INVESTING IN DEVELOPMENT: THE MILLENNIUM DEVELOPMENT GOALS, AID AND SUSTAINABLE CAPITAL ACCUMULATION

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[1] The views and interpretations in this article are those of the authors and do not represent the views and policies of the United Nations Development Programme

"The only complaint I have against the system is that a considerable sum of money must be paid to the first fire engine that arrives, a smaller to the second, and so on, thus… if all their efforts prove ineffectual, the sufferer, who is already ruined by the destruction of his property…doubles his loss and adds to anguish of his mind. Notwithstanding the assistance of these machines there is scarcely a day when fires do not happen and cause much mischief; but no pains are taken to make the people build their houses on a better or more secure plan."

The travels of Mirza Abu Taleb Khan in Asia, Africa, and Europe, 1799-1803.[2]

The Millennium Development Goals (MDGs) are the world's time bound quantified targets for addressing the multi faceted dimensions of a decent human existence, as pledged in the United Nations Millennium Declaration (2000).[3] While the MDGs have become the fulcrum of international development, the formulation of a strategy to achieve the goals has given rise to heated debates on the responsibility of developed countries to deliver more and better aid and the need for developing countries to make adequate policy reforms to achieve the MDGs. This controversy highlights our limited knowledge of the complex linkages between aid, policies and long term development outcomes. In this paper we argue that MDG financing should be designed to foster sustainable national capital accumulation processes that need to underpin a successful MDG strategy. We argue that the success of any strategy or "business plan" to achieve the MDGs requires key changes in current practices of policy design and implementation and of institutions that implement such business plans at the national and global levels. We indicate two areas where such changes would enhance the sustainability of a chosen strategy or plan to achieve the MDGs.

Section (I) below reviews the role of Overseas Development Assistance (ODA) approaches to development within the context of the creation of a sustainable capital accumulation process. Section (II) draws out the main sustainability challenges associated with an ODA-led investment "big push" for creating long term sustainable growth, with particular reference to the capital accumulation process. Section (III) highlights the policy implications of the discussion in section (II) focusing on the link between the process of capital accumulation and sustainable growth and poverty reduction. The importance of widening the "fiscal space" available to developing countries to foster appropriate domestic regimes of accumulation is emphasized in section (IV). In the final section, (V), we propose the development of a peer and partner mechanism to better locate the ownership of policy frameworks for achieving the MDGs within the context of the countries that have to implement MDG business plans.

(I) *MDGs and the process of capital accumulation*

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[2] Abu Taleb Khan, *Travels of Mirza Abu Taleb Khan in Asia and Europe During the Years 1799,1800,1801, 1802, and 1803,* himself in the Persian language, 2 Vols, Charles Stewart, trans. (Longman, Hurst Rees and Orme, London 1814).

[3] United Nations (2000) A/RES/55/2 United Nations Millennium Declaration.

The recent report to the UN Secretary General of the Millennium Project headed by Prof. Jeffrey Sachs, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals,* (henceforth called Millennium Project 2005) sets out a practical plan to achieve the MDGs. In order to reach the MDGs at the country level, the report calls for a major increase in ODA from 0.25 percent of donor GNP in 2003 to 0.54 percent in 2015.[4] While the report also emphasizes the need for domestic resource mobilization, debt relief and trade, it focuses mainly on the role of ODA in breaking the poverty trap and financing a major scale up of public investment in developing countries to achieve the goals.

The report defines the challenge of achieving these goals in a novel and useful way. "The Goals are ends in themselves … [they] are also "capital inputs"—[the means to a productive life] to economic growth and to further development … So, many of the goals are part of capital accumulation defined broadly as well as objectives in their own right.[5]

The novelty of this definition lies not in the identification of "capital" as the principal input needed to achieve these goals, though this is important in its own right and the report goes on to make the powerful case for resource transfers targeted at securing such capital. Rather it is the identification of capital *accumulation* as the key economic *process* by which the goals are to be achieved that is innovative.

There is considerable dissonance within the economics profession on precisely how the capital accumulation process affects the achievement of desired development outcomes. Robert Solow's simplest model contends that the accumulation of capital hinges on the ability of a nation to give up current consumption.[6] Deferring consumption depends on the ability of that nation to first meet the basic needs of its citizens with existing production technology and resource availability. A country that exists on the frontier of subsistence could make resources available for the creation of capital only at the expense of feeding a given proportion of its population. In this case, capital accumulation comes with the price of starvation. The case for aid then rests on the premise that relatively small transfers of resources from rich countries to countries on the frontier of subsistence avoid this trade-off, *ceteris paribus.*

More sophisticated models elaborate on this basic conclusion. An example is a paper by Robert Lucas published in 1988 in which three models are considered and compared to evidence: a model emphasizing physical capital accumulation and technological change, a model emphasizing human capital accumulation through schooling, and a model emphasizing specialized human capital accumulation through learning-by-doing.[7] The paper shows how a more elaborate definition of capital accumulation can be specified.

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[4] Jeffrey Sachs, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals, 2005* , xxii.

[5] Ibid., 28.

[6] Robert Solow, "A Contribution to the Theory of Economic Growth," *Quarterly Journal of* Economics 70 (1956): 2; Robert Solow, *Growth Theory: An exposition*, (New York: Oxford University Press, 1988).

[7] Robert Lucas, "On the Mechanics of Economic Development," *Journal of Monetary Economics*, 22 (1988): 1.

However, this definition does not detract from the central premise that investment in either physical or human capital accumulation is a prerequisite for achieving desired development outcomes like the MDGs.

Thus ODA led approaches to development, such as that encapsulated in the discourse on MDGs can be interpreted as identifying the absence of an adequate (whether in magnitude or content) capital *accumulation process* as a binding constraint to securing the MDGs. It then follows that ODA relaxes this binding constraint.

The most sophisticated elaboration of this argument is contained in a 2004 paper by Sachs et al, which introduces the notion of a "poverty trap". The poverty trap is defined by the following conditions:[8]

- Extreme poverty;
- Low savings rates because most households use all their income to meet basic needs and therefore have little discretionary income;
- A low "threshold" level of infrastructure capital;
- High rates of population growth.

A combination of the above factors results in a situation where relatively small increases in public resources have little or no growth impact and transitively no effect on poverty and human development. The simultaneous existence of all these factors causes the poverty trap, which in turn is self-reinforcing. The existence of such a poverty trap is at the crux of the Millennium Project 2005 and the solution recommended therefore is to use ODA for a "big push," large enough to break this self-reinforcing cycle. Such a drive would consist of a simultaneous deployment of resources to enhance infrastructure capital and provide for basic needs, so that the threshold level of infrastructure capital increases to a point where incremental applications of capital are able to make a real difference to growth. This would in turn enable savings rates to increase with discretionary income once basic needs have been met, thus starting a virtuous cycle of growth and private savings that creates conditions for sustainable human development.

(II) *The "big push" in context*

It can be argued that the empirical evidence used to justify the poverty trap model in Kremer's commentary on "Ending Africa's Poverty Trap" is consistent with the established argument that Sachs *et al* (2004) seek to refute - that poor government quality and inappropriate government policies are the main cause for low levels of income growth and human development in the developing world.[9] Kremer cites a range of historical evidence of African countries with high levels of GDP that have seen falls in human development over the years. Furthermore, he points out that "many people with money in Africa move it to Europe or elsewhere rather than take advantage of the

[8] Jeffrey Sachs et al "Ending Africa's Poverty Trap". *Brookings Paper on Economic Activity*, (2004): 117-240

[9] Michael Kremer. Comment on Sachs et al. 2004. "Ending Africa's Poverty Trap," *Brookings Paper on Economic Activity*, (2004): 217-222

potentially huge returns available under poverty trap models to people who can reach a certain scale of investment."[10] The argument here is that the organization of the process of capital accumulation is one that inhibits the realization of domestic surpluses for growth and development enhancing investments irrespective of the existent potential for such investment. In such a circumstance, a low savings rate is endogenous to the process of capital accumulation and not an exogenous variable. A big push might then create transformational conditions that may allow for the *poor* to increase their savings. It is silent on why the existing *non-poor* do not presently deploy their savings in the domestic arena and how (and whether) this could be changed. An attendant danger is that the savings of the non-poor (post the "big push") may go the same way unless the process of capital accumulation is one that is able to sustainably deploy domestic savings to serve the needs of the development process. Enhanced domestic resource mobilization can either translate into increased resources for human capital and physical infrastructure, or the maintenance of a domestically financed enhanced stock of development assets.

Jean Paul Azam *et al* present another argument relevant to the organization of the process of capital accumulation. They argue that donor activities tend to "crowd out" the institutional "learning by doing" that is critical to improved governance, leading to a "high aid-low institutional capacity" equilibrium.[11] This supplements the above critique by hinting at the fact that there is no unchallenged *technocratic approach* to using the MDGs to create a plan to achieve sustainable development in Africa or anywhere else unless the process of achieving the goals is one that simultaneously fosters the conditions for its own sustainability.

In other words, is the achievement of the MDGs at the country level both a *necessary and* a *sufficient* condition for sustainable growth and human development? Even if Ethiopia for example, receives sufficient levels of ODA and makes appropriate policy reforms to achieve the MDGs by 2015, will it graduate from the ranks of the least developed countries (LDCs) to sustain what has been created by the big push?

A negative answer to this question – implying the continuation of dependency on aid - would critically undermine the economic rationale and the political legitimacy of the goals, as defined by the Millennium Declaration. As world leaders prepare to gather in September 2005 to review progress towards the MDGs, the question is not only *whether* and *how* the quantitative goals will be reached but more importantly, if achieving the targets will fulfill the vision articulated by the Millennium Declaration. In order to avoid or minimize the likelihood of a major political and economic failure for both developing and developed countries, it is critical to understand how to secure the achievement of the MDGs while building developing countries policy and institutional environment to generate sustainable growth. This requires, in our view, a fuller understanding of the central importance of the capital accumulation *process*.

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[10] Kremer, 218.

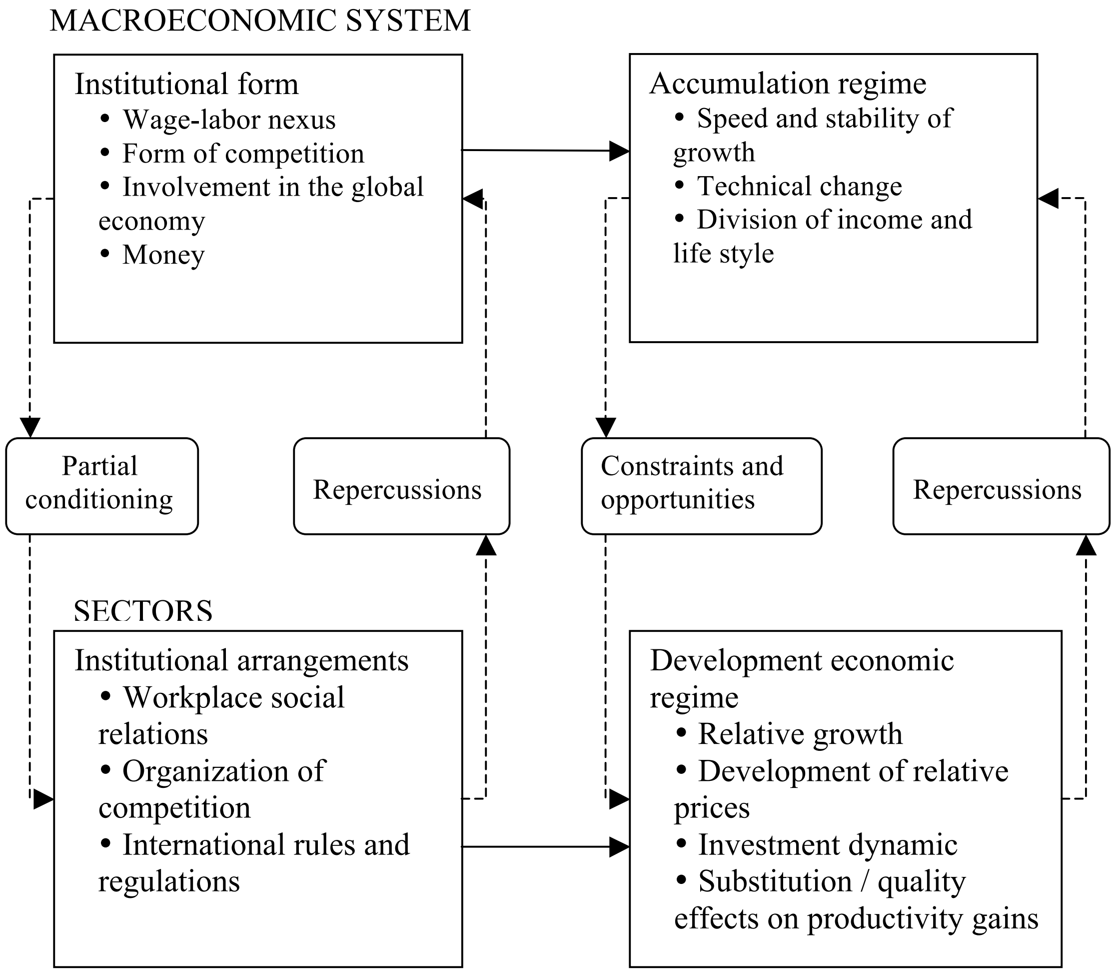
[11] Jean Paul Azam, Shantayanan Devarajan and Stephen O'Connell, "Aid Dependence Reconsidered," (University of Toulouse, World Bank and Swarthmore University, 1999).

Before trying to understand the extent and implications of an ODA-financed public investment strategy for long term sustainable growth, a clear definition of "capital accumulation" is required. Drawing on the seminal work of Lipietz and Jessop, in the context of developing countries, a *regime of accumulation* can be defined as a mode of distribution and reallocation of economic inputs (capital and labor as well as domestic and external) into socio-economic outputs sustainable with changes in the production and consumption pattern over a long period.[12] It should be distinguished from a *mode of regulation* that refers to the governance and institutional system that adjusts an accumulation regime over time.

A regime of accumulation framework describes the rather complex, often quantitative link between interventions at the macroeconomic and sector level and the development regime, which both determines and is determined by these interventions. An example of a schematic connection between interventions and the impacting *and* resultant development regime is outlined in figure 1 below:[13]

[12] "The regime of accumulation is a mode of systematic distribution and reallocation of the social product which over a prolonged period of time is able to coordinate transformations in the conditions of production (volume of capital invested and its distribution among the branches and norms of production) with transformations in the conditions of final consumption (consumption norms of wage-earners and other social classes, collective spending, etc…)," in Alain Lipietz, "Accumulation, Crises, and Ways Out: Some Methodological Reflections on the Concept of 'Regulation," *International Journal of Political Economy*, 18 (1998): 2:10-43; "An accumulation regime is a complementary pattern of production and consumption that is reproducible over a long period. Accumulations regimes are sometimes analyzed abstractly in terms of their typical reproduction requirements; but specified as modes of growth, they can be related to the international division of labour. This concept is broadly macroeconomic. A mode of regulation is an emergent ensemble of norms, institutions, organizational forms, social networks and patterns of conduct that can stabilize an accumulation regime," in Bob Jessop (ed)., *Regulation Theory and the crisis of capitalism*, 1 (The Parisian Regulation School, 1991), Preface xxvii and xxviii.

[13] Adapted from Jean Francois Vidal, "International regimes" in Boyer, Robert and Yves Saillard (eds), *Regulation Theory - The State of the Art*, (London: Routledge; Paris: Edition La Découverte, 2002): 69; Systems dynamics based modeling approaches provide tools to quantify macro-assessment models that can incorporate such issues. A good example of such a model is the Threshold –21 model designed by the Millennium Institute. Available at: http://www.millenniuminstitute.net/national/model.html



In this example "institutional forms" at the macroeconomic level affect sectoral institutional arrangements and vice versa. The accumulation regime (embodying the principle variables defined in the "poverty trap" argument) in turn affects and is affected by the nature of the existing development regime. The constituents of the accumulation and development regimes and macroeconomic system and sector variables may change depending on the context. But this form of schematization provides a frame of reference for the broader context on which in the ultimate instance, depends the sustainability of development interventions such as the "big push".

There is an ample accumulating body of evidence, sadly under-used in the policy field, which links economic development processes to the regime of accumulation. A key finding in all these studies is that regimes of accumulation that sustain a virtuous cycle of economic development are diverse but tangible.[14] Mistral provides an empirical argument

[14] There is a complementary discourse on the impact of accumulation regimes (defined variously) on development processes that we do discuss at length here. See Mushtaq Khan, *Clientelism, Corruption and Capitalist Development*, (PhD dissertation, University of Cambridge, 1989); Rathin Roy, *The Politics of Fiscal Policy*, (PhD dissertation, Faculty of Economics and Politics, University of Cambridge, 1994); Rathin Roy, "Economic Theories of Decentralisation: Towards an alternative political-economy approach,"

to show how the effectiveness of macroeconomic policy can be limited if the growth process is constrained by global economic trends and the extant international division of labor.[15] A long term study in Mexico found that export led industrialization, which provided the "big push" in national economic development strategy was inhibited by long term institutional arrangements that did not allow the benefits of technical change and productivity gain opportunities that the export sector push provided.[16] This in turn acted as a barrier to endogenous increases in the long term competitiveness of the export sector. In Brazil the inequality of income distribution plays a determining role in defining the regime of accumulation.[17]

(III) Policy implications

It is important to acknowledge the political and operational importance of the detailed business plan presented in the Millennium Project 2005 report. The benefits of the strategy presented in the report for human development are evident and represent a vital first step towards securing fundamental economic and social human rights for the least advantaged. However, the report is not, and does not claim to be, sufficient to achieve this lofty ideal, that is central to the Millennium Declaration and the concerns of the developing world. The linkages between ODA financed capital accumulation and long term sustainable growth are tenuous and uncertain unless the capital accumulation process underlying the "big push" is specified and the process embeds the necessary conditions for long term sustainable growth.

Understanding the pursuit of the MDGs as a process of generating sustainable regimes of accumulation underscores the dual challenge of the international community to cope with the ambition of the Millennium Declaration, beyond the specific quantitative targets set for each goal. The first challenge is to foster a regime of accumulation at the national level so as to free developing countries from reliance on external concessional financing for the provision of public goods and their full integration in the world economy. The second challenge is to promote country specific modes of regulation that sustain and perpetuate an enabling accumulation regime. Under which circumstances are ODA inflows likely to favor the development of country regimes of accumulation? What are the conditions for these regimes of accumulation to be sustainable?

Thus, while foreign concessional assistance plays a fundamental role for fulfilling the vision defined in the Millennium Declaration, the real question is whether an "ODA-led"

M. Macintosh and Rathin Roy, (eds) *Economic Decentralisation and Public Management Reform* (Cheltenham:Edward Elgar, 1999); Lance Taylor and Edmar Bacha, "An Unequalising Spiral: A First Growth Model for Belinda," *Quarterly Journal of Economics*: 90 (1976): 2

[15] Jacques Mistral, "Régime international et trajectoires nationales," in Robert Boyer (ed) *Capitalisme fin de siècle* (Paris: Presse Universitaire de France (PUF), 1986)

[16] Jaime Aboites, "Industrialisation et développement agricole au Mexique: un analyse du régime d'accumulation de long terme, 1939-85," CEPREMAP 8727, Paris, (1985).

[17] Jean Cartier-Bresson and Pierre Kopp, *L'analyse sectionelle: approche du système productif en Amérique Latine*, (Thèse : Université de Picardie, 1981); Yves Juillard, "Accumulation regimes" in Robert Boyer, and Yves Saillard (eds). 2002.

approach to development is likely to generate long term sustainable growth. Beyond the quantitative targets, an emerging concern is whether the mere realization of the baseline agenda for poverty reduction set by the goals will be sufficient for creating the conditions of self-sustaining growth, ultimately necessary for human development to endure. The success of development strategies developed by Chile, Korea, Malaysia, Singapore and Thailand has not been contingent on significant foreign assistance, though such assistance did play an enabling role in many ways.

Though aid can be effective for providing basic public goods and higher living standards to the poor over a limited period of time, foreign assistance alone appears unlikely to generate sustainable regimes of accumulation. The lack of human and physical capital is undoubtedly a major reason for underdevelopment, but policies, institutions and the high degree of vulnerability to shocks in developing countries are as important for the success of their poverty reduction strategies and the establishment of long term sustainable growth.

A recent UNDP report on development effectiveness stresses that while a good policy environment is important for development results, no single policy set can guarantee desired development outcomes.[18] Initial factor endowments as well as policy and institutional settings differ in each country and should guide national strategies for poverty reduction and sustainable growth. Thus, a small landlocked country with limited natural resources and capital such as Laos cannot follow the development model of a copper-rich country with maritime access like Chile. Similarly, accounting for country specific governance and institutional factors is critical to explain diverging performances on both growth and poverty reduction in Africa. In short, while the theoretical conclusions of poverty trap models demonstrate how capital scarcity can lead to underdevelopment, there needs to be complementary work on how the domestic capital accumulation process can be designed to sustain successful and sustainable poverty reduction strategies.

Thus, even if ODA financed interventions to achieve the MDGs eventually lead to poverty reduction and foster capital accumulation – which may not be the case for the reasons advanced above - the sustainability of these virtuous outcomes is not automatically certain. In other words, the absence of adequate *modes of regulation* may undermine the persistence of accumulation regimes. The external and volatile nature of aid can undermine country ownership and increase vulnerability to shocks, which hinders the sustainability of regimes of accumulation. Substantial dependence on aid as the main financing source for the provision of public goods to achieve the MDGs will impact significantly on domestic patterns of consumption and production. An adequate mode of regulation needs to be in place to build an adequate productive and economic base, which can sustain these achievements. There is evidence that, in Mexico for example, disparities in the wage-labor nexus and an economy prone to external shocks fostered extreme international dependence with domestic productive capacities weak or even absent in a number of critical areas of the economy, becoming a major impediment for building self-

[18] United Nations Development Programme, *Development Effectiveness Report: Partnership for Results*, Evaluation Office, (New York: UNDP, 2003).

supporting growth regimes.[19] In Mexico and Venezuela, the external financial constraints of the eighties led to the complete destabilization of the regulation mode, with consequent slippages in development results.[20]

The limits of "ODA-led" approaches to developing sustainable regimes of accumulation do not diminish the value or the usefulness of aid. On the contrary, they emphasize the need for more stable foreign assistance and for better coordination and harmonization among donors. They accentuate the need to define a more comprehensive strategy centered on country ownership to enhance human development and stimulate sustainable growth, supported by a reform of the international system.

The Millennium Project 2005 suggests the main elements for the reorganization of the international system to support "MDG-based poverty reduction strategies."[21] In our view the Africa "poverty trap" exemplifies the collective consequence of the failure of the international system to develop adequate *global* modes of regulation that allow developing countries to develop sustainable regimes of accumulation. In a period of increasing economic interconnectedness, the situation of poor countries can be analyzed as a partial or a total disconnection from the global system.

Current volumes of foreign assistance are currently well below the global ODA target of 0.7 percent of countries Gross National Income for all OECD countries set by the Monterrey Consensus. Even if this target were to be immediately met (and there is no possibility of this happening) it does not represent a significant transfer of resources likely to produce a new system of capital accumulation at the *global* level – though it can be a considerable inflow at the country level, for specific countries. On the other hand, global trade and financial regimes are critical determinants of the developing countries' ability to participate in the global economy and constitute sustainable accumulation regimes.[22] However, the failure of the Bretton Woods monetary regime in the seventies, the Asian Crisis in the nineties and the current stalemate of the Doha trade round illustrates persistent failure on this score. Though the imbalances of the international regime paradoxically matters little to countries in the poverty trap, they begin to be critical factors in determining whether and to what extent they stay *out* of the trap when the ODA financed "big push" has worked.

(IV) *Fiscal space*

The diagnosis encapsulated in the "poverty trap" model provides a powerful description and a robust technical understanding of the challenges developing countries face in achieving the MDGs. However, we have been arguing that the emphasis on enhanced ODA does not address the political economy constraints that bind development efforts in

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[19] Larbi Talha, "Théorie de la Régulation et Développement" in Boyer, Robert and Yves Saillard (eds) (2002) : 456-458

[20] Jaime Aboites, Luis Miotti and Carlos Quenan, "Regulationist approaches and accumulation in Latin America" in Boyer, Robert and Yves Saillard (eds). (2002): 280-287

[21] Millennium Project (2005):191-236.

[22] Vidal (2002):108-114

low income countries, and will not be sufficient for generating long term sustainable growth.[23] Poor governance, absorptive capacity constraints and poverty traps are symptoms of a wider problem, which is highly context specific It is the absence of a sustainable *domestic* capital accumulation *process* that is a fundamental obstacle to development, and of which the above factors are important symptoms If the causes underlying this constraint are not addressed in country specific terms, enhanced ODA may hinder –rather than facilitate- the development of an appropriate long term regime of capital accumulation.

This is not an argument against enhanced ODA. Concessional external assistance can participate in the creation of a domestic regime of accumulation if it contributes to increasing "fiscal space" available to governments to enhance domestic resource mobilization. But developing countries will be locked into dependency if foreign assistance does not have a positive and significant impact on domestic resource mobilization.

Domestic public resources can be mobilized by:

- Enhancing tax revenues so as to increase public savings (the surplus of current revenues over current expenditures);
- Public sector access to savings from households and firms for investment in public expenditures focused on MDG attainment;
- Increasing the efficiency of public expenditures by lowering the unit cost of providing public services without reducing the quality and quantity of these services.

Most policy research on fiscal reform has focused on efficiency issues, including tax administration, enhancing tax collection, and debt sustainability. Relatively little attention has been paid to the question of **"***fiscal space*" – identifying concrete policy actions for enhancing domestic resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective.

UNDP policy research at the country and regional level reveals that the scope exists to enhance the "fiscal space" available to governments to improve domestic resource mobilization, using both the above channels.[24] However, it is important to identify and design modes of resource mobilization that are pro-poor in nature, meaning that the

[23] Or even necessary in some regions like the Indian subcontinent, which contains a sizeable proportion of the world's poor.

[24] Terry McKinley, *The Macroeconomics of Poverty Reduction. Initial Findings of UNDP Asia-Pacific Regional Programme*, (New York: UNDP, Bureau for Development Policy, mimeographed, 2003); Rathin Roy and John Weeks, "Making Fiscal policy work for the Poor," paper presented at the G-24 Annual meeting Washington D.C, (2004); provides a conceptual argument for measures to enhance fiscal space within the context of pro-poor fiscal policy formulation; Melanie Beresford, Ceema Namazie, Rathin Roy, Sau Sisovanna and Nguon Sokha, *The Macroeconomics of Poverty reduction in Cambodia,* Phnom Penh and Kathmandu, (UNDP 2004) provide an empirical illustration in the Cambodian context.

instruments chosen are such that the net incidence of incremental domestic resource mobilization on the disposable income of the poor is minimized. This involves designing a progressive tax system but also devising ways to access resources from the relatively well-off parts of the population through recourse to non tax instruments, including public borrowing. Equity is therefore central to the design of a pro-poor resource mobilization strategy.

It has historically been the case that domestic borrowing for public investment has been an important source of resource mobilization for growth and development in many developing and, indeed, industrial countries. While domestic borrowing to finance government consumption is widely recognized as undesirable, domestic borrowing for appropriate public investments with demonstrable returns in terms of socio-economic and human development are regarded as perfectly acceptable in most developed countries. The 'rules' for fiscal deficits advocated by British Chancellor Gordon Brown allow for borrowing for critical public investments[25]. It is imperative that long term strategic thinking on such issues be encouraged and a policy platform be found to encourage such thinking in macroeconomic documents like Poverty Reduction Strategy Papers (PRSPs), so that an important potential source of development finance is not overlooked by exclusively relying on short term doctrinal evaluations of a countries domestic fiscal "sustainability."

Using foreign assistance to develop countries' capacities to widen fiscal space and enhance domestic resource mobilization is critical to foster sustainable regimes of accumulation. Concessional assistance can complement domestic resources for development – it can never substitute for it, or even act as the principal source of development assistance in the long term. ODA is thus more important to create an enabling environment for non-concessional domestic mechanisms for supporting human development than a direct financing instrument *per se*. In our view, this is a critical factor, endogenous to the policy framework for implementing MDGs, to which much more attention needs to be paid than is presently the case.

(V) Going beyond the money

Finally we turn to the governance framework within which MDG strategies are to be implemented in the coming decade. The Millennium Project 2005 provides a methodology to undertake MDG needs assessments, which is an important first step towards making the "business case" for deploying additional resources to meet the MDGs. However, this "business case" requires countries to make national and sectoral policy choices over the longer term. To what extent can such choices be universalized? Donor agencies and multilateral institutions tend to view this as a "technical fix" and consider it possible to pre-specify a set of "good policies" that all countries, with some customization, can and should be able to implement. Without such an *ex ante* judgement

[25] Gordon Brown's "golden rule" states that, over the cycle, spending of a current (as opposed to capital) nature should be balanced by revenues, and borrowing should only be countenanced to cover capital expenditure.

on good policies it would be impossible to prescribe policy conditionalities devoid of accusations of normative bias. Policy conditionalities are, and continue to be, the bread and butter of development assistance. A tool like the World Bank's Country policy and Institutional Assessment (CPIA), used to "score" countries in terms of their existing policy and institutional environment, would be meaningless without some *ex ante* definition of "good policies" and "good institutions."[26] Further, the political economy that underpins a capital accumulation process and can be specified in a regime of accumulation as we have done above, cannot be addressed through a purely quantitative approach; a flexible approach is needed, based on the principle of adaptability and learning because it cannot be known in advance with any degree of certainty or precision how exactly the MDGs will be achieved and how much they will cost.[27] Of course, MDG needs assessments are an essential pre-requisite for promoting evidence-based policy reforms and public investment plans for the MDGs. Their implementation requires explicit, flexible and transparent alignment of a country's medium term development strategy with the MDGs, to base the effort more firmly on learning, adaptability and a stronger sense of national ownership as we move towards 2015.[28]

Most policy frameworks are still not aligned with the MDGs especially in low income countries. In these countries, medium term frameworks like PRSPs are expected to simultaneously serve as an instrument for conditionality compliance and a development vision, with the disappointing result that the former variable determines the macroeconomic framework with gestural lip service paid to the latter.[29] Financially straitjacketed national governments have no choice but to collaborate in this charade. In such frameworks poverty reduction is seen as an automatic by-product of economic growth and macroeconomic stability. Governments and their external partners find it difficult to translate the concept of 'pro-poor policies' into practice. Equity remains the big absentee in most anti-poverty strategies. The majority of PRSPs pursue a rather conventional and unimaginative approach to poverty reduction. It is a tragedy, for instance, that countries with a high HIV prevalence rate have a macroeconomic framework that is not dissimilar from that for countries without HIV/AIDs. Such uniformity and orthodoxy is unlikely to lead us towards the MDGs by 2015.

A lot will have to be done to change the architecture of international development co-operation if this is to change. Here we can only propose a first step. The main intent of

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[26] The CPIA index groups 20 indicators into 4 broad categories: economic management, structural policies, policies for social inclusion and equity, and public sector management, and institutions. Countries are rated on their current status in each of these performance criteria, with scores from 1 (lowest) to 6 (highest). This index is updated annually (web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:20268582~menuPK:576555~pagePK:64166689~piPK:64166646~theSitePK:469043,00.html)

[27] Rathin Roy and Jan Vandemoortele, "Making Sense of MDG Costing," (New York: UNDP, Bureau for Development Policy. New York: UNDP, 2004), available at: http://www.undp.org/poverty/docs/making-sense-of-mdg-costing.pdf .

[28] Sanjay Reddy and Antoine Heuty, "Achieving the Millennium Development Goals: A Critique and a Strategy," (2004); unpublished, available at: http://www.millenniumdevelopmentgoals.org

[29] World Bank, *The Poverty Reduction Strategy Initiative. An Independent Evaluation of the World Bank's Support Through 2003.* Operations Evaluation Department. (Washington D.C.: The World Bank, 2004).

MDG costing is to enhance the synergy between the MDGs and national planning and budgeting, a process that can be facilitated by external partners. The periodic consultations between a developing country and its external partners – either in the form of a Consultative Group (CG) or a Roundtable meeting (RT)[30] – provide an opportunity for substantive discussions about the main elements of the national strategy for poverty reduction. However, the emphasis of these meetings is often about compliance with rules and conditionalities associated with 'money changing hands' while the dimension of 'ideas changing minds' is frequently overshadowed. A 'Peer & Partner Review' can enhance the importance of the latter by building on CG/RT processes and based on documents such as the PRSP.[31]

The 'Peer & Partner Review' is meant to make the periodic consultations with external partners less asymmetric, hence empowering national actors. The current mode whereby a developing country faces a large number of bilateral donors and multilateral institutions is not always conducive for an equal exchange and a frank debate. The 'Peer & Partner Review' would involve peer countries and a more select group of partners to review the anti-poverty strategy, programmes and financing plans. When Lesotho, for instance, meets with its external partners, the meeting could include representatives from Mozambique, South Africa, Zambia, and perhaps from other land-locked countries such as Bolivia and Nepal. On the donor side, the number could be limited to keep the discussion manageable and to strike a better balance between developing and developed countries. A person of distinction could join the consultative process. The 'Peer & Partner Review' would help deepen the sense of national ownership and advance the case for home-grown poverty reduction strategies.

To turn the 'Peer & Partner Review' into a practical proposition, a number of steps will need to be taken, including the following seven: (i) initiate the process by national policy-makers on a voluntary basis; (ii) choose the participating peers and partners; (iii) explore ways to link the review to similar initiatives at New Economic Partnership for Africa's Development (NEPAD)[32] and OECD Development Assistance Committee (DAC)[33]; (iv)

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[30] Round Tables and Consultative Group are the most visible forms of aid coordination. Most tend to be organized with a country focus. Typically, a CG is a two day meeting held at the request of the finance minister of an aid receiving country. The World Bank is responsible for convening, preparing background materials, and serving as a chair for CGs. The pattern at CGs is for the International Monetary Fund (IMF) to report on monetary and fiscal policy and developments, the Bank to make a presentation on investment trends and, more recently, for UNDP to discuss technical cooperation issues. This is followed by presentations by bilateral donors. A RT Conference (RTC) is a formal meeting between the highest officials of government and principal donors to review the country's overall development performance, future strategy and financing requirements. The position of each donor with respect to the government's development strategy and its willingness to finance priority requirements is made clear. These Conferences take place every 2 - 4 years and are limited in participation.

[31] This proposal is detailed in Reddy and Heuty (2004)

32 New Partnership for Africa (NEPAD), 2002. "The African Peer Review Mechanism", 10 June 2002.

33 Pagani Fabrizio, 2002. "Peer Review: A Tool for Co-operation and Change. An analysis of an OECD working method", OECD Directorate for Legal Affairs

build on existing mechanisms and documents, especially the PRSP and CG/RT consultations; (v) keep the process light and flexible; (vi) consider a small functional secretariat to service the new mechanism, possibly composed of the World Bank, DAC and UNDP; (vii) share review reports widely and make them publicly available for MDG campaigning.

The Millennium Project 2005 has provided us with a business plan to achieve the MDGs. We feel that for this business plan to work, we will need to make significant changes in the way we go about the business of human development in the coming decade.

Additional **References**

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