

MDG NEEDS ASSESSMENTS AND COSTING METHODOLOGY: COSTING MDG-1

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Goal 1: Eradicate Extreme Poverty and Hunger

**Target 1: Halve, between 1990 and 2015,
the proportion of people whose income
is less than a dollar a day.**

**Target 2: Halve, between 1990 and 2015,
the proportion of people who suffer
from hunger**

Needs Assessment Approach to National Development Strategy/PRS

Identify and assess..

- **Who and where** are the poor, deprived, and excluded people from the development process?
 - Identify the population in need
 - Disaggregate the analysis
- **What** needs to be done?
 - Focus on public investments (capital & operating costs)
 - Undertake Needs Assessment from now until 2015
 - Cover goods, services, human resource, infrastructure
 - unlock capacity constraints through prioritization of interventions
- **How much?**
 - Local unit costs of G & S x population in need
 - Human resources required to meet each benchmark
 - Infrastructure needs

How to achieve pro-poor focus and equity through MDG investments?

- 1. Include interventions that target the poor directly**
(e.g. school feeding programs, improved non-cash crops, subsidies for girls' attending school)
- 2. Ensure pro-poor coverage rates**
(e.g. universal coverage of essential health services, particular focus on underserved regions)
- 3. Adapt financing strategy to the poor**
(e.g. end of school fees and health user fees, subsidized infrastructure services where necessary)

Key Elements of MDG-based National Development Strategy/PRS

1. **Ambition**- national targets are at least as ambitious as MDG targets for 2015
2. **Scope**- the range of sectors identified is broad enough to achieve all the MDGs
3. **Rigor** -for each sector, the strategy is based on a detailed, bottom-up needs assessment
4. **Timeline** -the medium term plan/strategy is nested in a long term MDG framework
5. **Financing** -sources of financing are determined in line with ensuring access to MDG G &S

Approach of MDG NA based National Development Strategy/PRS

NA-based national development/ poverty reduction strategy is typically a bottom-up approach..

- **Physical targets based on goals are at the root**
- **Financial targets are derived through costing**
- **Priorities are clearly defined-MDG vs. others and within MDGs themselves**
- **Overall macro constraints are derived with necessary actions and required resource inflow**

Objectives of MDG Needs Assessment

Key Objectives of the MDG NA are to:

- **Answer the question: “What would it take to achieve the MDGs set for 2015?”**
 - **Translate the goals into operational targets**
 - **Develop strategy for increasing “absorptive capacity”**

- **Strengthen coherence between planning and budget processes and guide programming of expenditures**

- **Provide a monitoring and accountability framework**

- **Support the national policy dialogue and negotiations with development partners**

Guiding Principles of MDG Needs Assessment and Costing

- Identify all interventions that require full or partial public financing
- Include both capital and operating costs for all sectors
- Undertake total, not incremental costing (financial cost, not economic costs)
- Strive for maximum dis-aggregation
- Unlock capacity constraints through investment in HR, infrastructure & management systems.
- Make periodic revision of targets/interventions based on new information and implementation of programs

Suggested Investment Clusters

1. Rural development
2. Urban development
3. Health systems
4. Education
5. Gender equality
6. Environment
7. Science, technology and innovation
8. Cross-national infrastructure
9. Public sector management

Steps for MDG Needs Assessment and Costing

Identify interventions (defined as “investments in goods, services & infrastructure”)



Specify targets for each intervention (quantified coverage target to be specified for each intervention)



Estimate resource needs (direct & indirect financial costs, human resource, infrastructure, and equipment)



Check results (identify synergies & iteratively refine estimates, make cross-country comparisons of the costs, recheck the data entry and calculations to conform costs)

Achieving Goal 1- Target 1 with interventions made to attaining other goals

- Income Poverty is linked with illiteracy, ill-health, unemployment, lack of productive assets, lack of connectivity and accessibility, & dis-empowerment.
- Investments made in education, health, physical infrastructure (road, energy and water and sanitation) directly helps addressing income poverty.
- MDG related investment particularly in education, health, and infrastructure creates an enabling environment for higher private sector investment and thus indirectly helps to create more jobs, higher income, and higher revenue to the government.
- But hard-to-reach poor population needs additional measures and those have to be worked out specifically.

Implication of Other Interventions on Income Poverty

- ***Agriculture:*** Interventions to increase agricultural productivity, food security, and rural income generation activities directly raises the incomes of the rural poor and generates rural jobs.
- ***Nutrition:*** Direct nutritional interventions to pregnant women and lactating mothers, School meals, complementary feeding for infants, micronutrient supplementation, safety nets, directed food aid, etc. contributes to human capital accumulation and improved labor productivity.
- ***Education:*** Intervention in education increases human capital, which contributes to economic growth. Education is linked to lower fertility rates and to increases in economic growth per capita.

Implication of Other Interventions on Income Poverty

- ***Gender equality:*** Interventions on awareness and access to reproductive health lowers fertility rates and reduces poverty; empowerment thru' access to work, property rights, political representation, safety from violence, etc. raises women's economic activity.
- ***Health:*** Interventions related to child & maternal health, major high risk diseases and health system improve the health condition of the people with direct and indirect effects on level & growth rate of income.
- ***Water and sanitation:*** Interventions in water and sanitation for productive activities can raise economic growth through agriculture & urban manufacturing and service sectors.

Implication of Other Interventions on Income Poverty

- ***Environment:*** Interventions contribute to better access to natural resources and can sustain or even raise the income of many poor people who depend on natural resources for their livelihoods.
- ***Science and technology:*** S & T institutions improve technological learning in society & improve adoption of technology by the private sector; higher education can open new employment opportunities.
- ***Energy:*** Interventions to improve energy supply, biomass production, rural electrification through low-cost technologies promotes manufacturing, service, or cottage industries, & also improves human resource.

Macroeconomic Framework, Economic Growth, & Income Poverty

- Sustained, high and equitable economic growth is a necessary condition for speedy and enduring income poverty reduction -- the goal 1, target 1 of MDGs.
- A macroeconomic framework endogenizes GDP growth and income distribution process associated with investment in MDG related areas and shows whether or not investments estimated under MDG NA & costing of other MDGs meet income poverty target.
- The macroeconomic framework also comes up with a set of macro indicators which are critical to help attaining high economic growth through better investment climate and exert redistributive impact in the economy resulting in higher poverty reduction.

Implication of MDG related Investment on Macroeconomic Fundamentals

- Scaling up investment in MDG related areas in order to meet the goals by 2015 will raise the level or shift up the aggregate demand condition in the economy.
- This will also raise production and raise or shift the aggregate supply situation, but there may arise short term imbalances in the economy.
- The dynamics of additional supply & demand will have a mix of growth, inflation, employment, & other implications depending upon structure of economy.
- Higher aid inflow related to MDGs may crowd out domestic resource mobilization, raise prices of non tradable items, and worsen trade competitiveness.

Why Macro Framework for MDG NA ?

- MDG NA does not (i) explicitly tell implied growth rate that can be achieved by investing in MDG related areas, (ii) give a holistic picture of total investment required to attain the desired economic growth, and (iii) take financing as a major constraint while arriving at investment requirements.
- Macro framework can give a credible projection of GDP growth which is necessary to (i) estimate government revenue collection, (ii) estimate household contribution to MDG financing, and (iii) projecting key macro indicators like consumption, saving, private investment, exports & imports.
- Macro framework is essential to see that the investments made in line with MDG NA and costing do not misalign the macro-economic fundamentals.

Methodology to Linking MDG NA to Generalized Macro Framework (GMF)

- GMF is a tool to link investment estimated by MDG NA to macro economic situation and check its implication to growth, savings, fiscal, monetary, and external sector balances, employment, poverty and income distribution.
- Economic growth rate is derived from the production function (labour and capital being the major inputs); sectoral production functions could be estimated depending upon data availability on labour & capital.
- The rest of the macro economic variables are estimated through behavioral functions & identities.
- The results are simulated to see the implication of the different scales of investment related to MDGs and economic policies.

Some Challenges to Linking MDG NA to Generalized Macro Framework (GMF)

- ❖ Circularity problem arises in integration - while economic growth requires investment in MDGs, MDG costing also requires prior information on growth.
- ❖ MDG NA does not estimate private sector investment. So macro framework needs to estimate private investment separately.
- ❖ Macro framework will have to be customized to each country condition to make it applicable; this requires constant efforts.
- ❖ GMF tells how much poverty will be reduced with public investments made as of MDG NA & private investment estimated outside NA. But what if the derived growth does not reduce poverty as target?

Some Challenges to Linking MDG NA to Generalized Macro Framework (GMF)...

- *Size and composition* of growth and poverty reduction - **aggregative** macro framework deals with the *size*, a completely growth driven poverty reduction exercise; without *composition* and its implication on poverty, allocation of investment can not be prioritized.
- MDG NA estimates the financing gap for achieving MDGs by 2015 and keeps open the financing plan (for advocacy and policy actions). Macro framework requires to provide policy handles to address this. GMF has to be customized heavily for the solution.
- The macro model needs to capture the impact of qualitative change in investment being perceived with MDG NA and costing based planning. So projections based on conventional production relations may not be realistic.

GMF Data Requirements (Minimum)

REAL SECTOR

GDP at Constant Prices
GDP at Current Prices
Private Consumption
Public Consumption
Exports
Imports
Public Investment
Private Investment
Labour Supply
Employment

FISCAL SECTOR

Total Expenditure
Recurrent Expenditure
Capital Expenditure
Revenue: Tax and Non Tax
Direct Tax: Personal Income
/Corporate Tax
Indirect Tax: Customs/VAT/
Excise Duty/ Other Taxes
Non tax: dividends, major
royalties, fees

GMF Data Requirements (Minimum)

MONETARY SECTOR

Money Supply

Net Foreign Asset

Net Domestic Asset

Other Items, Net

Domestic Credit

Credit to Public Sector

Credit to Private Sector

EXTERNAL SECTOR

Aid Disbursement

Share of Grants

Debt Service

Remittance

Exchange Rate

POVERTY

Income/Consumption Shares

Head Count Poverty

Gini Coefficient

Data Required for Extensive Analysis (GMF Resolution: M= Macro, S= sectoral)

M, S	Value added : real and nominal by major sectors (resolution up to 15)
M, S	Final demand components (C_p, C_g, GFCF, stock changes) resolution by HIES
M, S	Exports (Resolution by major commodity)
M, S	Imports (Resolution by major commodity)
M, S	Intermediate use / demand
M, S	Capital stock (initial year or base year)
M, S	Labour market –supply, employment, unemployment rate, employment elasticity
M,S	Investment and capital stock by major sectors
M	Inflation (CPI)
M, S	Prices (Producers and market)
M	Savings (resolution: Household, ₂₃Corporate, Public)

Key issues

- How much is growth contributing to achieve Goal 1, target 1 in PICs? (What is the growth elasticity of Poverty?)
- How is growth-employment relation in PICs? (What is the growth elasticity of employment ?)
- What are the policy options for making growth address goal 1 ?
- How to formulate a macro framework consistent to MDG based planning process ?
- Is GMF a viable tool for developing MDG consistent macro framework for PICs?
- Is there a sound data base for macro model/framework type of work?