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DRAFT Discussion Paper

For

EU Africa MDGs Partnership

Priority Action 1. - The Finance and Policy Base for the MDGs

Points for Discussion:

1. There has been uneven progress on the MDGs generally and Africa is the lagging region. The effects of the succession of crises and global economic slowdown on development in Africa will further slow the rate of progress on achieving the MDGs. What do we consider to be the **main effects of the succession of crises on African countries** (bearing in mind the heterogeneity of the region and specific nature of country contexts) **and how we best share information on these effects?**
2. What **policy responses can be put in place to mitigate the effects of the financial crisis and maintain progress on the MDGs in Africa** (bearing in mind country's room to manoeuvre in terms of counter-cyclical policies) **and how should we share ideas and research findings?** Policy responses to the crisis in support of the MDGs in Africa might include, for example, stimulating a resumption of investment flows to Africa, developing country insurance mechanisms to reduce

Africa's vulnerability to external shocks, and social protection for the most vulnerable populations.

3. In what ways might the financial crisis be an **opportunity for re-orienting the course of development** in African economies? In Finland, for example, the financial crisis in the early 1990s led to a reorientation of the Finnish economy towards specialisation in information technologies. In China, the economic crisis is currently been seen as an opportunity for social policy responses including the expansion of health care and social security. Are there ways in which African economies could use this opportunity to re-structure their economic base or develop social safety nets for the most vulnerable populations?
4. The need for European donors to maintain ODA commitments, especially in a period of global economic slowdown is clear. Effective use of available funds (including budget support) is increasingly important at country level. **In implementing the Accra Agenda for Action, what concrete steps can be taken to accelerate improvements in aid effectiveness?**
5. The finance base for the MDGs is broad and includes domestic resources, ODA and other international flows. Financing for development goes well beyond ODA and aid can be used as a trigger for leveraging other positive effects (aid for trade, for example). Private-public partnerships may be increasingly important. **How can we enhance the development impact of other financial flows in support of the MDGs?**
6. **How can the UN review processes and events, in particular the June 2009 UN Conference on the economic and financial crisis and its impact on development and the proposed UN Summit in 2010, be useful to give further impetus to progress in achievement of the MDGs** and should we now be thinking beyond 2015?

Background

1. Uneven Progress on the MDGs

As recent reports and analyses underline, there has been some significant progress on the MDGs globally but progress is uneven

- There has been some significant progress on the MDGs. The World is on track for halving poverty by 2015: 120 million people were lifted out of poverty between 2000 and 2005, or 2.4 per cent annual drop. However, still 1.4 billion people live on less than \$1.25 a day¹. Just over half (50.4%) of the population in Sub Saharan Africa live below the 1995-based poverty line of \$1.25 a day. Women are disproportionately affected.
- However, progress is uneven. Global poverty reduction is largely due to rapid recent growth in the large Asian countries: China, India, Indonesia, and Vietnam. The world is still off track on a number of targets, especially those relating to child mortality, maternal mortality and sanitation.
- There are strong disparities across regions and countries. In effect, *most developing countries are projected not to meet most MDGs* and Sub-Saharan Africa lags very much behind. Sub-Saharan Africa is seriously off track for primary completion rates, child mortality and sanitation. Progress on maternal mortality is particularly slow. One woman dies a minute in Africa from complications related to child birth²
- Every year, unsafe water, coupled with a lack of basic sanitation, kills at least 1.6 million children under the age of five years³. Sub-Saharan Africa has only recorded a small progress on the use of improved sanitation, with an increase from 26 per cent in 1990 to 31 per cent in 2006.

¹ EU Research Paper 'MDGs at the Midpoint: Where do we stand and where do we need to go?' F. Bourguignon et al, Oct 2008

² UNIFEM, 'Women and the MDGs: a need for a step change in action', paper produced for the Africa Women's Forum, New York, 22 Sept 2008

³ WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation, 2008

- However, there is great heterogeneity in MDG performance between African countries. In primary education, for example, the nine best Sub-Saharan African performers increased their enrolment rates at annual rates above 5%, whereas the five worst performers saw a decline in primary school enrolment⁴.
- Country heterogeneity with respect to MDGs performance, particularly in the case of Sub-Saharan Africa, must be explained by a complex combination of country specific characteristics and initial conditions, rather than a few geographic and institutional features.

2. The effects of the food security crisis and financial crisis leading to global economic slowdown on the achievement of MDGs

- From 2000-2007 developing countries benefitted from a buoyant world economy, with real global GDP growing at an annual rate in excess of 4% on average. Growth of GDP per capita for Sub-Saharan Africa was positive for 7 years in a row and was higher than growth rates in advanced economies. The period was accompanied by a surge in commodity prices, which translated into positive terms-of-trade in many African countries, particularly oil or mineral exporters. However, growth projections changed in 2008 with the effects of the triple crisis (food, fuel and financial) impacting on Africa. The IMF reports that growth in Sub-Saharan Africa is expected to decline to 3.5% in 2009, compared to 6.9% in 2007, before rising to 5% in 2010.
- The food crisis has contributed to sharp reversals in MDG progress on many fronts, and in particular concerning MDG 1 as the *proportion* of undernourished in all major developing regions in the world has now risen.
- It is estimated that the surge in food prices has pushed between 130-155 million people into extreme poverty. According to FAO, out of the 36 countries in a food security crisis, 21 are in Sub-Saharan Africa.

⁴ EU Research Paper 'MDGs at the Midpoint: Where do we stand and where do we need to go?' F. Bourguignon et al, Oct 2008.

- The effects of the financial crisis and economic slowdown even put at risk the gains previously made on achieving the Millennium Development Goals by 2015. Developing countries will be hit much harder than initially thought by the economic crisis: IMF revised its forecasts downwards for developing countries: only 3.25% in 2009, down from 6.3% in 2008 and 7.9% in 2007. Growth in Sub-Saharan Africa is expected to decline to 3.5% in 2009, compared to 6.9% in 2007.
- Other indicators / forecasts are equally worrying: World Bank estimates that capital flows to developing countries will fall from \$1 trillion in 2007 to around \$600 billion in 2009. The number of poor people will increase by at least 60 million.
- Capital flight from developing countries is also a serious concern, drawing attention to the problem of tax evasion which erodes developing countries' revenue base.
- Indeed those countries with pre-existing structural weaknesses in their domestic financial system may be more vulnerable to the crisis. Countries which show high domestic credit growth rates to the private sector in recent years, such as Nigeria, Guinea Bissau and Angola, for example, appear to be more at risk. The vulnerability of particular countries to external shocks depends on a number of criteria that are being analysed in the context of the current economic crisis.
- All this will make the progress achieved so far on the MDGs unsustainable in the long-run and could be compounded by the impact of climate change unless adequate climate change adaption policies can be launched.
- In the context of deepening global recession, developing countries could be set back by decades on MDG progress as a result of falling commodity prices, lower investment flows, financial instability, and a decline in remittances.

3. The finance base for the MDGs

- As emphasised in the Monterrey Consensus (2005), the mobilisation of finance for development should focus on the entire spectrum of available resources. Recognising that financing the MDGs is a shared responsibility, the MDG finance strategy should thus build upon a comprehensive combination of domestic and external resources to fill the financing gaps identified by the UN MDG Gap

Taskforce on its 2008 report "Delivering on the Global Partnership for Achieving the Millennium Development Goals".

Domestic resources

- Domestic revenues are of course critical for development in Africa as they can be more important, more reliable and more sustainable than foreign aid and debt reduction.
- Targeting resource mobilisation at the domestic level requires pro-growth policies, tax reforms and the promotion of public-private partnerships.
- Public-Private Partnerships (PPP) can strongly enhance African countries' potential to improve the conditions for private sector development and at the same time create better access to fundamental services for the people.
- Public-Public Partnerships, and other forms of Partner Driven Cooperation, also have a potential to boost capacity within authorities and public utilities in developing countries. Public-public partnerships are not-for-profit partnerships between public operators, working alongside the communities they serve, to share expertise, good practice and experiences. Partnerships can happen between a northern and a southern authority or utility; or between two southern partners.
- Trade revenues also play an essential role in the mobilisation of domestic resources and efforts towards enhanced market access for African countries and the dismantling of trade-distorting measures should be pursued. In addition, insurance mechanisms may be encouraged, including through international assistance, as a way to mitigate the negative effects of price instability, particularly of primary commodities.
- Adopting social protection mechanisms to address the vulnerability of population groups who are hardest hit is also an important social policy response. Treating crisis response as an integral part of economic policy and development strategy is recommended.

Official Development Assistance (ODA) and Aid Effectiveness

- Aid is only one of the many factors that contribute to development. However, ODA, in theory, operates as a significant lever by which developing countries may directly accelerate progress towards the MDGs. It both alleviates budget constraints faced by developing country governments and is often targeted

explicitly at programmes aimed at the MDGs. ODA from OECD (DAC countries) amounted to \$103.7 billion in 2007 of which 60% was from the EU, but the volume of aid is insufficient to ensure achievement of the MDGs.

- At the September 2008 UN High-Level Event on the MDGs and at Doha in Dec 2008, EU Member States reaffirmed the EU's collective funding commitments for 2010 (0.56% of GNI) and 2015 (0.7% of GNI). If successful the EU would provide roughly two-thirds of what has been pledged at the world level by 2010. The slowdown in global economic activity may make the targets more difficult to reach by tightening the budget constraints in donor countries. In addition, the value of existing EU aid commitments will fall by nearly Euro 10 billion a year, because they are expressed as a percentage of Member State GDP.
- Thus, we need to ensure that, in the face of global economic slowdown, the global food crisis and global warming, both the EU and its African partners continue focusing on achieving the MDGs, while adapting their policies in the face of new challenges.
- The recommendations of the UNSG MDG Africa Steering Group (July 2008) included increased support for education and healthcare systems and made clear that an additional yearly US \$72 billion are needed in donor finance if the MDGs are to be achieved in Africa. The Report contends that if a certain number of recommendations are met, the MDGs can still be achieved for Africa by 2015. These estimates which were made before the generalisation of the financial and economic crisis, are probably now to be revised upwards.
- In this regard, it is also crucial to develop constructive dialogue with other bilateral and multilateral donors, including regional development banks and emerging donors, thus reflecting the shared commitment of all to the MDGs, and the importance of policy coherence⁵.
- The predictability and quality of aid is as crucial as the quantity of aid. Aid effectiveness is crucial in promoting development and MDG progress. The Paris Principles of aid effectiveness, and the Accra Agenda for Action, which aim to improve the quality and delivery of aid must be put into practise.

⁵ MANNING, Richard, "Will 'Emerging Donors' Change the Face of International Cooperation?", ODI, 2006.

Foreign Direct Investment (FDI) and remittances

- FDI can play an important role in the transformation of African economies. The impact of FDI on the achievement of MDGs depends on both quality and quantity.
- Supporting African countries to attract and retain greater flows of FDI is crucial, particularly in the current global financial crisis where sharp slowdowns are projected. Efforts thus need to focus on avoiding too sharp declines.
- In many African countries, remittances also constitute an important source of external financing. Measures aimed at reducing the cost of transfers, including through greater transparency and competitiveness, and at enhancing the development impact at local level are to be further explored.

4. The policy base for the MDGs

Domestic policies

- Effective domestic policy choices at the macro-economic or sectoral levels are key to sustained progress on the MDGs. For example, growth and poverty reduction may stagnate because of weak institutions or an adverse investment climate, progress on primary school completion may slow because the school system is plagued by absenteeism and reducing maternal mortality may suffer because of shortages in trained midwives. However there are substantial differences between countries about what constitutes an appropriate, pro-poor development policy. The right policy choice is largely country or location specific. Good governance is important to ensure transparency and accountability for policy decisions especially those linked to budgetary allocation.
- Making sustainable progress towards the MDGs requires economic growth and thus policies and institutional reforms that will accelerate growth. But specific policies in support of the MDGs are also essential – to improve the efficiency in the delivery of social services, for example. Agricultural policies and the management of risk and vulnerability (including the expansion of social protection) are also increasingly important in light of the food and financial crises.

EU policies

- In the framework of the **EU Agenda for Action on the MDGs** adopted by the European Council in June 2008, a number of milestones for reaching the MDGs were set. The milestones for 2010 include:
 - A reduction in the proportion of children who are underweight from 27% to 22%
 - 25 million more children in primary school, of which 15 million are girls
 - 4 million more children's lives saved each year from preventable diseases, of which 2 million in Africa
 - 35 million more births attended by skilled health workers, 13 million of which in Africa
 - 50 million more women in Africa provided with access to modern contraceptives
 - 275 million more people gain access to water, of which 70 million in Africa, and 400 million more people to gain access to basic sanitation, of which 85 million in Africa.
- The EU Response to the crisis with respect to developing countries and the MDGs (end 2008 onwards).

The European Commission is currently developing a Staff Working Paper on the MDGs and the Impact of the Financial Crisis on Developing Countries and defining its recommendations on policy response. Delivery on aid commitments is, more than ever, a must. Improving other policies positive impact on pro-poor and sustainable development worldwide should now also be a political priority.

5. Towards 2010

A UN Review Summit which will assess progress on the MDGs will take place in September 2010.

- The challenges to achieve the MDGs by 2015 remain formidable. The UN 2010 Summit may constitute an opportunity to review progress on the MDGs. The Africa EU Partnership on MDGs can play a role in formulating a **joint position on MDG progress** and the way forward.
- The widely recognised problem of **data collection and analysis** on MDGs and the role the AU could play in this regard could also be explored.

- It is important to begin thinking now about the **MDGs plus**. In particular two issues require special attention: how to tackle the chronic poverty that will still survive and how to sustain the MDG achievements. The opportunity of UN MDGs Review Summit in 2010 – allows the launch of a public debate leading up to the event to develop a proposal on a possible new development narrative. In doing so exhaustiveness and flexibility of the MDG framework must be carefully considered. In particular ongoing debate on the "missing dimensions" of the MDG framework and on consensus building on other key global goals and targets must be taken into account.

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ANNEX 1

Follow up to the 'EU Agenda for Action on the MDGs' (June 2008)

Analysis of the replies by EU Member States to the annual Monterrey questionnaire 2009

The EU Agenda for Action on the MDGs (European Council, 19/20 June 2008) is a collective offer by Europe to its development partners and the international community. This Agenda identifies, within time frames, specific milestones and examples of actions which will contribute to the achievement of the MDGs.

The EU Agenda for Action on the MDGs was presented at the UN High Level Event on the MDGs in New York (Sept 25, 2008) and is referred to by the UN Secretary General in the List of Donors' Commitments on MDGs released after the High Level Event.

Summary of Responses to the Monterrey Questionnaire

Many EU Member States are making use of the EU Agenda for Action on the MDGs which is perceived as a positive tool to raise public awareness and enhance policy dialogue in support of the MDGs. In addition, by defining concrete targets and fixing timelines for reaching the MDGs, the EU Agenda for Action on the MDGs also serves as strong political impetus to increase coordination amongst EU donors. Within this framework, most Member States have planned for specific initiatives and actions towards the achievement of MDGs, particularly in the sectors of health and education as well as water and sanitation. Gender equality and the empowerment of women is a crosscutting priority for most of the EU Member States.

Detail on the responses to the Monterrey Questionnaire by the EU Member States (MS) to the **three MDG-related questions**:

- Out of 27 MS, 17 MS said they plan to make use of the EU Agenda for Action (AfA) to **mobilize political support; to enhance policy dialogue and coordination in support of the MDGs and raise awareness among public opinion in support of the MDGs.**

For example, some MS have promoted the EU AfA through the organization of seminars, workshops and other events aimed at raising public awareness in support of the MDGs. Different actors in society including parliaments, NGOs, academics, schools and the media have been involved. The Commission and the UK have requested all country offices to support the use of the AfA at country level. Some MS have set specific priorities within the framework of the EU AfA (Netherlands, Sweden) such as: fragile states, equal rights & opportunities for women, climate change, policy coherence and aid, democracy and governance. Germany also sees the Agenda as an important tool in the framework of the EU -Africa Strategy.

- Out of 27 MS, 23 MS said they plan to **undertake concrete actions or initiatives between now and 2010 in support of MDG related sectors.**

For example, almost all the member states reported examples of concrete initiatives already undertaken and that will be further strengthened in the next years, in order to support the achievement of the MDGs. The answers were mainly focusing on the health sector (expressly mentioned by 11 MS), on improving water and sanitation systems (expressly mentioned by 6 MS) and on the education sector (expressly mentioned by 7 MS).

Some more specific answers also referred to the importance given to maternal health (expressly mentioned by 4 MS), to gender equality and women empowerment (expressly mentioned by 4 MS), to HIV/AIDS prevention, care and treatment (expressly mentioned by 4 MS). Moreover, two MS expressly mentioned environment, climate change and sustainability and one member state expressly made reference to countries in situations of fragility as a central focus.

Many countries also mentioned their contributions in support of international programmes and institutions related to the achievement of the MDGs, like the Global Fund to Fight AIDS, TB and Malaria, the GAVI Alliance, the World Bank, various development NGOs, and UN organizations.

- Out of 27 MS, 24 MS said they intend to increase their support to **promote gender equality.**

Gender equality and the empowerment of women is a crosscutting priority for most of the MS. In Poland, for instance, all projects that Ministry of Foreign Affairs is co-financing are obliged to have a positive impact on gender equality. A number of MS states have specific strategic commitments on gender, such as France with the setting up of an experts' network and new actions aimed at promoting women's role as actors in economic development, in particular in response to the food crisis. The UK's has a Gender Equality Action Plan. Germany is also developing an action plan on gender and has clear commitments on gender equality in its concept on budget support.

In addition to bilateral aid, many MS support existing mechanisms within multilateral organisations (e.g. UNIFEM, UNGEI, UNFPA, UNICEF, and UNHCR).