Why Aren't We Achieving the Millenium Development Goals?

Book Review for the Proceedings of Annual World Bank Conference in Development Economics, `Lessons of Experience' and `Are we on Track to Achieve the Millenium Development Goals'

Rohini Pande, Yale University[1]

Introduction

"But today's World Bank is a different institution. This is an institution which does not have the answers to all these questions but does have a sense of direction, which may or may not be right but is today more humanly based."

James Wolfensohn, opening address of ABCDE 2004.

``We are no closer to a useable blueprint for development than we were 50 years ago. It is true that we now think we know which blueprints to avoid, but it is not always clear that we know why. "

Abhijit Banerjee, discussion ABCDE 2004

``But [Bank] should no longer be laying down detailed reform blueprints and threatening to withold funds if their own policy prescriptions are not followed. It is time that donors began to support countries in developing their own social consensus, rather than continuing to push for development by fiat.''

Romilly Greenhill, discussion European ABCDE 2004

The Annual World Bank Conference on Development Economics (ABCDE) is a forum that is intended to allow luminaries of the World Bank and its partner institutions, leading academics working on development issues, and individuals working in large and influential NGOs to debate policy issues facing developing countries. These are people and institutions with immense potential to affect the practice of development policy the world over. In reading the proceedings of the two 2004 conference volumes, 'Lessons of Experience` and 'Are we on track to achieve the Millennium Development Goals?' one is struck by the extent and depth of scholarly knowledge and practical experience that the authors and discussants of the conference papers bring to bear upon the questions at hand, and by the huge diversity in the topics covered. However, it also appears that some of the more significant opportunities offered by this forum are still to be capitalized on.

For academics, the field of development economics is a seductive discipline in that it offers those working in it the possibility of making a difference. However, making a difference also tends to require a partnership with policymakers in institutions that have resources, and political clout. These policymakers need to be able to set and justify goals,

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and to implement effective ways of achieving these. To achieve the first objective, the setting of goals, academics, policy-makers (and potentially those subject to the policy) need to share a common vision about what development should consists of, and how it should be measured – is it poverty reduction, income growth, or improved individual wellbeing? The ABCDE proceedings reflect that fact development economists are beginning to achieve some agreement with the policy community about this - few would now describe GDP growth without poverty reduction or improvements in individual well being as development.

An important touchstone for judging progress is the Millennium Development Goals (MDGs). The eight MDGs – which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015 – form a blueprint agreed to by 189 countries and all the world's leading development institutions in 2000. In this review I draw upon the collected wisdom of the contributors of the ABCDE volumes, and recent advances in development economics, to discuss some reasons for why the MDGs may not be achieved, and what that suggests for how best to structure discussions between policymakers at the Bank and academics at forums such as the ABCDE.

A paper presented by Qureshi at the ABCDE conference documents the fact that most developing countries are not on track to meet the MDGs. The goal of halving the number living on less than a dollar a day by 2015 is likely to be met at the global level, but not in Africa. With current trends, the goal of providing universal primary education is unlikely to be met in Sub-Saharan Africa, and possibly in South Asia and Middle East and North Africa as well. About one-third of developing countries are unlikely to meet the target for gender equality in primary and secondary education. Qureshi states that the prospects are the worst for health outcomes and based on existing data concludes, `on current trends, the goals of reducing child and maternal mortality will not be attained in most regions, and only a small proportion of countries (15 to 20 percent) appear to be on track.' Health outcomes are clearly also linked to the goal of halving, by 2015, the proportion of population without access to safe water and sanitation. Qureshi points out that this means providing an additional 1.5 billion people with water and 2 billion with sanitation. With current rates of progress at about half what is needed, most regions will fall well short. At those rates, only about one-fifth of countries will achieve the target increase in access.

Clearly, an important correlate of progress on the MDGs is economic growth. Here, the news is not all bleak. Richard Cooper notes that, 'Economic performance in the period 1950-2000 can only be described as fantastic in terms of the perspective of 1950, in the literal sense that if anyone had to forecast what actually happened they would have been dismissed by contemporaries as living in a world of fantasy'. Similarly, Bourguignon, in his analysis of the global income distribution, shows that the high growth rates experienced recently by China and India imply that in population-weighted terms global income inequality (i.e. cross-country inequality) declined between 1980 and 2002.

Nevertheless, as Banerjee notes, China and India remain only two data points among many. Bourguignon shows that if we give equal weights to all countries in computing the global income distribution then progress is much more muted and we actually observe increasing inequality. If one considers the 26 countries that replaced China in the bottom decile of the income distribution in 2002 those countries experienced an average annual negative growth of about –0.85 percent. More generally, growth was zero or negative for the bottom three deciles of the 138 countries considered. On average, countries in sub-Saharan Africa have seen the worst development performance.

It is also clear that economic growth itself may not deliver success on all MDGs. China will very likely meet its poverty goal and has already achieved success in ensuring universal primary education. However, according to UN reports, China may not be on track for halting and reversing HIV/AIDS, promoting gender equality and providing safe drinking water to its rural populations. A second concern is regional differences even within fast growing countries. Looking at India, it is clear that different Indian states are likely to differ significantly in their ability to achieve the MDGs. Worryingly, some of the slowest growing states in India are the most populous and have the worst economic indicators. For instance, four of India's twenty eight states account for over 50% of India's infant mortality and nearly three-quarters of all out-of-school children in the country are found in a mere 20% of villages (and 50% of districts) (Deolalikar 2005).

Vernon Smith in his keynote address at the Washington ABCDE made a forceful argument in favor of globalization as a conduit for development, and presumably for achieving goals such as MDG. He noted that `diversity is made possible, productive and permissive of wealth creation through market institutions'. Globalization by this argument is a good thing since it encourages trade in goods and services. However, Bourguignon presents calibrations suggesting that the potential for gains from trade suggested by theory has not translated into practice. Specifically, protectionist trade practices by rich countries have ensured that income redistribution via trade flows has been regressive.

Stiglitz and Charlton, at the European ABCDE, suggest that to date the agenda of the Doha rounds of trade negotiations has done little to meet the needs of developing countries. They argue that it is imperative that the WTO establish a source of impartial and publicly available analysis of the effects of different initiatives on different countries and based on such analysis any agreement that disproportionately hurts developing countries or provides disproportionate benefits to developed countries should be blocked. They outline a series of pro-development priorities that should form the core of Doha agreement – such as increased labor mobility and increased market access for goods produced by developing countries.[2]

[2] A further question, not yet addressed by the authors, is whether looking into the future it would be possible to identify goods in which low-income countries necessarily have an advantage. A paper by Sutton provides an example of a way that developing countries can move towards supplying the high-quality goods typically associated with rich countries. He discusses how the development of the auto industry supply chain in both China and India are at, or close to, world-class standards.

Verdier's paper, in contrast, argues that trade policy and domestic redistribution should be viewed jointly in terms of their political determination inside a country, because of the need to build a credible coalition between pro-trade interests and a large enough number of actual or potential winners.

So what does this mean for the international development community? Papers at the ABCDE conference seemed to agree that the most important levers for achieving the MDGs and for improving growth outcomes were improved trade opportunities for developing countries, increased aid from rich countries, and sensible policy choices by developing country governments. However, noting that these elements are important is not enough. If development is not happening (or happening more slowly than it could) we have to ask ourselves, who is making the wrong decisions, and why, and how can we change the incentives they are facing, to persuade them to make more effective choices?

Gus Ranis, in his review of the evolution of development policy since the end of the Second World War, notes that perhaps the most important event has been the mainstreaming of the idea that policy change is the key ingredient of successful development. While there is perhaps greater consensus on what not to do exactly which policy should be implemented and by whom remains perhaps as debated today as 50 years ago. A classic example is the arguments over trade policy. While there is agreement that in almost every case free trade is a good thing, what kind of policies and rules should structure the marketplace, who should be responsible for choosing them (the domestic or international community) and what policy instruments should be used remains unclear. Mullainathan, in an incisive paper about behavioral economics, points out that the difficulty of identifying optimal policies becomes even harder once we admit people have limited cognitive ability, will power and varying amounts of self-interest. For then policy design is not just about solving problems between people but also about helping a person deal with his/her own problem.

Ranis' and Mullainathain's analysis help us understand where, on the evidence of these proceedings, the ABCDE Conference might become a more productive and effective forum. The extent of agreement among development economists and policy-makers about the importance of free trade, aid flows and public policy for development was striking. However, equally striking was the absence of discussion about how all of this translates into the design and implementation of practical interventions in the real world, which is, after all, the primary purpose of the Bank.

Alternative Goals?

``And that is why I hope that this conference will come up with some prescriptions, some ideas, some risks and approaches that can help us and the poor, the uneducated, and practitioners to try and make a difference.''

James Wolfensohn, opening speech

The ABCDE conference proceedings demonstrated a rich, and at times bewildering, diversity of ideas on display - and yet, there was little one learnt about how all of this might translate into immediate advice for any policymaker. In particular, what was lacking was an explicit recognition of the fact that change, ultimately, rests on the back of individual actors facing multiple incentives – and that the task of designing policies that can be implemented effectively is as much a matter for collaboration between economists and policy-makers as the setting of goals - for if there is one thing that the veritable explosion of micro-data based research in development economics over the last decade has taught us it is that effective implementation is vital. Building schools doesn't get teachers to come to school. Signing on to the Millennium Agreement clearly doesn't ensure development.

It is clear that good policy design must be aware of the changed incentives offered to all those affected by (or charged with implementing) the policy, and must ensure that those incentives are sufficient to make the policy happen effectively. Recent empirical work in development economics has made some progress in identifying interventions that affect the incentives of service providers, and so alter the quantity and quality of service delivery in low income settings (for a review, see Duflo (2006)). The challenge, for academics and policy-makers alike, is to identify more general policy lessons from these relatively small-scale interventions.

One way in which policy forums such as the ABCDE could promote this is by implementing a more focused discussion regarding which, if any, explicit policy lessons can be obtained from the program evaluations conducted by academic development economists. Another useful scenario might be for policy-makers at the Bank to lay out their higher-level goals and to seek input on small interventions or research that could form a first step in designing large policies to achieve those goals. Equally, academics could be asked to identify and justify the policy implications of program evaluations undertaken by them. If, through this type of exchange, policymakers were to leave ABCDE with ideas about new policies to implement, or more effective ways of implementing existing policies, and the academics were to leave with new research questions to pursue, this would seem to me to more than justify the considerable time and resources expended by all the participants.

Let me conclude by quoting from James Wolfensohn's opening speech, "It takes me about 24 or 48 hours in any country to know who the crooks are. You know if a president is a crook, if his wife or cousin is a crook, how many cabinet members are crooks. It is not very difficult in any developing country in a very short time to understand where the real elements of corruption are."

I think this statement epitomizes in many ways the links that development economists and the policy community have failed to make. In policy circles there is a lot of emphasis on naming the crooks and removing visible forms of corruption - the American Millennium Challenge Corporation, for instance, will only invest in countries that are "ruling justly, investing in their people, and encouraging economic freedom". To qualify, candidate countries are expected to score above the median on half of the indicators in each of the three criteria areas and above the median on the corruption indicator specifically. However, there is limited engagement with the question of why, all else equal, we may see more corruption in some environments - and, more importantly, how to reduce it. Agency theory suggests that in environments characterized by imperfect credit markets, limited information flows and low incomes individuals' optimal choices may include putting up with corrupt politicians, and politicians' optimal choices may be to choose corruption as a method of government. The correct response for a policymaker here is not necessarily to finger the corrupt, but perhaps instead to choose to make carefully planned interventions that strengthen institutions, improve education, and improve access to credit – and so lower the incentives for individuals to be corrupt - or to decide that other priorities make it necessary to work within the system that exists – in which case, it will also be necessary to design and implement policies that acknowledge and allow for corruption.

In conclusion – if we are to succeed in designing and implementing policies which bring about development then we need to be both more modest in what we expect to achieve solely through the setting of appropriate goals, and much more ambitious in trying to understand the incentives facing individuals, institutions and governments in developing countries – and in taking on the difficult, detailed practical work of understanding how institutions such as the World Bank can use their financial and political muscle to change incentives at all levels of society in order to bring about these goals. The ABCDE could become a vital forum for policymakers and academics to move together towards this understanding. However, those responsible for structuring the conference, and setting the questions that are asked, would need to do so with this explicit agenda in mind.

References

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