

## **What next after the MDGs: lessons from the financial and food crises**

The combination of the food and finance crises threatens to derail even the modest progress that has been made on the MDGs thus far. In some countries, development is going backwards. Globally, the number of people going hungry is rising again after years of decline. Each day brings another story of girls being pulled out of school as family incomes evaporate, of mothers unable to feed their children, and of people who had managed to start the long march out of poverty – by getting their first job, or starting a business, being pushed off that road by a combination of food price rises, financial crisis and recession.

The impact of the various global shocks of 2008 should loom large in any discussion of the post-2015 architecture for development. One of the key lessons from both finance and food crises is how fragile some of the development gains of the last twenty years or so actually are.

While the pursuit of a specific growth strategy that is resilient to external shocks is largely a job for national governments, an international strategy for development, that contributes to this effort should be a key aim of the diplomats from rich and poor countries alike who sit round the UN table to start negotiating the next generation of MDGs. Doing so will require new commitments from donor countries that need to form part of any post-MDG agreements on development.

### **Fragility of external financing:**

The politics of the MDGs was very much governed by the idea that if they were to be achieved it would be largely on the basis of external financing – aid, investment and other private sector flows. As well as the huge focus on aid at G8 summits and other international forums, the development orthodoxy of recent years has wrestled with the questions of how to improve the 'investment climate' and liberalise financial systems in order to attract external financing.

The financial crisis has shown this to be a risky strategy. ActionAid estimates that as a result of the financial crisis and recession, Africa alone will lose some US\$49 billion of external revenue by the end of 2009, including falls in overseas aid, export earnings, remittances, foreign direct investment and other sources of external income.<sup>1</sup> The crisis has shown clearly the fragility of a development strategy based only on finance from overseas, and demonstrated the importance of developing countries strengthening their domestic sources of revenue.

Aid and foreign investment will continue to be a key part of the development bargain between rich and poor countries. But the financial crisis shows that if the MDGs are to have a role in promoting development in the long term they need to provide incentives for rich countries to look at financing beyond aid, and at how developing and developed countries can work together to put development finance on a more sustainable footing.

If poverty reduction is to be made sustainable, the finances needed for development should no longer be subject to the whims of rich world politicians or fickle global capital markets. A reworked version of Goal 8, on partnerships for development,

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<sup>1</sup> ActionAid. 2009. *Where does it hurt?*

would need to explicitly commit rich countries to tackle capital flight and encourage resources generated in developing countries to stay in developing countries<sup>2</sup>.

An essential part of this will be new multilateral agreement on automatic exchange of information between tax authorities, so that developing countries can claim a greater share of the tax they are owed. The G20 meeting in London in April made some tentative steps in this direction, but a specific commitment on capital flight made through the post-MDG process would provide extra international urgency to the effort to reform the global tax system.

Whatever the exact form a post-MDG architecture takes, the result should be to provide incentives to both donor and recipient countries to make progress on tax reform. Within the MDG framework, this could be developed through a target for increasing the proportion of developing country expenditure financed through tax. Specific indicators for developing the capacity of tax authorities in developing countries, and of automatic exchange of information between tax authorities to provide an incentive for donor countries to take forward the international process of reform could then follow.

### **Fragility to external policy shocks**

Last year's food demonstrated how vulnerable development efforts in poor countries are to changes of policy in rich countries. According to the World Bank, the promotion of biofuels in OECD countries accounted for as much as 75 per cent of the food price rises of 2008<sup>3</sup>.

For the MDGs, the lesson is that as well as paying attention to specific outcomes, for example on hunger, all the indicators need to contain some assessment of how resilient those gains are likely to be in the face of changes in the external environment. As well as quantitative indicators of income levels and number of people reached, the indicators should contain some type of 'confidence interval', estimating how likely those gains are to be sustained given different economic scenarios.

In addition, the international community needs to have better mechanisms in place to respond rapidly to shocks. This would help to ensure that that temporary shocks don't jeopardise long term progress – for example through taking children out of school or selling assets. As with financing, tentative first steps were taken at the G20 to create a new 'Rapid Social Response Fund' to protect poor people from the impact of shocks. But contributions to the fund, with the exception of the UK government, have so far been slow in coming forward.

A future aid architecture could move beyond the current model of voluntary post-shock contributions to assist the victims of disasters, and toward a system of compulsory donations, to create a fund that would compensate countries or people suffering the impact of externally created economic shocks. Within the MDG structure, this could take the form of a target to maintain incomes in the face of crises, with indicators on the development of monitoring systems to evaluate need and contributions required from donors. A further indicator on legislation in donor countries to make their

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<sup>2</sup> Action Aid, 2008, Hole in the Pocket, November 2008

<sup>3</sup> World Bank, A Note on Rising Food Prices, D. Mitchell,, Policy Research Working Paper No.4682, August 2008

contributions enforceable in law would help to remove the uncertainty that currently surrounds disaster relief efforts.

As well as putting crisis response on a firmer basis, such a fund, if the contributions were set high enough and were enforced in law, would provide a real incentive for rich country governments to ensure that their policies don't have the effect of creating global shocks or making poverty worse. If governments know that policies that are bad for development will cost them money (as the poverty caused would increase their commitments to the fund) they might think twice about how what they do at home will affect poor people everywhere.

In 2015, and since, it has been assumed that development was mainly a one- way street, and that gains made would be kept. The crises of 2008 have shown that this can't be assumed but must be built into policy from the beginning. Any post 2015 international strategy for development will have to make sure this lesson is translated into policy outcomes. More stable financing and a more comprehensive response to shocks would be an important start.