



**DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE**

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GROWTH AND THE MDGs

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THE GROWTH AGENDA: WORKING WITH OTHER POLICY COMMUNITIES IN SUPPORT OF THE MILLENNIUM DEVELOPMENT GOALS

I. Growth is fundamental to achieving the MDGs. How much do we know about the process of initiating growth - and sustaining it?

How do we see the fundamental challenges of achieving more dynamic and broadly based economic growth in those countries where current and prospective growth rates and patterns are not providing the necessary basis for meeting the poverty reduction and other MDG Goals?

1. Many developing countries, especially in Asia, are finding the way to generate high and sustained economic growth, but many others are not. China and India, the countries with the largest number of poor people are dynamically engaging, in different ways, with the global economy and this is producing per capita growth rates that will enable them to meet the poverty reduction goals. (At the same time, there are important regions and social categories which are lagging behind). In Latin America and in Africa, with some exceptions, growth rates in the 1990s have been disappointing. For 2003-15, the World Bank “forecasts” projects average per capita incomes to rise in East Asia by 5.4 per cent p.a, and in South Asia by 4.1 per cent. In Latin America the forecast is for 2.4 per cent; in the Middle East and North Africa, 1.4 per cent. In Sub Saharan Africa, where halving the incidence of poverty remains a distant prospect for many countries, the forecast is for average annual growth rates of 1.5 per cent per capita.¹

2. Although there is still much to learn, the emerging consensus on the growth process stresses the variety and country specificity of the policies and the entry points that generate dynamic growth.² Countries which have succeeded have done so by focussing policies and incentives on stimulating entrepreneurship and international competitiveness and maintaining macroeconomic stability. This focus provides at once a framework and a discipline for policy and a clear signal to the business sector that policies will favour and facilitate enterprise. It allows many more economic actors the space to operate and thus creates the learning processes essential in a dynamic economy able to generate increasing value added and employment opportunities on a sustained basis.

3. The lesson from the successful developing countries is that integration into the global economy is an essential part of generating high and sustained growth. Raising growth means escaping from the trap of reliance on a few standard commodity exports with long term declining prices by diversifying the export base to capture the new market opportunities in a global economy, where there is now much greater scope for creating value added through product differentiation and by participating in value chains across the range of sectors - agriculture, manufacturing and services. Broadening and deepening domestic markets is an integral part of this process, adding to the growth dynamic. Migration flows in the global economy are

¹ See estimates in Global Economic Prospects and the Developing Countries: World Bank 2003.

² See Growth Strategies: Working Draft for eventual publication in the *Handbook of Economic Growth*. Dani Rodrik, Harvard University, September 2003 (www.ksg.harvard.edu/rodrik/). Presented by the author at a seminar organised by the OECD Development Centre, Paris, 18 March 2004.

also generating a new source of income in the form of remittances and new commercial linkages. ICTs are transforming the availability of information and access to new commercial networks. Foreign direct investment plays a key role in many of these processes.

4. Instigating dynamic growth requires wider country (and region) specific reforms to create effective frameworks for maintaining peace and security, and clearly progressing levels of good governance and institutional capacity. Dynamic growth also requires rising levels of human capital (health and education) and a growing role for civil society to maintain social cohesion and to facilitate the wide circulation of knowledge and information need in a decentralised market economy. There are minimum thresholds of varying degree in each of these areas, and development cooperation has a contribution to make in encouraging and assisting developing countries to reach and maintain these thresholds. While the content of policy reform packages is highly country-specific, progress on these fronts is crucial to sustaining the growth process, and without sufficient progress, they become limiting factors, sooner or later.

II. Are donors giving enough priority to the growth agenda?

While donors have long devoted attention and resources to promoting growth and private sector development, should it be more central in current aid strategies and how well are we doing towards making our efforts more effective? The share of our aid going to agriculture and infrastructure has fallen significantly. Should we be funding these areas much more extensively?

5. The MDG agenda is contingent based on generating a strong growth dynamic. At the same time, the growth agenda has not been well integrated into the PRSP process in many, indeed most, cases. The private sector has usually been a bystander in the local dialogue process (with a few notable exceptions). And over the last two decades “productive” sectors such as agriculture and infrastructure have seen their share in aid programmes decline with the emphasis shifting to social investments (also of course a necessary investment in the foundations for growth).³

6. There is now a renewed interest among the donor community in how they are working to encourage and assist growth processes. In the DAC, the Network on Poverty Reduction (POVNET) has a new mandate to work on the linkages between economic growth and poverty reduction, focussing in particular on how to better connect up aid efforts in the areas of private sector development, infrastructure and agriculture. In the trade context, capacity building has been the subject of new approaches and coordination processes, notably the Integrated Framework.⁴ In the UN, the Secretary General has established a Commission on the Private Sector. The MDBs are also working on new approaches.

7. In the Africa region the possibility of a growth takeoff has long been undermined by the absence of effective frameworks for peace and security. The donor community is now taking a more active role in helping to establish such frameworks. Support for the new initiatives of the AU, working with the UN and the NEPAD are critical here, including the recently announced Conference on the Great Lakes. The DAC’s

³ Bilateral ODA for agriculture, forestry and fisheries fell from 12 per cent of total ODA in 1981-82 to 6 per cent in 2000-1. Over the same period, bilateral aid for economic infrastructure fell from 18 per cent to 14 per cent. Multilateral ODA for agriculture fell from 35 per cent in 1980-81 to 25 per cent in 1990-91 and 10 per cent in 2000-1.

⁴ See Room Document - Joint Letter of 12 March 2004 to Development Ministers and Heads of Agencies, from Richard Manning, Chair of the DAC and Dr. Rana, Deputy Secretary General WTO, on Trade Capacity Building: Implementation Progress and Challenges, presenting the outcome of the third joint OECD-DAC/WTO meeting held since Doha.

work on Security Sector Reform is closely aligned with the approaches being developed by the AU and the UN to peace building in Africa.⁵

8. Supporting growth in developing countries to achieve the MDGs will require that the scaling up of social investments go hand in hand with the investments in agriculture and infrastructure that are central to a dynamic growth process. Indeed they are fundamentally complementary. And attacking poverty where it is most concentrated, by raising the productivity of subsistence farmers and connecting them into the market economy is intrinsically growth promoting.

III. The growth agenda means working with others – how can we promote the two-way street of horizontal work with relevant policy communities and what are the areas where this is now most needed?

Other policy communities are becoming much more engaged with the development agenda. How are we working with these other policy communities and how can we do more with them, particularly in the OECD context?

9. The DAC's report on *Shaping the 21st Century* (1996) and its *Poverty Reduction Guidelines* (2001) both stressed economic growth and policy coherence as key requirements for achieving the 2015 development goals. The elaboration of MDG8 was an attempt to capture some of the action needed on the side of the advanced economies.

10. With developments in the scope and opportunities in a global economy and in the domestic and international governance issues it raises, other policy communities are becoming more interested and involved in the development agenda – trade, investment, environment and agriculture are obvious examples, but taxation, competition policy, financial markets, migration and governance are other examples. The emphasis in DAC's approach should be moving on from advocacy roles to bringing in the results of work by others into the design of more effective aid policies to promote growth and the achievement of the MDGs.

11. The OECD has a special opportunity and role to play in this respect since it is the only international organisation that brings together policy makers in these areas. (Defence is an important exception in the context of work on security system reform). A first ever meeting among OECD Committee Chairs and relevant Deputy Secretary-Generals and Directors was recently convened by the DAC Chair on 10 March 2004, to discuss how better to exploit these opportunities, including in the OECD's outreach activities. It was agreed that there was much to gain from improvements in collaboration and mutual understanding in manageable ways (minimal bureaucracy and paper). Improved information flows (for example the sharing of draft work programmes) and developing more of a "shared language", drawing on existing good practice in joint work among Committees, were concrete ways of doing this.

12. For example the DAC is currently engaged in a joint work programme with the Committee on International Investment and Multinational Enterprises on identifying and exploiting the synergies between ODA and FDI. OECD work on policy coherence provides a special opportunity for this kind of collaboration. Work in the areas of agriculture policies in both OECD and developing countries and on fisheries are further concrete examples. And the DAC's work on institutional mechanisms in OECD capitals for promoting policy coherence may produce insights that can be shared with other OECD policy communities.

⁵ See Security Sector Reform and Governance: Policy and Good Practice. DCD/DAC(2003)30/REV3, March 2004

13. The Development Cluster recently established by the OECD to achieve better integration of development work in the Organisation is beginning to provide a framework for the contributions of other parts of the OECD. (See attachment setting out the main headings of the Cluster Strategy).

14. OECD's outreach activities are providing already a means of promoting more interaction between policy communities and the emergence of shared language and coherent policy advice would add to this.

15. In the African context, OECD interaction with NEPAD is growing in the areas of trade and investment, including an OECD-Africa Investment Initiative. The NEPAD is providing a framework which is very much in line with the approach to growth outlined above. The ECA/OECD-DAC Mutual Reviews of Development Effectiveness (see Room Document) will provide an opportunity for high level review of African and OECD policy performance in relation to the African development agenda.

ANNEX

THE DEVELOPMENT CLUSTER'S SUGGESTED PRIORITIES FOR 2005-2006

Contributing to the Shaping of Globalisation

- New Actors, Regionalisation and Globalisation
- Supporting the Completion of the Doha Development Agenda
- International Migration and Development
- Global Risk Management, Security and Development

Supporting Reform for Development

- Coherence of OECD Policies on Development
- Agriculture, Poverty Reduction and Economic Growth
- Investment and Private Sector Development
- Institutions, Governance and Capacity Building

Improving Development Co-operation and Finance

- Financing the MDGs and promoting the Monterrey and Johannesburg outcomes
- Aid Effectiveness and Donor Harmonisation
- Mobilisation of domestic resources and taxation
- Statistical Capacity Building