

# ISSUE PAPER

## Achieving the Millennium Development Goals *More money or better policies (or both)?*



The looming 2015 deadline to reach the Millennium Development Goals (MDGs)<sup>1</sup> has brought back the question of what it will cost and who will fund meeting the MDGs. Estimating the order of magnitude of the funds needed to meet the MDGs and the scope of increased domestic resource mobilisation, the *Development Centre Study*<sup>2</sup> published by the OECD in April 2012 informs the funding debate. Analysis reveals that *achieving the MDGs is at least as much about policies as about financing*. This insight should also inform discussions on emerging initiatives for after 2015.

### Policy implications

- 1.** The financial cost of meeting the MDGs related to poverty, education and health is in the order of **USD 120 billion**. This would imply a tripling of the current level of “country programmable aid”, *i.e.* the portion of aid that actually goes from OECD countries to partner countries.
- 2.** Aid is unlikely to rise to meet this funding gap by 2015. Countries will need to find new sources of funding and make better use of existing ones. Therefore, the quality of public policies and institutions are important to meet the MDGs. Tax collection, public expenditure and the investment climate must continue to improve in developing countries.
- 3.** One size does not fit all to fund the MDGs. The challenges countries face, and their capacity to meet them, vary considerably. In upper middle-income countries with annual income above USD 4 000 per person, tax potential estimates show that there is enough room to stimulate tax collection to achieve the MDGs. This could be done using targeted cash transfers and spending, provided there is political will to tackle social inequalities. In this area, the international community has much to gain by enhancing policy dialogue and technical co-operation in order to build capacity and share knowledge.
- 4.** In other developing countries, as institutional reforms take years to bear fruit, tax revenue mobilisation is not a short-term solution. While the momentum for tax and expenditure reforms is sustained, donor countries should deliver on their commitments. Enhancing the policy coherence of developed countries and aid effectiveness would further contribute to these efforts.

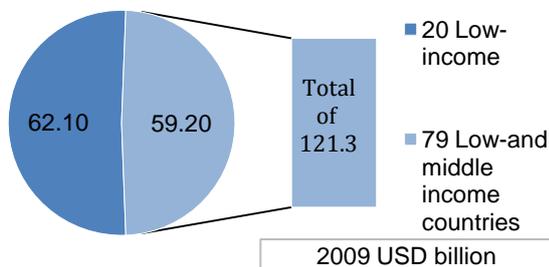




## The bottom line

**1.** USD 120 billion (Figure 1) is the estimated *order of magnitude* of additional resources needed to achieve the Millennium Development Goals (MDGs). Current flows of country-programmable aid from OECD countries already stand roughly at half this figure. Yet this funding challenge is not insurmountable if the whole range of development resources is fully mobilised, especially if policy reforms are pursued in developing and in OECD countries.

**Figure 1. Cost of MDGs 1-6**

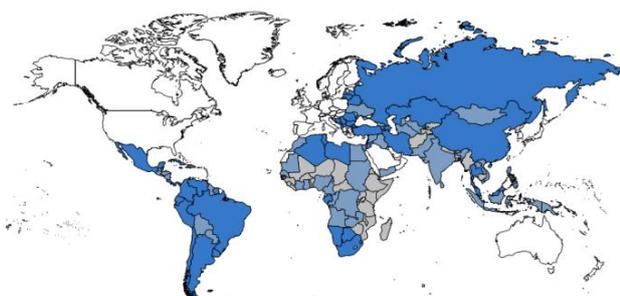


Source: authors' calculations.

StatLink  <http://dx.doi.org/10.1787/888932596080>

**2.** More than USD 60 billion would be needed in 20 low-income countries— where income per inhabitant is lower than about USD 1 000 annually (Figure 2 illustrates income categories). A surge in development financing — public or private — is needed to sustainably lift these countries out of poverty. Slightly less than USD 60 billion would be required in 79 other low- and middle-income countries — where annual per capita income is up to USD 12 000 annually. Targeted transfers and expenditures to directly address inequality have proven their effectiveness in countries at this income level.

**Figure 2. Income categories (annual income per habitant - 2010)**



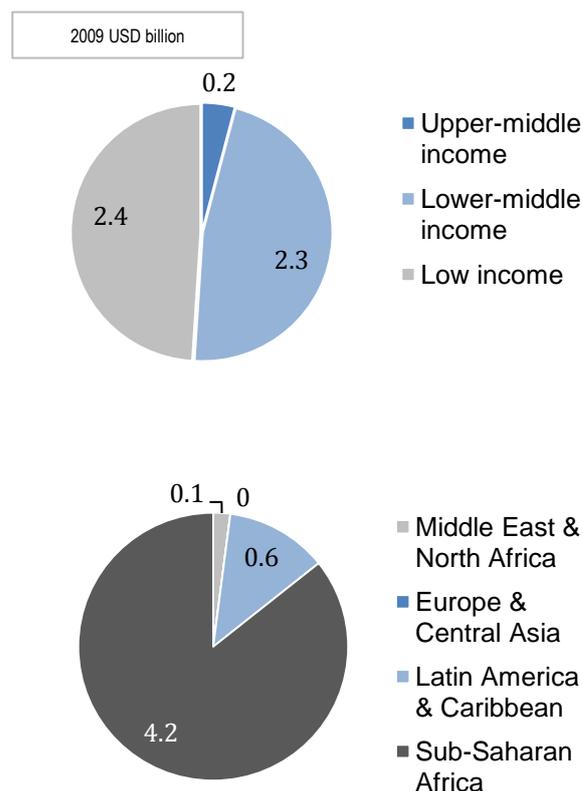
Upper-middle income:	USD 3 976 – 12 275
Lower-middle income:	USD 1 006 – 3 975
Low income:	USD 1 005 or less

Source: authors' calculations based on World Bank data.

## Fighting extreme poverty

**3.** Nearly USD 5 billion would be the cost of targeted welfare programmes to halve the number of people living in absolute poverty (Figure 3). Much will be concentrated in sub-Saharan Africa. MDG 1, fighting extreme poverty and hunger, will be achieved globally by 2015 as rapid poverty reduction in a few large countries will have reduced global poverty to less than half of its 1990 level. However, without action, about 35 countries will fall short of the goal of halving the number of people living in absolute poverty.

**Figure 3. Cost of targeted cash transfers to the poor (MDG 1)**



Source: authors' calculations.

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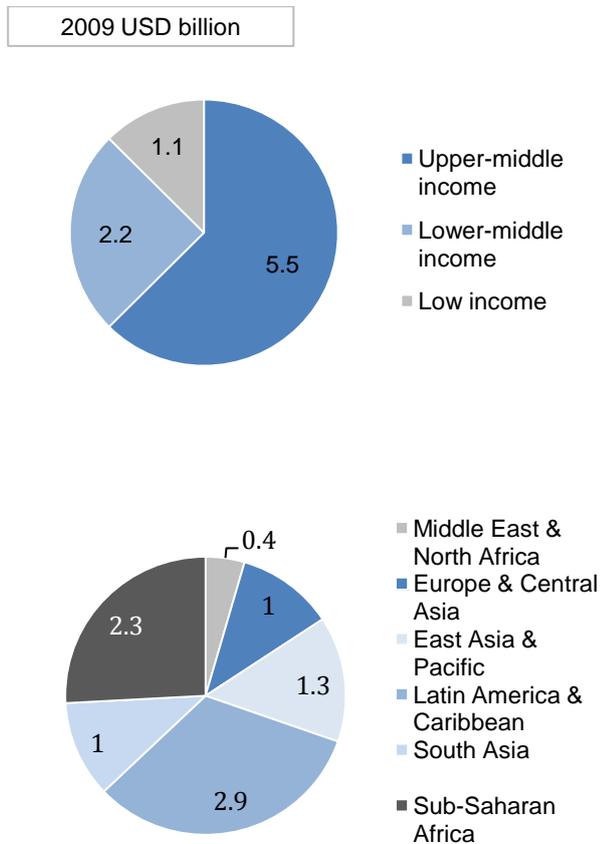
\*Note: Poverty transfer is calculated for the 35 countries that are not on track to achieve MDG1 according to financing gap calculations (South-East Asia & Pacific excluded).



## Improving education

**4.** Slightly under USD 9 billion would be needed to achieve universal primary education (UPE) by 2015, MDG 2 (Figure 4). School attendance has increased markedly over the past decade. But, to offer schooling to all primary age children, overall education spending should increase by more than 7% in developing countries that still need to achieve UPE. In sub-Saharan Africa, education spending needs to rise by more than 20%. Yet, USD 1.1 billion would suffice to offer primary schooling to all children in countries where income per capita is lower than about USD 1 000 per year (low-income countries).

**Figure 4. Cost of universal primary education (MDG 2)**



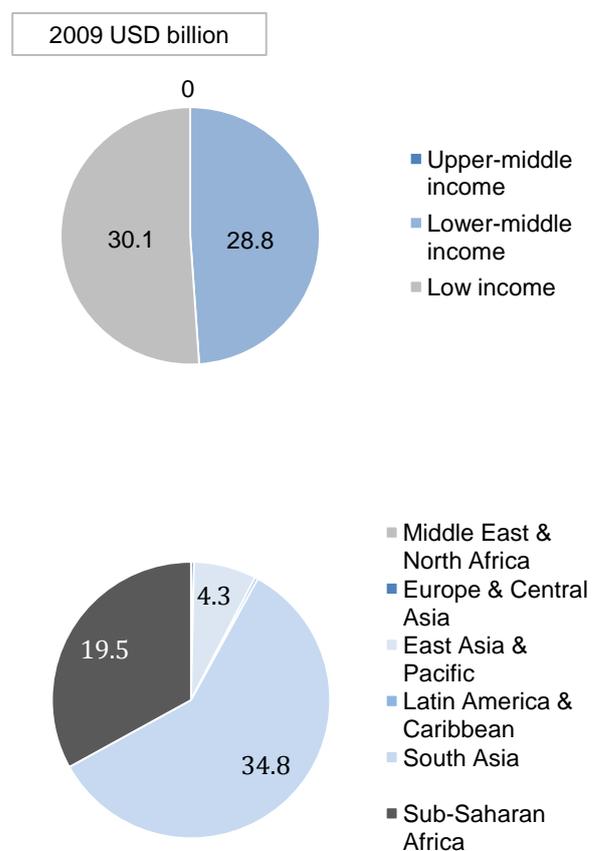
Source: authors' calculations.

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## Improving health

**5.** USD 60 billion would be needed to cut mortality among children under five by two thirds, reduce the maternal mortality ratio by three quarters and to combat AIDS, malaria and other major diseases, MDGs 4-6 (Figure 5). About USD 35 billion will be needed for health in South Asia and USD 20 billion in Sub-Saharan Africa. Upper-middle income countries—where per capita income is roughly between USD 4-12 000 per year—already spend enough on average to meet the MDGs but the distribution and quality of health expenditure is a key issue.

**Figure 5. Cost of equitable access to health (MDGs 4-6)**



Source: authors' calculations.

StatLink  <http://dx.doi.org/10.1787/888932596175>



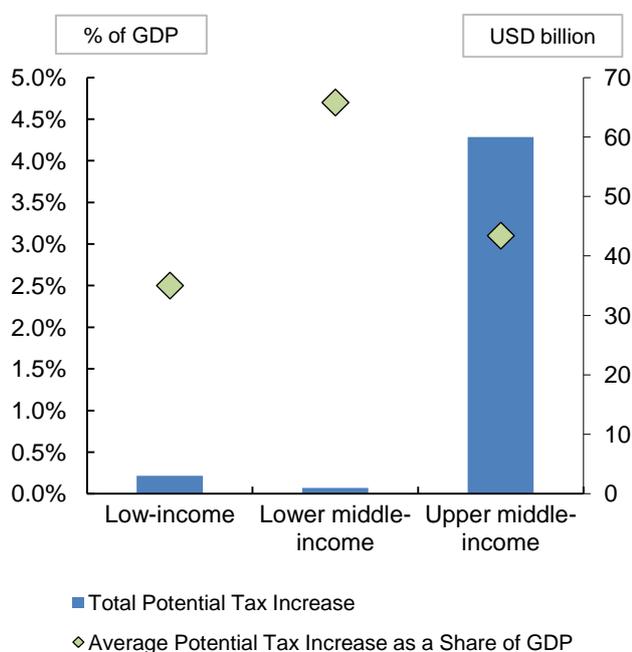
## Who pays?

**6.** National context matters for funding the MDGs. The balance of internal and external resources available to countries varies considerably. USD 64 billion, half of the sum needed to finance the MDGs, could come from more effective taxation in developing countries (Figure 6). However, there is a limit to how much can reasonably be expected from domestic resource mobilisation in the foreseeable future. Many countries that can improve revenue collection are already well on their way to achieving the MDGs. There is a stark contrast between the relative ease with which upper-middle income countries should be able to finance MDG initiatives and the challenge that the goals still represent for low- and lower-middle income countries.

**7.** An estimated USD 60 billion could be mobilised by upper middle-income countries through domestic resources, a sum that surpasses the cost of the MDGs for those countries. Indeed, in upper-middle income countries, in Latin America for instance, deep inequality is often the major cause of poverty. These countries therefore need to design and implement policies to make their growth more inclusive. In this area, the international community has much to gain to enhance policy dialogue and knowledge sharing on development experience.

**8.** For many low-income countries, more external help is still needed while the momentum of fiscal reforms is sustained. Therefore, aid commitments should be respected. Key options for development partners include focusing the corresponding increases in development assistance on low-income countries and enhancing support for domestic resource mobilisation and for upgrading the quality of public expenditure.

**Figure 6. Potential for enhanced tax collection in developing countries**



**9.** Private capital can help to fill the financing gap of low-income countries. More can be done to draw these funds; and more should be done to manage their high volatility and to ensure they are fully exploited to promote MDG achievement, whether they originate from advanced or from emerging countries.

**10.** If the needs of poorest are to be met, all development resources—domestic taxes, aid, private donations, migrant remittances and private capital flows, from traditional as well as emerging partners—will have to rise. The main challenge is for policy reforms to ensure that all development resources contribute sustainably to social development.

Source: authors' calculations.

StatLink  <http://dx.doi.org/10.1787/888932596270>



## Talking points



So what's next? Key questions for future steps

1. Is development “achieved” after overcoming extreme poverty? Should relative poverty become the new focus?
2. What is the suitable balance between country-relevant objectives and internationally comparable goals?
3. Should enabling a growth environment be prioritised?
4. Should it be aid effectiveness and capacity building?
5. Should improving the quality and coherence of public expenditure be the main focus of reform?



Join the discussion on Christian Aid's [Poverty Matters blog](#)<sup>3</sup> on ECDPM's [Talking Points blog](#)<sup>4</sup> and on [Twitter](#) using hash tags #MDGs and #post2015.

## Related reading

ATISOPHON, V., J. BUEREN, G. DE PAEPE, C. GARROWAY and J.-P. STJNS (2011). “Revisiting MDG Cost Estimates from a Domestic Resource Mobilisation Perspective”, OECD Development Centre Working Paper N° 306, Paris.

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DEVARAJAN, S., M.J. MILLER and E.V. SWANSON (2002), “Goals for Development: History, Prospects, and Costs”, *Working Paper* No. 2819, World Bank, Washington, DC.

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VANDEMOORTELE, J. and R. ROY (2005), “Making Sense of MDG Costing”, in F. Cheru and C. Bradford (eds.), *The Millennium Development Goals: Raising the Resources to Tackle World Poverty*, Zed Books, London.

WORLD BANK and IMF (2011), *Global Monitoring Report – Improving the Odds of Achieving the MDGs – Heterogeneity, Gaps, and Challenges*, World Bank and International Monetary Fund, Washington, DC.

## About this project

This project was undertaken thanks to generous support from the [Bill & Melinda Gates Foundation](#). We have benefited from comments of participants at the workshop on “Costing MDGs: Investing in Development at the horizon 2015 and beyond” jointly organised by the OECD Development Centre and its partners on the initiative, the South African Institute of International Affairs, the South African Treasury and the UN Development Programme South African office, in Pretoria on 14 November 2011. An earlier version of this Issue Paper was submitted to the International Development Committee of the United Kingdom's House of Commons.

We are indebted to many colleagues who have devoted time to reviewing the Study work and this Issue Paper. Guidance has also been received from the members of the Centre's DeFiNe network at its annual meeting on 27 February 2012. This work has also been submitted for discussion on the occasion of a high-level round-table held in Rabat, Morocco, on 19 April 2012, in the context of the African Conference on the Measure of Well-Being and Fostering the Progress of Societies, co-organized by the OECD Development Centre and Statistics Directorate and the High Commission for Planning of Morocco. This study will be officially launched on July 11 at the OECD in Paris on the occasion of a DAC Development Debate (DDD).

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<sup>1</sup> All United Nations members signed up to the Millennium Declaration in 2000 which set a 15 year objective to: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat disease pandemics such as AIDS, ensure environmental sustainability and develop a global partnership for development. These goals translate into concrete targets and measurable indicators.

<sup>2</sup> Stijns, J., et al. (2012), *Can we still Achieve the Millennium Development Goals?: From Costs to Policies*, Development Centre Studies, OECD Publishing. doi: [10.1787/9789264173248-en](https://doi.org/10.1787/9789264173248-en)

<sup>3</sup> <http://www.guardian.co.uk/global-development/poverty-matters/2012/jan/23/whos-going-to-pay-for-mdgs>

<sup>4</sup> <http://www.ecdpm-talkingpoints.org/taxation-to-achieve-the-mdgs-reaction-to-oecd/>

<sup>5</sup> This report is available online for free at: <http://www.africaneconomicoutlook.org/en/>