Broadening Progress toward the MDGs

Prepared for the ECOSOC 2007 High Level Segment, Geneva July 2-5, 2007

High-Level Policy Dialogue on current developments in the world economy and international economic cooperation

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Mr. Chairman, ladies and gentlemen: Thank you for this opportunity to address this meeting of the High Level meeting of the ECOSOC Committee. In my limited time today, I will review some issues and trends that seem of particular importance to advancing the Millennium Development Goals at this point of time.

I have two main messages: **first**, at the global level, economic growth in developing countries during the past decade has been truly transformational, and opens opportunities from which all regions can benefit. **Second**, at the regional and sub-regional level, inequality of opportunity and participation in global growth is arguably the greatest threat to future sustainability of growth and to meeting the MDGs.

The international community must do a better job of meeting its commitments of better financial support to the poorest countries, while multilateral institutions need to improve coordination to avoid falling well short of what is needed.

Global performance

We find ourselves today in a period of exceptionally strong growth for developing countries and for the global economy as a whole. Developing country growth over the past decade was faster than the preceding two decades, and consistently outpaced growth in rich countries. As a result, the share of developing countries in global output, measured at PPP, expanded from 39 percent in 1995 to 46 percent by 2005. Moreover, this strong performance has been broadly based – while growth in India and China has remained rapid, middle-income countries (excluding China) have also performed well, at 4 per cent, and taken together, low-income countries even did slightly better.

This continuing strong growth is driving rapid poverty reduction. World Bank estimates of global poverty through 2004 show that the absolute number of poor declined by almost 200 million over the last 10 years, bringing the total below 1 billion. The world *as a whole* is on track to exceed the MDG1 target of halving the share of extreme poor by 2015. *This is an enormous achievement*. Historical estimates suggest that the number of poor has been consistently above 1 billion since the late 19th century, since which time the global population has quadrupled. Economic progress has finally overcome the impoverishing effect of this demographic explosion.

This is extremely encouraging. Looking forward, it may be that 2006 will prove to be a cyclical peak—due to emerging capacity constraints in many countries and a maturation of the investment cycle. Yet, we expect growth to remain strong in developing countries. Recent progress in reducing poverty and accelerating human development have not been due to cyclical events that are likely to be quickly reversed, but rather represent structural changes in the global economy which are fundamental and transformational. East and South Asia have become engines of growth. South–south trade, financial flows, and even development aid now represent major opportunities for growth and advancement, including for Africa. The fastest growth in foreign investment and trade opportunities in Africa have been with China — which alone accounted for 12% of bilateral trade with Africa in 2006 (imports).

Global disparities

This global picture provides grounds for some optimism, but the story varies substantially at the regional and country levels. Regionally, Sub-Saharan Africa lags furthest behind, although there has been progress there too. In Africa, the fall in the share of people in extreme poverty over the last few years has been fast enough to offset the impact of growing population, so that the absolute number of poor has stopped growing and stabilized – at around 300 million or 41% of the population – for the first time in at least a quarter century.

Not only are there huge disparities in income distribution across regions and countries, but the gap is widening. True, GDP per capita in low-income countries has grown faster than in developed countries, so that relative incomes have become less distant. The absolute income gap keeps growing at a very fast speed, however. 10 years from now, it may be the case that the ratio developed countries' and Sub-Saharan countries income per capita has gone down from 50 today to 40. But the absolute difference will at the same time have increased from $24,000 to $30,000, hardly a sign of the so-called 'convergence'.

The challenge of meeting the MDGs is increasingly concentrated in the fragile states-- those countries that face the most severe governance and institutional challenges. The 35 countries currently in this group comprise around 9% of the population of developing countries, yet they account for over one-quarter of extreme poverty and perform more poorly on nearly all indicators of development. With per capita income around one-third of other low-income countries, they also grow only around one-third as fast, so that the gap with other developing countries widens steadily. Debt/GDP ratios are 50 percent higher, poverty rates are nearly double, and under-five mortality is significantly higher than in other low-income countries. Literacy rates are lower, and youth literacy lags behind adult literacy, highlighting the intergenerational impact of the fragile environment.

The challenge of inclusion

State fragility may be considered as transitory, as countries emerge from conflict or transition to a more stable political regime. There are success stories – like Mozambique or Rwanda—which have successfully emerged from periods of terrible and hugely damaging civil conflict and decline. But unfortunately there also are many examples of *persistent or recurrent* fragility. Eighty percent of the fragile states identified in 1980 are still fragile today. Achieving the

MDGs is particularly problematic in those countries, and calls for increased attention to research and policy initiatives on fragile states, and efforts to mobilize resources and build the capacity for the international community to respond quickly when there are windows of opportunity for change. Despite their enormous needs, aid flows to fragile states are uneven, irregular and often fragmented, taxing their organizational capacity that is so scarce and overstretched.

The challenge of inclusion also faces many middle and low-income countries that face no problem of state fragility. Income inequality is an obstacle to growth. It lowers productivity and economic performance by denying a share of the population access to basic services and the opportunity to reach their economic potential—whether this is along lines of race, geography, ethnicity, or gender. The role of governments to address imbalances in access and opportunity is paramount. This potentially is a win-win opportunity: greater equality of opportunity translates into more rapid growth performance, and ensures that higher growth leads to greater poverty reduction rather than augmented income inequality. However, it is still necessary that local, regional or central governments are not captured by small elites which may block such reforms. This is another face of inequality, maybe the most deleterious for development.

Meeting international aid commitments

Strengthening aid flows to help finance essential infrastructure and social services is vital and requires new momentum and better coordination. But despite pledges from donor countries, the expansion in global aid has stalled, and the mix of aid instruments is cause for concern. Total ODA in real terms fell by $5.4 billion from 2005 to 2006, and much of recent increases in aid have been due to debt relief. Debt relief can yield important benefits to recipients – especially when debt is being regularly serviced. And lower debt levels improve macro and creditworthiness indicators even when this involves writing off debt that is not being serviced. But such opportunities for "exceptional" debt relief are disappearing, and without fresh financing flows donor promises of doubling aid to Sub-Saharan Africa by 2010 will fail to materialize. On the side of donors, meeting commitments and improving aid quality will require not only reversing the recent decline in aid flows, but improving the quality of aid to allow greater flexibility in addressing financing requirements to meet the MDGs.

Additional aspects of the changing aid landscape is the recent proliferation of different sectoral (or "vertical") funds, the growing role of non-traditional donors (such as China and India), and the expansion of private foundations. All of these are welcome. The magnitude of the development challenge we face is large enough to accommodate more contributors. But at the same time, this trend focuses attention on the fragmentation of aid and possible loss of efficiency. Fragmentation in the number of official DAC donors has been rising for decades, adding to the burden on recipient countries. Including non-traditional donors and the growing earmarking that comes with vertical funds and innovative aid financing mechanisms (including the airtax ticket and the IFFIm) would make this picture even worse, underscoring the need for greater harmonization and alignment of aid programs.

International cooperation to address global externalities

A growing number of important externalities tie countries together: global trade policies, migration, sharing of water, regional infrastructure… Perhaps none is more evident today than greenhouse gases. The growing threat posed to the global environment from rising concentrations of greenhouse gases is now firmly recognized. Beyond the potential global impact, I want to emphasize its distributional consequences. Not all countries will be affected in the same way and to the same degree, and within countries; certain sectors and income groups will be far more deeply affected. There cannot be any doubt that adapting to climate change already became an immense issue and a challenge in many developing countries. It will become every year more serious.

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

Mr. Chairman, in closing I would like to note the special challenge that these issues pose to multilateralism – and in particular, *the capacity and commitment of multilateral institutions, including of course both the World Bank and the United Nations, to produce durable answers to difficult problems*. Lagging aid flows pose one such challenge. Likewise, the need to agree on and implement a global response to climate change will require an enormous transformation in the way in which the global community operates.

IN front of all these issues, an obvious question is whether *we are prepared for all these challenges?* A subsidiary, and at the same time much deeper question is: *can we afford not to be?*

Thank you very much for your attention.