Economic growth and transformation in a post-2015 agreement

Claire Melamed

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The central task of those deliberating on, and eventually designing, a post-2015 sustainable development framework is to find a way of providing a common basis for responding to the challenges of the 21st century, while finishing off the job begun in the 20th of ending extreme poverty.

Economic growth and transformation will be a part of this story, whether they are specifically included in the new agreement or not. It is economic growth which provides the resources to support improvements in individual lives, as well as provision for healthcare, education, and other key aspects of improving people's wellbeing. And it is economic transformation which will maintain those improvements over time, and spread them to parts of the world currently lagging behind.

This does not imply a return to the pre-MDGs world where economic growth was the pre-eminent development indicator. It is well known that economic growth alone is a highly uncertain measure of sustained prosperity. Country experiences differ widely. In Brazil, for example, GDP per capita has increased by 30% since 2000. This has been accompanied by a decline in the country extreme poverty headcount (down by 48% since 2000) and income inequality levels (in the years 2000–08, the incomes of the bottom-fifth grew at an average annual rate of 6% compared to 2% for the top-fifth). By contrast, in Nigeria GDP per capita has increased by 51% since 2000, but extreme income poverty has risen by 8%, as has income inequality (for the past 30 years the Gini-coefficient has increased by 0.6% per year) (Save the Children, 2012).

The difference between the two lie partly in their economic structures: less than ten per cent of Nigeria's exports but between a third and a half of Brazil's exports are of manufactured goods. While just over half of Nigeria's population have access to electricity, the figure for Brazil is nearly 100% (World Bank, 2013). In addition, social policies have been very different – the government of Brazil has introduced a range of social policies to improve education, incomes and promote education, while the Nigerian government has paid very much less attention to social policies.

1. Recent trends

The contrast between Nigeria and Brazil demonstrates in stark form some of the most urgent issues for increasing global prosperity. In many of the countries where the battle to eradicate poverty will be won or lost, economic growth per se is not the problem. Asian growth rates have been high for much of the last 10 years, and Africa as a whole saw an economic growth rate of 5% between 2000-2008 (ECA, 2013). In both regions growth has held up in the face of global economic slowdown. However, in many cases this growth has not been accompanied by the transformations that can translate into sustained poverty reduction.

Many African economies, in particular, are still dominated by agriculture and the major sources of growth consist of export of basic commodities and extractive resources that are conditioned by prices on global markets. Such dependence increases exposure to economic volatility and enhances vulnerability to external shocks. In addition, the extractive sectors have very limited backward and forward linkages with other parts of the economy especially labour-intensive sectors such as agriculture. This has contributed to Africa's sustained high unemployment and the prevalence of vulnerable, predominantly informal-sector employment (Martins, 2012).

In Asia, while growth is high and has been accompanied in many cases by significant structural transformation, and while rates of poverty reduction have been impressive, inequality and exclusion are growing problems. In addition, the immediate effects of economic growth on the quality of the environment are becoming all too apparent, with air pollution, scarcity of land and water resources, and deforestation increasing problems in many areas. The cumulative global effect of decades of unsustainable growth, in the form of climate change, are also threatening to undermine progress on poverty reduction in many regions.

Many of the countries where poverty has been most persistent are those experiencing or recently recovered from conflict. For these countries, the problem is often to raise growth rates as well as to ensure that growth benefits people without compromising the environment. Restoring the confidence of domestic and foreign investors through establishing solid regulatory structures and robust institutions will be one of the first building blocks for creating the economies that can foster both growth and transformation.

In all these different contexts, three types of transformation are required if economic growth is to lead to sustained prosperity for all citizens.

- ***Economic transformation***: to increase productivity, diversify economic activities and relationships, leading to more and more sustained outputs to provide the resources for individual and national level actions to end poverty. In many of the world's poorest countries this means governments, companies and individuals investing to increase productivity in agriculture while at the same time diversifying out of primary products into manufacturing or services.

  In a world where 200 million people are unemployed, and 900 million are working but still poor, creating more jobs and increasing productivity in all sectors is also key to creating the type of employment opportunities that will enable individuals and households to escape from poverty permanently. The ILO estimates that 600 million productive jobs will be needed over the next decade alone (Bergh & Melamed, 2012). Governments can provide the infrastructure, the incentives, and the security to encourage private sector investments in more diverse and transformative economic activities which can create the amounts and types of employment needed.

- ***Social transformation:*** to increase the distribution of the opportunities and benefits from economic growth, particularly to the poorest and most excluded. As well as the central importance of jobs, a social transformation which leads to greater equity will include the expansion of high-quality education to enable people to take advantage of new economic opportunities, and the use of the revenues from growth to provide quality health care and social protection systems. At the national level, public investments in health, education and social protection are part of the creation of opportunities and reductions in inequality that improve people's lives, and the provision of stability that is part of private sector incentives to create transformative growth. Partnerships between public and private sectors will also be key to providing the services needed on the scale required for rapid change.

- ***Environmental transformation***: to reduce the unsustainable use of natural resources including water, fossil fuels and forests that has characterised growth in the past, and ensure that the benefits of growth are not put at risk by future environmental disasters or the cumulative effects of a slowly changing climate. Fossil fuels currently account for 80% of energy consumption – the scale of the transformation needed is very large (Espey, 2013). At a national level, this requires regulation to control the use of key natural resources and fiscal policies to ensure the benefits, when they are used, are widely shared. It also requires an incentives framework to encourage investments in new, more sustainable technologies, including through strict sustainability requirements for public investment programmes.

Sustaining prosperity globally so that poverty can be ended now, and the gains maintained in the future, requires thinking about transformations on all three fronts simultaneously. No single actor has all the solutions – governments, the private sector and civil society all have a responsibility to make this happen, and a post-2015 agenda must speak to all of their interests and concerns.

2. Barriers to progress

If this were easy, it would already be happening. Existing economic and political structures, which have grown up over many years, stand in the way of the transformations that are needed, and a post-2015 agenda has to be tailored to tackling some of the structural and political barriers to making the changes that are necessary.

- ***Physical barriers***. A lack of infrastructure, or infrastructure that does not support the changes need for sustained prosperity, is one key barrier to all three transformations needed.

  At the national level, tackling this requires a plan for investment in infrastructure, and for ensuring that new roads, energy plants or IT projects are appropriate for the needs of the economy and the population at large, as well as being environmentally sustainable. External assistance might be needed for finance or for technology transfer, and partnerships between public and private sectors can, if managed appropriately, help to deliver the projects needed.

- ***Human barriers.*** Social and economic transformations require a labour force that has the right skills and capacities to take advantage of any new opportunities created. Too often education and health systems do not provide the support that people need. While the demographic dividend can provide a tremendous economic boost, if mismanaged the impact of rising youth unemployment can be highly politically destabilising as well as a huge waste of this one-off economic opportunity.

  At a national level, this requires attention to both the quality of and access to education, and the development of high-quality education beyond the primary sector, through public provision and public-private partnerships. In addition, health systems and social protection systems are needed to minimise the risks that individuals and households face, and to encourage spending and investment, as well as increasing the equitable distribution of the benefits of growth and transformation.

- ***Financial barriers***. Priming the pump of any major transformation requires that finance be available for those governments and companies who need to put in place the investments now which will lead to transformation tomorrow. Too often these are not available.

  At a national level, overcoming this will require the regulation of a financial system which operates smoothly and inspires the confidence of savers and borrowers, while also working for companies who want to invest. Widening access to financial services to the whole population is key in creating an economy that functions well for all citizens. However, external funding from private investors, official aid flows and remittances from individuals is also of key importance in many countries, and appropriate mechanisms must be in place to allow these resources to flow smoothly and transparently.

- ***Political barriers.*** Implementing and maintaining the regulatory environment, the systems required to make the most of public money, and the transparency to ensure that citizens and companies have confidence in what public bodies are doing requires resources and skills that are sometimes in short supply. Even where those skills exist, the political barriers to pursuing environmentally sustainable policies in particular can be very large, as demonstrated by, for example, the protests about the development of wind farms in the UK.

  While all countries have a specific political context and institutions which reflect that, a number of principles can help to identify if institutions are catalysts for or obstacles to progress. One key principle is transparency, to inspire the confidence of key private sector and civil society actors, to increase responsiveness, and to reduce waste and corruption. A second is secure property rights and access to redress for affected individuals or companies, but combined with clarity over the roles and responsibilities of the private sector and the government. In this context, is it essential that natural resource extraction by private sector actors is encouraged by the provision of secure property rights, but also that the responsibility of those same companies to be transparent in their financial reporting and to pay the required taxes and royalties is clear and underpinned by a strong judicial system.

All of these barriers are experienced most acutely in states experiencing or emerging from conflict. Weakened infrastructure, fragmented societies, weak governments and lack of investor confidence make their situation even more precarious, and require an extra level of attention and action to overcome the barriers to sustained growth and transformation.

3. Current opportunities

The post-2015 debate and future agreement offers a rare opportunity to create a global consensus around the key priority actions that need to be taken to set the world on a path towards the transformations needed to create long term prosperity. As well as this political opportunity, there are other reasons to be optimistic about the prospects for sustained transformation in many countries:

- ***Political opportunities***: Improved leadership and regional coordination among many African and Asian countries, combined with the rise of the G20 and the acceptance of a more diverse and heterogeneous approach to economic policy provides both the political capacity and the policy space for successful reform and long term development planning.

At a global level, both the commitment to develop a sustainable development agenda after 2015 and the G20's continued focus on green growth open up an opportunity for international action to unlock some of the domestic political barriers to more environmentally sustainable growth paths in some key countries.

- ***Economic opportunities***. Global markets offer unique opportunities for many of the world's poorest countries. High demand for primary commodities and for resources such as arable land provides the basis for increased revenues which, if used properly, can be the basis for economic diversification and for transformative investments in infrastructure, new health and education systems and social protection.

  In addition new markets, such as for renewable energy, offer opportunities for countries seeking opportunities for both economic transformation and greener growth paths. At the national and regional level, a growing middle class provides an expanding market for both consumer goods and services.

- ***Demographic opportunities***. The demographic transition is well under way in many countries. Large numbers of young people with fewer dependants increases the potential for economic growth and transformation. The prospect offers huge opportunities for creating more dynamic, entrepreneurial economies, with large numbers of people with more potential for both saving and consumption than ever before. It is, however, a one-off opportunity which must be seized now.

  Rapid urbanisation also holds out hope for the development of more environmentally sustainable cities. National and local authorities looking for new ways to manage transport, waste collection or water and energy supply can leapfrog over the environmentally unsustainable technologies of the past and move straight to mass public transport, renewable energy and sustainable water and waste management.

- ***Technological opportunities***. New technologies, such as mobile phones, have already transformed life for millions of people. They continue to provide new ways to tackle old problems – mobile banking to deal with some of the financial barriers to growth, or mobile healthcare to address the needs for improvements in basic services.

New technologies also create new markets which today's emerging economies can exploit – witness the development of call centres and software developers in India. It will also be the key to making breakthroughs in the sustainability of growth paths, as renewable energy becomes cheaper and more widely available, and as the rapid spread of access to information continues, the environmental costs of human progress can come down, if the right investments are made and opportunities embraced.

4. Purpose and content of a post-2015 agreement

The need for transformation, and the barriers and opportunities involved, are all well understood. The key question for the High Level Panel is how a post-2015 agreement can contribute to overcoming these barriers and making the most of current opportunities, to deliver the changes that all agree are needed. It can do so in three interrelated ways:

1. ***Establish common objectives***. The MDGs were instrumental in shifting the whole definition of 'development' from one that focused on economic growth alone to a broader human development focus. A post-2015 agreement can do the same by shifting the consensus again towards one that focuses on the long-term transformations that underpin progress on human development.

   The vision of development and progress established by the High Level Panel and any future post-2015 agreement should be one that includes eliminating poverty now, but also promotes a longer term and sustainable vision of economic and social transformation to ensure that these gains are safeguarded for the future. This is expressed in the sum of the different goals, and also in the preamble to any future agreement which should establish this clearly as the benchmark for success.

2. ***Agree common priorities***. Within the broader understanding of development encapsulated by a new post-2015 agreement, the specific goals and targets will embody a set of agreed priorities for action. From the point of view of economic transformation, these should be the ones that will have the strongest catalysing effect, will be applicable to most countries, and where action can be motivated by an international agreement, rather than solely by domestic pressures.

   It is these that are at the heart of a future agreement and make the MDGs and a future post-2015 agreement different to the multitude of documents which establish common global objectives. It is agreeing priorities to operationalise those objectives that make the agreement about action not just aspiration. There are a number of key areas in which consensus already seems to be strong:

   - ***A goal (or goals) on sustainable infrastructure for all.*** A number of institutions have suggested goals on infrastructure (Scott & Seth, 2012; Bates-Earner et al, 2012; Sachs, 2012; Karver et al, 2012; Save the Children, 2012b). These are proposed either as one goal, or as a number focusing on different types of infrastructure (e.g. transport, energy, water, and telecommunications). Water and energy also featured in the top three priority issues mentioned by UN member states in the 2012 questionnaire on SDGs (UN, 2012). There seems to be a consensus that targets should cover access (to ensure equity); quality (to ensure effectiveness); and sustainability. Infrastructure is key to economic transformation, but also to spreading the benefits and opportunities of that transformation in an equitable way. In addition, establishing environmentally sustainable trajectories for infrastructure development now can make growth sustainable in the long term.

- ***A goal on access to high quality education for all.*** As with infrastructure, there is a broad consensus that a future framework should contain a goal on education (Brookings, 2011; Burnett & Felsman, 2012; Karver et al, 2012, UNTT, 2012; Save the Children, 2012b), and this issue was the fourth on the list for UN member states suggested priorities for SDGs (UN 2012). There is also a general agreement that this should go beyond the existing goal of access to primary education, and also pay attention to learning outcomes and to the importance of secondary and even tertiary education. In doing so it would both promote human development and equity, but also the economic transformation which requires a skilled and educated workforce.

- ***A goal (maybe) on inclusive and sustainable economic growth, employment and income poverty eradication***. There is less consensus here on what a goal might look like. But the inclusion of some targets or indicators on employment, on social protection, on income inequality and on growth itself are suggested in a number of proposals (Save the Children, 2012b; Karver et al, 2012, CIGI/KDI, 2012), and poverty eradication and employment also feature highly on the SDGs survey of UN member states (UN 2012). Structural transformation does not yet feature as a proposed target in any of these goals, although the CIGI proposal does suggest a possible indicator on productivity per worker. Other possible indicators could include the proportion of the workforce employed in agriculture, or the proportion in informal sector employment. There are also no proposals as yet to link growth targets with targets on the sustainability of that growth – though this could be done through indicators on carbon emissions per percentage increase in GDP or other similar indicators.

Some other areas of importance for economic transformation and sustainable prosperity have not yet reached the same level of consensus. In particular, in the area of global partnerships for development, there have been few specific proposals as yet on increasing financial resources for development, including through ***curbing capital flight*** and ***improving tax transparency.*** This could be done, for example, through a target or indicator on tax revenues as a percentage of GDP, or in a target for the private sector on country-by-country reporting on financial performance becoming standard across all multinational operations. Similarly, although it is mentioned in the current MDGs progress has been slow, so an improved target on ***improving the regional and global trading environment***, would also be important in providing the resources and the incentives to encouraging economic transformation (Martins & Lucci, 2012).

3. Once the overall objective and the priorities have been set, the third role of a post-2015 agenda is to ***establish a framework for accountability,*** through agreeing targets and indicators through which the agreed goals, and the contribution of different countries to achieving them, can be monitored. It is at this stage that the specific circumstances of particular groups of countries, such as fragile or conflict affected states, can also be given particular attention, through the establishment of groups of relevant targets or indicators appropriate to their starting points and specific circumstances.

Conclusion

There is a strong consensus that economic growth and transformation should feature more strongly in a new post-2015 agreement than in the current MDGs. But how to do this is far from agreed. There is a growing agreement that goals or targets are feasible and desirable in some areas, such as infrastructure or education – this is where attention can shift to identifying appropriate targets and indicators for new goals. There is still large grey area where the importance of national policy is clear but the added value of global targets less so, such as trade policy or tax transparency.

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