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The High-Level Panel Report on a post-2015 development framework: Does it address inclusive growth in a comprehensive manner?

Think Piece for ACORD's reflection day, June 27th, Bujumbura

The HLP Report

The High-Level Panel of Eminent Persons on the Poist-2015 Development Agenda (HLP) published its final report at the end of May 2013, setting out what has been generally regarded as an ambitious vision for tackling poverty and sustainable development up to 2030. This report is the first milestone in the process to define a new global development framework to replace the Millennium Development Goals (MDGs). The next two years will undoubtedly entail a fraught political process to agree on the details of the new framework, and the report is an attempt to set the agenda of these deliberations.

For African CSOs, the framework is an opportunity to build the conditions that will catalyse inclusive growth on the continent. Although achieving inclusive growth is a universal aspiration, it is of particular pertinence to Africa: despite impressive growth rates over the last decade almost half of all Africans live on less than $1.25 a day. Most projections of global poverty predict that by 2030 it will largely be an African problem, with the proportion of absolute poor living in Africa increasing in the next 15 years. At the same time, inequalities are widening and enduring, and unemployment rising. The trajectories of socio-economic development on the continent are intimately tied to the structure of African political economy. Africa is dominated by primary natural resource extraction and low-value added agriculture and services, which are both low in generating employment and productive growth. The little resources these sectors currently generate in public finance is largely lost to government apparatus plagued by governance issues, severely limiting states ability to finance social programs. At the same time, instability in global commodity markets, large-scale tax evasion in the natural resources sector, and unstable trade regimes limit the extent to which these sectors can create jobs and public finance.

For many observers the MDGs strong focus on social sectors and aid, and the weakness of MDG8 on global partnerships, compounded the inability of the global development agenda to address these issues. The HLP report is thus important in offering the first comprehensive proposal for a new global framework, and with it the opportunity to galvanise finance and policy space to address the lack of inclusive growth on the continent.

The HLP report and structural transformation

The report has at its centre a strong call for inclusive growth. Its headline idea, and conceptual foundation, is five 'transformational shifts', one of which is to 'transform economies for jobs and inclusive growth'. To quote the report: "There must be a commitment to rapid, equitable growth – not growth at any cost or just short-term spurts in growth, but sustained, long-term, inclusive growth that can overcome the challenges of unemployment (especially youth unemployment), resource scarcity and – perhaps the biggest challenge of all – adaptation to climate change. This kind of inclusive growth has to be supported by a global economy that ensures financial stability, promotes stable, long-term private financial investment, and encourages open, fair and development-friendly trade."

The idea that economic growth can provide for developmental goods runs strongly throughout the report, and in some sections there is a real emphasis on changing the structure of economies as the means to providing inclusivity in growth patterns: "Some fundamentals will accelerate growth everywhere- infrastructure and other investments, skills development, supportive policies towards micro, small and medium sized enterprises, and the capacity to innovate and absorb new technologies, and produce higher quality and a greater range of products. In some countries, this can be achieved through industrialisation, in others through expanding a modern service sector or intensifying agriculture. Some specialise, others diversify."

However, with global frameworks the narrative and conceptual foundations are important, but what will catalyse change is the set of globally agreements that underpin them, in this case the goals and targets. Through a set of concise, measurable and applicable goals and targets the MDGs were successful in creating political will, and so raising resources and stimulating action. The HLP report aspires to the same approach, and proposes a set of 'indicative goals' to inform future negotiations over a new framework.

The cornerstone of the report is its stated aim to eradicate extreme poverty by 2030, expressed in the goal to 'end poverty', as measured at $1.25 a day. This is a lofty aim, and underpinning it is the idea that current growth trends make it very much an achievable target. "Continuing on current growth trends, about 5% of people will be in extreme poverty by 2030, compared with 43.1% in 1990 and a forecast 16.1% in 2015. With slightly faster growth and attention to ensuring that no one is left behind we can eradicate extreme poverty altogether". However, this does depend on the assumption that incomes of poor households rise steadily in relation to GDP. This is not the case in large parts of the world, as evidenced in how rapid growth in Africa has had little impact on poverty rates. Furthermore, current trajectories of poverty reduction, on which the report relies on to make the optimistic assumption that the goal is achievable, are largely accounted for by China, who between 1980 and 2010 lifted 680 million people out of poverty, cutting its poverty rate from 80% to 10%. The poverty reduction rate in sub-Saharan Africa has been much lower over this period[1].

[1] See http://povertydata.worldbank.org/poverty/region/SSA

For the goal to be achieved African economies would have to match China's economic performance over the next 15 years. This would also mean that there would need to be a radical shift in the relationship between the rate of growth on the continent and the incomes of the poorest. If the relationship between the two remained as it is there would need to be an unprecedented and enduring growth rates of at least 12% in global GDP per capita up to 2030[2]. For African economies to achieve such a strong economic performance will require a fundamental restructuring of their economies, especially if we consider the changes in the Chinese and other Asian economies that have accompanied their own poverty reduction rates. What the HLP report proposes on how inclusive growth will be achieved, and the goals to catalyse these changes, is therefore very important if it is to match its ambitious aims on poverty.

Unfortunately, this is where the report fails to provide a convincing argument on how economic restructuring can take place. In the narrative section of the report, the enduring and dominant message is of adding value and raising productivity through creating the right enabling environment for businesses to grow, and with a strong emphasis on self-regulation by the private sector with regards to environmental and social standards. Restructuring as a building block for development is largely absent. Within the goals section there are targets to increase new start-ups and value-added products, boosting agricultural productivity, increasing the number of people with skills, universal access to financial services and infrastructure. These are useful ingredients for economic transformation, but are largely under-defined in terms of clear targets. A goal based on the structural nature of economic growth, for example tracking the share of GDP for new value-added industries and production, would have been both a bold political message and useful tool in galvanising structural change[3].

Perhaps even more striking is the lack of a strong goal on development finance and global partnerships. There are two fundamental issues here. Firstly, in order to finance the public expenditure required to ensure inclusive growth African states require a framework that allows for the development of resource mobilisation. For example, just the infrastructure gap in Africa is estimated at $31 billion minimum[4]. The post-2015 framework does not include a focus on quantifying what overall the resources needed will be, which would have also been useful in galvanising global action to mobilise the sufficient figures. There is also a lack of targets on domestic resource mobilisation, for example a tax to GDP ratio target. To achieve structural transformation and inclusive growth African governments must also ensure that resources are also distributed equitably, in line with principles of social justice. This would mean guiding principles and targets that tie taxation to financing public services, increasing progressive taxation, and incentives to produce fairer shares of natural resource wealth. The report lacks a strong emphasis on domestic resource mobilisation and on redistribution.

[2] See http://www.guardian.co.uk/global-development/poverty-matters/2013/jun/07/eradicating-poverty-shift-in-focus?CMP=twt_gu

[3] It should be noted that in annex 2 the report proposes that indicators on job creation could be broken down by sector if feasible, but this is far from offering a top-line goal on structural change

[4] *Financing the post-2015 development agenda* (2013) An outcome document of an expert roundtable held in Johannesburg, February 2013

The second key issue is how the report tackles reform of the global financial and trade architecture, without which structural transformation on the African continent will be almost impossible to achieve. Africa loses vast sums of potential finance to capital flight, and to illicit financial flows resulting from tax evasion. Foreign direct investment (FDI) is still largely centred on extractive industries, when what is needed is measures to ensure that FDI flows to new sectors and small and medium sized firms. Productive growth in the agricultural sector and an expansion in manufacturing are hindered by an unpredictable and unfair trade regime. On these points the report repeats the failures of the MDGs, with the tenth goal a disappointing repeat of MDG8: largely a set of stated intentions, with very few binding targets to hold states accountable.

Jobs

If we agree that a fundamental aspect of inclusive growth means giving the poorest a chance to participate in economies and realise their potential, then we have to look at employment. The HLP report has a strong emphasis on employment creation, and includes a target to increase the number of jobs. It also has another, separate, target on increasing employment amongst youth, an acknowledgement of the importance of this area, especially to Africa, where demographic changes and a lack of productive growth are creating increasing numbers of young unemployed. These goals themselves underline a commitment to end jobless growth, a phenomenon that has underlined African growth trends over the last years.

However, employment creating growth is not inherently inclusive if it does not consider the quality of those jobs. Analysis by the International Labour Organisation has shown that growth trends 1990-2008 have largely been accompanied by a falling share of wages in total national income, and a growing share for profits, indicating a lack of quality employment. In other words the jobs that have been created are low-paid, temporary, casual or informal. Today half the world's workforce is in vulnerable, insecure employment[5]. Therefore inclusive growth must also consider the quality of jobs on offer if it is to have a real impact on poverty reduction. This is especially true for Africa. The ILO's *Global Employment Trends 2013* report finds that unemployment, although still reasonably high, is reasonably stable in Africa, and that for the continent the aim is "not so much to get more people integrated in the labour market, but far more to improve labour productivity, conditions of work and the returns and benefits people derive from their work. Employment only plays its intermediary role between growth and poverty reduction if it is productive."[6]

The ILO's decent work agenda is an idea that has already been endorsed by UN member-states, and is the strongest existing set of globally-agreed standards on employment. It emphasises work that is productive and delivers a fair wage, security and social protection in the work place, guaranteeing rights at work, and strong and independent workers' and employers' organisations[7]. The HLP report acknowledges the importance of the decent work agenda, but also includes an ill-defined concept of 'good jobs', which it argues may be all that some developing countries can aspire to. This is a

[5] See http://www.ituc-csi.org/IMG/pdf/inequalities_consultation_paper_ituc.pdf
[6] International Labour Organisation (2013) *Global Employment Trends 2013*
[7] See: http://www.ilo.org/global/about-the-ilo/decent-work-agenda/lang--en/index.htm

dangerous prescription that in just a few lines jeopardises the chances of people in the poorest countries to have secure and fairly paid employment under a new development agenda. It dilutes the commitment to the decent work agenda, and opens the door for the creation of more insecure, low-paid jobs in Africa.

Inequality

One of the strongest parts of the report is its commitment to 'leave no on behind', expressed in the notion that no goal will be considered achieved unless it has been met amongst key social groups, disaggregated by age, gender, disability, and income. This is a laudable aim, and responds to many of the demands of civil society expressed in the consultation process. The HLP have been widely criticised for not including a goal on income inequality in the report, and in response have contested that this focus on marginalised groups will have a strong impact on inequality. This is partly true, especially with regards to the goals that protect rights and access to services, which could mean the discrimination faced by many groups could begin to be confronted.

However, pulling people above $1.25 a day is not the same as confronting the stark, deepening and enduring inequalities that are increasing in many countries, including the Western world. For many this has been particularly disappointing considering how much income inequality has risen onto the global policy agenda. The report relegates income inequality to what it calls a 'national issue', and although it largely acknowledges that growing inequality is a problem, it offers no advice on what policies can be used to confront inequality, and no incentives for countries to undertake them. This a serious missed opportunity, a goal on inequality could have had serious influence in what is known as global norm setting, the ability to raise something to the top of an agenda and rally significant political support and resources.

In terms of inclusive growth the lack of focus on income inequality is very problematic. The global consultation on inequalities in a post-2015 framework organised by the UN found that countries with higher inequalities, and those where inequalities are growing, face a worsening in existing fragilities and vulnerabilities, including conflict and natural disasters, and significant weakening in social cohesion and security for all[8]. The political turbulence and conflict in the North Africa and Middle East region over recent years has largely been found in states where growth had been strong but where inequalities endured or increased. Inequality also has a strong impact on the achievement of growth *with* poverty reduction: high and growing inequality correlates with a reduction in the pace and sustainability of growth, reducing productive potential of citizens and their potential to contribute to growth[9]. Recent projections analysing if poverty at $1.25 a day can be eliminated by 2030 find that it depends largely on reductions in inequality[10].

[8] See the inequalities consultation report and inputs here: http://www.worldwewant2015.org/inequalities

[9] ibid

[10] Edward, P., Summer, A. (2013) *The future of global poverty in a multi-speed world: New estimates of scale and location*

Is $1.25 a day inclusive?

Another significant criticism of the HLP report has focused on its adoption of the $1.25 measure of poverty, and whether this really constitutes an eradication of poverty. In its initial response to the HLP report the global CSO coalition, Global Call to Action against Poverty, argued that the $1.25 measure "is a 'hunger', not a 'poverty' line". Is growth that brings a number of people up to $1.25 a day really inclusive? The International Trade Union Confederation, responding to the HLP report, said that $1.25 "is what Bangladeshi workers producing garments for global markets are paid today, as are construction workers building skyscrapers and football stadiums in Gulf countries and agricultural workers producing for global food corporations."[11]

Professor Abhijit Banerjee, himself a member of the HLP, published research in 2006 showing that amongst those living on $2 a day or more in urban Tanzania only 20% had access to clean water in their house, with only 2% in rural areas[12]. The fact of the matter is that people living between $1.25 and $2 a day still face deprivation and precariousness, and that in 2010 there were 1.18 billion people living in this bracket. Progress on lifting people above $2 mark has been drastically slow compared to lifting people above $1.25. Between 1981 and 2010 the number only dropped from 2.59 to 2.4 billion[13].

The argument about what constitutes a poverty line, and how we can raise people above it, is directly related to whether we frame global inequality as a problem or not. As well as missing a goal on income inequalities, the HLP report also fails to address inequalities between rich and poor countries. Achieving the astonishingly high levels of growth it prescribes for African economies, whilst not addressing global inequalities, will be extremely difficult. Development economist Charles Kenny puts the relationship between the two clearly when discussing how if we truly acted to end global disparities in wealth, then a poverty line of $10 is achievable: "According to the World Bank, current world GDP is about $76.4 trillion, of which about 62 percent is consumed by households. If all 7 billion people on the planet lived on $10 a day, that would take $26 trillion, or (give or take) a $41 trillion global economy. If it weren't for the incredible size of global income disparities, you could shrink the world's economy, reduce our environmental footprint, and still get everyone over the poverty line."[14]

Kenny is of course being talking hypothetically, but in doing so illustrates that if we truly confronted global income inequalities we could also be more ambitious in addressing poverty. In this sense the adoption of $1.25 as a target is also an admission that we must aim for a world where it is acceptable that billions of people will still live on less than $2 a day, and in which severe global inequalities are justified.

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[11] See: http://www.ituc-csi.org/un-post-2015-report-decent-work

[12] Banerjee, A. (2006) *Economic lives of the poor*

[13] See: http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPA/0,,contentMDK:20040961~menuPK:435040~pagePK:148956~piPK:216618~theSitePK:430367~isCURL:Y,00.html

[14] See: http://www.businessweek.com/articles/2013-04-28/why-ending-extreme-poverty-isnt-good-enough