictly observed in the rules, practices, policies and institutional culture of the international community;

(vi) *Coherence is important.* Achieving coherence poses immense technical, political and institutional challenges since the interrelationships among elements are complex and our knowledge of these interrelationships is imperfect. Coherence is also a moving target and therefore needs continuous review.

Global governance

These principles underlie the necessity for strengthened global governance. Some of the most important institutions and legal instruments are the WTO for trade rules, the Bretton Woods Institutions (BWIs) for finance and development, the G20 for the global macroeconomic coordination, the World Intellectual Property Organization (WIPO) for intellectual property and the United Nations system for development and the environment. Regarding the international mobility of labour, there is no adequate framework. Coordination between these institutions and legal instruments are either weak or non-existent, with the result that rules and practices in one element may contradict one another and undermine development.

Some institutions (e.g., the G20) are criticized for being unrepresentative of the international community and others (e.g., the BWIs) for having governance structures that do not adequately reflect developing and emerging countries. Even where there is universal membership and decisions by unanimity, such as in the WTO, the reality of asymmetrical relations of power can lead to outcomes that are biased against the smaller and poorer members.

Proposals for a system of global governance that is globally representative and mandated to support broad-based development goals position the United Nations system at the centre. For example, a Global Economic Coordination Council, assisted by an international advisory committee of eminent persons, has been recommended by the Commission of Experts on Reforms of the International Monetary and Financial System convened by the United Nations General Assembly.[62] Multilateral climate financing for climate change mitigation and adaptation should come under the authority of the United Nations Framework Convention on Climate Change (UNFCCC). Reforms of the governance of BWIs should increase the voice of developing countries in decision-making, improve accountability and transparency, and democratize the method of selection of senior management.

International trade regime

At present, trade rules are embodied in the WTO agreements and in free trade agreements (FTAs), with the former setting minimum standards for the latter. Trade rules are increasingly migrating from the WTO agreements to North-South regional and bilateral trade agreements. Of particular concern are the FTAs negotiated between partners of very unequal economic weight and/or political clout. Often the weaker party in such bilateral and regional agreements ends up surrendering certain prerogatives that were granted at the multilateral level (the so-called WTO-plus and minus rules). By expanding their scope into services, investment, intellectual property

62 United Nations, *Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System*, 21 September 2009. Available from http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf.

and public procurement, trade rules encroach on the development policy space of developing countries. This makes certain policy options that were used in the past by successful industrializers unavailable or permissible only in a reduced group of countries. Such effects have been seen in some developed economies' agricultural subsidies. In the case of the least developed countries, the possibility of using policies that are incompatible with the agreement on Trade-Related Investment Measures (TRIMs), may be curtailed for a certain period of time.

Development-friendly trade rules need to provide increased market access for the products of the less developed countries in order to protect and promote the livelihood of vulnerable populations. But in a context of fast trade liberalization, tariff preference erosion is a reality. Moreover, preferential market access does not address the challenge of supply constraints faced by many developing countries. Thus, perhaps more important than having preferential market access is to have trade rules that do not undermine or constrain Governments' ability to promote the structural transformation of their countries. Trade rules would be crafted with these objectives: to provide policy space for Governments and other local agents to be the drivers of development; to cater to diversity of circumstances; and to allow for developmental learning. One way to approach this issue is to revisit the regime of Special and Differential Treatment (SDT) as established by the WTO agreements and their counterparts in North-South FTAs. But political will and a truly development-friendly orientation are needed among negotiating parties. SDT provisions are being reviewed in the much challenged Doha Round. However, this remains one of the most difficult issues addressed by the Round and negotiations have not made much progress.

International migration

The importance of international migration cannot be overemphasized. It is a powerful force for social change and cultural interaction and has significant impacts on the development process and functioning of modern economies. Migratory pressures are bound to increase in the future, given the context of great intercountry disparities in living standards and opportunities, the spread of lifestyles and consumption habits from developed countries to the rest of the world, diverging demographics, and reduced transportation costs.

International migration is not a zero-sum game. Despite its positive developmental impacts, migration involves social, cultural and psychological costs and drawbacks, both for the countries of origin — which experience the break-up of family structures, the destruction of emotional ties, the loss of human capital, the waste of social capital, etc. — and for recipient countries facing the challenge, among others, of integrating new migrants. In particular, immigration is unpopular in rich countries because many sections of the population overestimate its costs and underestimate its benefits, and because the costs and benefits are unevenly spread across the population. Migration thus raises sensitive and highly charged issues in most countries.

The need for adequate national and international policies on the mobility of labour is undeniable. The international development agenda, as already noted, has included aid, investment, trade preferences and technology — all essentially aimed at removing obstacles to the international movement of various factors of production. Yet, the international mobility of labour has largely been ignored, while it should occupy a prominent position in the international development framework. As a recent contribution to development issues after the financial crisis put it: the question of labour mobility is "the big hole in the traditional development agenda".[63]

Despite the importance of migration, it lacks a coherent institutional framework at the global level.[64] An international framework on migration should be designed in a way that improves the human capital in both receiving and sending countries, and ensures protection and rapid legal aid to stop international illicit activities. Measures should be taken to link migratory flows to the creation and diffusion of global knowledge, both codified and tacit.

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63 Michael A. Clemens, "The labor mobility agenda for development", in *New Ideas on Development after the Financial Crisis*, Nancy Birdsall and Francis Fukuyama, eds. (Baltimore, The Johns Hopkins University Press, 2011).

64 J.A. Alonso, "International migration and development: a review in light of the crisis", CDP Background Paper, No.11 (New York, United Nations, Committee for Development Policy, 2011).

The key to achieving development in the international framework regarding migration is to find incentives that motivate both home and host countries to take part in cooperative action. Since it is often difficult to find sufficient mutual rewards in the field of migration alone, it may be necessary to make changes in other areas of international relations, including trade, technology and finance. International migration is a consequence of the asymmetries that exist in the international system, and the future development agenda should incorporate migration as one of those asymmetries to be corrected through fairer distribution of development opportunities.[65]

Finance for development

Issues for development finance include four main areas: adequacy, composition, predictability and stability of resource flows (their distribution among recipient developing countries), and conditionality and global architecture.

There have been significant shortfalls in delivery on commitments for the financing of the MDGs. Further, developing countries have been providing substantial net resources to the developed countries. Private flows are highly skewed by region and country, and countries pursuing alternative development strategies may not attract private flows in the amounts needed to support their objectives. Short-term lending is also subject to considerable procyclical volatility. Post-2015, there will be a need for substantial increases in the concessional resource flows to low-income and lower-middle income countries, on a stable and predictable basis, to support productive investment and the provision of public goods.

The international community has taken significant steps to improve the effectiveness and coherence of the international cooperation system over the last decade. The 2005 Paris Declaration and the subsequent Accra Agenda for Action in 2008, along with the Busan Partnership for Effective Development Cooperation in 2011, are the clearest results of those efforts. Although not yet fully implemented, these agreements imply a certain rebalancing of the relationships between partners and donors. Yet, there is an overall perception that reforms introduced so far are not at par with changes taking place in the international arena. Recent trends include greater heterogeneity of the developing world; the new geography of global

65 Ibid.

poverty; the emergence of new regional and global powers coming from the developing world; the presence of new development aid players, many of them linked to the private sector; and the enlargement of the sphere of international public goods. Issues of conditionality and mutual accountability remain a major challenge. South-South cooperation in financing for development now accounts for 10 per cent of global aid flows and will probably increase its relative share in the future. Responding to these changes demands a deeper reform in the development cooperation system.

The proliferation of actors and instruments in the official development assistance architecture implies that:

(a) The system of cooperation is now more complex. Developmental actors and instruments operate in a field wider than ODA, so achieving greater coordination requires more than aid;

(b) To be effective, donors' specialization and coordination should not be based on the global level but locally, in partner countries, and capable of responding to realities on the ground.

In this regard, donors should accept that the cooperation system has definitively changed in the following ways:

(i) A precise border no loner exists between aid and not-aid instruments, or between donors and recipient countries;

(ii) The agenda on fighting poverty should include more active policies to correct international and national inequalities;

(iii) Besides the traditional ODA objectives, new purposes should be included in relation to the provision of certain global public goods that condition development achievements;

(iv) New financial instruments are necessary to obtain the required resources for that agenda. The perceived need for additional and more assured funding has led to a search for innovative sources of development financing to complement traditional ODA[66] (see box 3).

Reform of the global financial architecture (GFA) is needed to promote global macroeconomic stability and minimize crisis-induced external shocks to developing countries. Prudential (national and international) financial regulation and provision of financing for temporary payments

66 *World Economic and Social Survey 2012: In Search of New Development Finance* (United Nations publication, Sales No. E.12.II.C.1).

imbalances resulting from crisis-originating external shocks should be integral elements of the GFA. Adjustment to payments imbalances should be equitably shared between deficit and surplus countries. Stability should not be pursued at the expense of development. Conditionalities should provide space for heterodox policies. Ideally, the GFA should be brought under the aegis of the United Nations system; as recommended by the Commission of Experts on Reforms of the International Monetary and Financial System.[67] The role and function of the BWIs will need to be reviewed, while the role of regional institutions in financing the provision of public goods and contracyclical adjustment needs to be strengthened.

Intellectual property and technology

Intellectual property rules and practices have a direct impact on health, education and access to knowledge, food security and rural livelihoods, the role of SMEs (including job creation and gender empowerment), international competitiveness and economic diversification, climate change mitigation and adaptation, and energy security. The Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement established stronger and more universal standards of intellectual property protection; but many developing countries lack the ability to make effective use of intellectual property rules as a tool of development, or to mitigate its disadvantages. Space should be given for developing countries to adopt the system of intellectual property protection that best suits their development needs. A major challenge for developing countries, especially the smaller and poorer ones, is the diversity and complexity of the international intellectual property right (IPR) architecture and the multiplicity of negotiating forums. The enabling environment in IPRs should not only address the rules as such, but also concern itself equally with the capacity of developing countries both to shape the rules as an ongoing process in various forums and to implement and utilize the rules to support their development objectives.

67 United Nations, *Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System*, op. cit.

Box 3

Innovative sources of finance for development

A wide range of proposals have been put forward. Although they are not all new, many fall under the category of "innovative sources of financing" and can be classified into six groups:

(i) Initiatives aimed at gathering resources (both public and private) to focus on a defined priority (global partnership);

(ii) Proposals to front-load disbursements for a specific area (vaccines, for instance) through the securitization of future aid funds (International Finance Facility for Immunisation (IFFIm), for example);

(iii) Initiatives aimed at encouraging voluntary private funding in areas of social or environmental interest (incentives for corporate social responsibility, for example);

(iv) Proposals to encourage better use of private resources that have a potential development effect (encouraging specific forms of using remittances, for example);

(v) New aid mechanisms to strengthen the capacity to leverage new resources for aid (instruments of financial cooperation); and,

(vi) New taxes on negative international externalities (the Tobin tax, for example).

The usefulness and suitability of such proposals, however, should be assessed against some normative criteria. In this regard, the following six criteria seem to be particularly relevant:

(i) Additionality: the resources should be additional to development aid, not replace it);

(ii) Sufficiency: the instruments should mobilize sufficient resources in relation to the size of the tasks to be tackled;

(iii) Efficiency: the instruments proposed should generate the lowest possible costs to the total level of efficiency without penalising the potential for economic growth;

(iv) Effectiveness: the instruments proposed should be easy to implement;

Box 3 (cont'd)

(v) Fairness: both the benefits and resources of these new mechanisms should be fairly distributed;

(vi) Predictability: the resources of the new funding sources should be easy to predict in order to avoid instability.

Tax on international financial transactions seems to be the mechanism to fulfil most of the above requirements. Even a very low rate tax of 0.005 per cent could generate from $30 billion to $50 billion of additional resources per year. Other proposals (such as tax on carbon emissions) are also technically viable.

Concluding remarks

The world is confronting a series of challenges, old and new, which require new policies and international frameworks that:

(a) Generate a more balanced distribution of both the benefits of globalization and the responsibilities for its costs. Opportunities for development need to be better distributed;

(b) Take into account the interdependence among issues and enhances coherence at various levels;

(c) Pay increased attention to inter-temporal decisions in order to manage risks and improve the security of achievements accomplished.

To address these emerging and future challenges, the core principles articulated in the Millennium Declaration remain valid in today's world and should be pursued. These core principles include the expansion of people's freedoms in a sustainable and equitable way, with security. Moreover, the formulation and implementation of the global development agenda will only succeed with inclusive participation. To be truly global and reflect a shared vision, the development framework should be applicable to all countries, both developing and developed. While the present Policy Note focuses on the developing countries, the implication of the new framework for developed countries should be further explored.

The new development framework must build on lessons learned while at the same time have a forward-looking approach. More importantly, new thinking is necessary because the problems to be addressed are new and they may require as yet untested solutions. While history and past experience may indicate the need for action, they cannot define precisely what that action should be. It is clear, though, that strategies should not rely on "one-size-fits-all" solutions to achieve specific development goals. Rather, they should include key elements and actions that are clearly development-oriented and also sensitive to country-specific contexts. In this regard, countries should define national sustainable development strategies that integrate macroeconomic, productive, social and environmental dimensions while addressing threats to human security. Such strategies should aim at increasing the level of productive diversification and technological complexity of national economies in order to create decent employment on a sustainable basis, while the all-important objectives of social equity and environmental sustainability are preserved.

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