Initiative for Policy Dialogue
New York

SCORING MILLENIUM GOALS: ECONOMIC GROWTH VERSUS THE WASHINGTON CONSENSUS

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(March 2005)

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March 12, 2005

Scoring Millennium Goals: Economic Growth Versus The Washington Consensus

According to the IMF and the World Bank, “on current trends, most Millennium Development Goals (MDGs) will not be met by most countries.”[1] This assessment of a joint report of the staffs of the Bank and Fund issued in 2004 is widely shared, including by a UN report that came out at the beginning of 2005.[2] The joint Bank-Fund report identifies the first of “the three essential elements” urgently needed if most countries are to reach the MDGs as: “Accelerating reforms to achieve stronger economic growth – Africa will need to double its growth rate.”[3] The other two pertained to the more and better delivery of human development and related services and of support from developed countries and international agencies. All these three elements have also been emphasized by the UN report, which paid particular attention to the case for increasing aid.

There is no gainsaying that sustained, rapid economic growth is necessary for achieving the MDGs[4]. Aside from its most obvious and direct bearing on the goal pertaining to income poverty; viz. halving the number of people living on less than a dollar a day by 2015, it is also vital for other MDGs by facilitating the provision of resources needed for their achievement. There is also no disputing the joint IMF-World Bank report in its emphasis on the salience of economic reforms or policies rather than just finance for better growth performance.

But what sort of reforms are to be accelerated for improved growth performance? And what role should the providers of development assistance, particularly the Bretton Woods Institutions (BWIs) play in helping to bring them about? The answers to these questions in the joint Bank-Fund report are less incontrovertible, as we shall see. There are two distinct though overlapping strands of thinking on these questions. One pertains to development strategies or the content of reforms, particularly the type of policy and institutional reforms advocated by the BWIs and the US Treasury in the context of adjustment programs, and the second to a host of other issues, albeit often related, that bear on the effectiveness of external assistance.

The Bretton Woods institutions (BWIs) along with the US Treasury are often accused of a neo-liberal or “market fundamentalism” bias captured in the shorthand of the Washington Consensus. That label has come to refer to a somewhat caricaturized version

[1] World Bank and International Monetary Fund, *Global Monitoring Report 2004: Policies and Actions for Achieving the Millennium Development Goals And Related Outcomes* (Washington DC: World Bank, 2004), p.xvii.
[2] UN Millennium Project, *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (New York: UNDP, 2005)
[3] World Bank and IMF (2004). p.xvii
[4] See, for example, David Dollar and Aart Kray, “Growth is Good for the Poor” (Washington DC: Development Research Group Working Paper series, World Bank, 2000)

of the policies that these institutions recommended even in the 1980s and the 1990s. Whilst recognizing that, Stiglitz observes that "Whatever, its original content and intent, the term 'Washington Consensus', in the minds of most people around the world, has come to refer to development strategies focusing around privatization, liberalization, and macro-stability (meaning mostly price stability); a set of policies predicated upon a strong faith – stronger than warranted --in unfettered markets and aimed at reducing, or even minimizing, the role of government. That development strategy stands in marked contrast to the successful strategies pursued in East Asia, where the *development state* took an active role".[5]

Whilst the BWIs, especially the World Bank, have been moving away from the Washington Consensus, there remain the questions of whether they have moved far enough away -- especially in practice rather than research or rhetoric -- and where they should be moving to if the MDGs are to be realized. [6] Much of the debate on the reform of reforms revolves around the role of governments, in particular the following questions:

1. Is there a conception of the nature of the state or efficacy of government interventions that underlies the policy recommendations of the BWIs? If so what is it and why?
2. How are these policies informed by the lessons of experience of both the successes and failures of public policy in promoting economic growth, especially of the "developmental states" of East Asia?
3. How should they be so informed? How can policy advice be tailored more to country circumstances especially the type of state and its stage of development?

More Effective Assistance for MDGs With or Without the Washington Consensus

The question of the effectiveness of a given amount of aid in promoting economic growth and reducing poverty has received a great deal of attention of late.[7] This has reflected the concern with reaching MDGs juxtaposed with the mixed results of the past quarter century during which policy conditionality or adjustment programs became a prominent feature of financial assistance to developing countries. This was so,

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[5] Joseph Stiglitz, "The Post Washington Consensus Consensus", Initiative for Policy Dialogue (Columbia University) Working Paper, November 2004, p.1.

[6] The World Bank has been reviewing the experience with its conditionality and revising its approach since the mid-1980s, especially in the past 5-10 years. The IMF has also been increasing its attention to reforming its reforms, especially since the creation of its Independent Evaluation Office in 2002. The relevant reports of the World Bank have included the following:
World Bank, "Structural Adjustment Lending: A First Review of Experience", OED Report 6409, (Washington DC: 1986);
_________"Report on Adjustment Lending Policies for the Recovery of Growth", Report R90-57 IDA/R90-49 (Washington DC:1990); "Adjustment Lending Retrospective" (Washington DC: 2001);
_________ "From Adjustment Lending to Development Policy Support Lending" (Washington DC: 2002).

[7] For an excellent discussion of the issues, see a policy paper of the UK government: Department for International Development (DFID), Foreign and Commonwealth Office and HM Treasury, Partnership *for Poverty Reduction: Rethinking Conditionality* (London: DFID, March 2005). See also:
World Bank, *Assessing Aid: What Works, What Doesn't and Why* (Washington DC: World Bank, 1998).

particularly for the BWIs, as the World Bank embarked upon structural adjustment or policy-based lending in 1980 and the IMF completed its *de facto* transition from an agency primarily focused on developed countries -- their short-term liquidity constraints and coordination of macroeconomic and exchange rate policies under the Bretton Woods system -- to a provider of finance and conditionality to developing countries. And from around 1990, both the BWIs became heavily involved with the transition economies of Europe and the former Soviet Union. Other providers of assistance, including notably debt relief, also increased their resort to conditionality, often tying their aid to Bank-Fund programs.

The work on aid effectiveness reflected not only concerns with impact of aid at the level of general budget or balance-of-payments support and the adjustment programs on which it was predicated but also at the level of specific projects. It has led to enhanced attention not only to the *content of strategic development policies* promoted by adjustment programs – what might be called the Washington Consensus issues --but also several matters pertaining to *institutions*, *processes, criteria and forms* of the allocation and utilization of external financial assistance whether or not it is packaged with conditionalities pertaining to the Washington Consensus issues. The two set are often lumped together in discussions of aid effectiveness and while they are not altogether unrelated, they ought to be clearly separated, particularly from the perspective of the reforms needed to accelerate growth.

The non-Washington Consensus types of issues have included attention to what are called "fiduciary" concerns. That is the transparency and accountability with which aid monies are utilized, and given the fungibility of aid, with which public finances are managed. This is to prevent or minimize the leakage of aid or the domestic resources that it frees, in corruption and mismanagement. Thus aid donors have sought more information and closer monitoring of how monies are spent on projects they finance, including on procurement i.e. the criteria and practice for awarding contracts for the purchase of goods and services. The World Bank, for example, introduced stricter procedures for preventing fraud and corruption in the activities it directly finances, including the establishment of special phone lines and e-mail accounts for confidential reporting of allegations of corruption and a new unit to investigate the complaints. It has also been a leading proponent of systemic reforms aimed at corruption in general, notably of public financial management, particularly the transparency and accountability of government budgets.

Another element of this sort of non-Washington Consensus concern with enhancing aid effectiveness has been reflected in the resort to so-called "process" conditionalities, focused on participatory processes with greater involvement of civil society. This has notably been the case for the articulation of policy priorities as reflected in Poverty Reduction Strategy Papers (PRSPs) that low-income countries are required to prepare to qualify for assistance from the concessional windows of the World Bank and the IMF -- IDA and the PRGF, respectively[8] -- as well as debt write-offs under the

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[8] International Development Association (IDA) is for those developing countries whose per capita income is below the threshold at which they are classified as "low-income countries". It has typically provided

Highly Indebted Poor Countries (HIPC) Initiative (other international financial institutions (IFIs) and bilateral donors also link their assistance in varying degrees to PRSPs). The participatory conditionality has also been applied to project aid, including the involvement of beneficiaries in the design of projects, the selection of sub-projects and in implementation – the so-called Community Driven Development (CDD) approach. These non-Washington Consensus type conditionalities have also included concerns with linking aid to democracy and human rights, though how much this has to do with intrinsic objectives of aid rather than increasing its effectiveness in realizing other objectives, such as achieving the MDGs is a different matter (the articles of agreement of the BWIs preclude their use of such political conditionality).

A rather different angle from which the issue has been approached is that of whether or not the policy reforms under the aegis of conditionality are effectively implemented or sustained. This has led to the concern with agency issues as well as "ownership" by countries of reforms as reflected in the principles of the Comprehensive Development Framework (CDF) that the World Bank has sought to adopt and that are supposed to be reflected in the PRSPs. The issue of ownership has more to do with sustained and effective implementation rather than the content of reforms.[9]

Closer to the question of the content of reforms is the view that whether and how effective aid is, depends on the policy environment. Probably the most influential research has been the finding by Burnside and Dollar that aid has a positive impact on growth in countries with good policies.[10] Though this has not gone unquestioned,[11] it is widely accepted, especially amongst international financial institutions (IfIs) and aid agencies. It has led to emphasis on greater selectivity in the countries to which aid is allocated, though more in principle than in practice.[12] This aspect of the work on aid effectiveness whilst underlining the importance of the policy environment, does no more than indicate the minimum or necessary conditions for aid to be effective rather than what is needed to maximize the impact of aid. The policies that Burnside and Dollar focus on

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credits of 35-40 years maturity with a grace period of 10 years and no interest (except for a small service charge of some 0.75 percent). IDA has now also begun to provide grants. The IMF's Poverty Reduction and Growth Facility (PRGF) is also for the IDA-eligible low income countries and has considerably softer terms than the IMF resources provided to other countries.

[9] The content of reforms, though has a bearing on country ownership in one important sense: to the extent that a reform package contains elements that are imposed on a country without the country being convinced that that is appropriate and worth the political and social costs, those elements of the reform package will not have ownership and that may undermine ownership of the entire program.

[10] Craig Burnside and David Dollar, "Aid, Policies and Growth", *American Economic Review*, 90 (4): 847-68, 2000.

[11] See for example:
William Easterly, *The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics* (Cambridge, Mass: MIT Press, 2001); and
_________"Can Foreign Aid Buy Growth?" *Journal of Economic Perspectives,* 17 (3): 23-48, 2003.

[12] Both the UN Millennium Project (2005) and the joint IMF-World Bank (2004) reports lament, at several points the lack of alignment of inter-country aid allocations with what achieving the MDGs calls for either in terms of needs or ability to use aid well for advancing progress towards the MDGs.

are macroeconomic stability and trade-openness[13]. But arguably policies that are good enough for aid to be effective to a reasonable degree are unlikely to be good enough for rapid, sustained growth.

The disappointment with policy conditionality of adjustment programs has also led to the questioning of any *ex-ante* conditionality at all. Amongst aid donors, the UK government has been at the forefront in abandoning the linking of aid to actions taken by government to fulfill specific conditions imposed by donors as opposed to criteria for allocating aid based on outcomes and a general assessment of the policy environment, including with respect to democracy and human rights.[14] The World Bank is actively reconsidering its approach to conventional conditionality along broadly similar, though as yet, rather less radical, lines. [15]

Accelerating Growth for Achieving the MDGs: Beyond the Washington Consensus

The view of the state implicit in the policy prescriptions of the BWIs that became oversimplified as the Washington Consensus was clearly influenced by the ample cases of failures of government intervention. It turned out that much of the policy analysis in the 1950s and 1960s and probably well into the 1970s was based on too simplistic or naïve view of the state. Governments were viewed as being able and willing to intervene in an effective and efficient manner without being hijacked by rent-seekers. No doubt this positive view of government interventions in the economy was influenced by experience during the Second World War and the great depression that followed the crash of 1929, as well as the success of central planning in the bringing about rapid industrialization in Russia. At any rate, many developing countries experienced a long litany of disastrous government interventions in the economy from the 1950s through the 1970s. The multitude of examples included the abuse of development finance institutions or directed credit to lend to the politically powerful rather than the economically viable (compounded at times by allowing them to get away with defaulting on the loans); of protection degenerating into pure rent-seeking rather than being used to help infant industries grow up; of excessive regulation that served mainly to stifle investment and/or breed corruption; of bloated and inefficient public enterprises; or the corruption and ineptitude of agricultural marketing boards. The upshot was a growing awareness of government failure; of the need to balance the costs of market failures against those of government failure in the

[13] More precisely their measures of policy are a dummy variable for trade-openness; inflation as a measure of monetary policy; and two fiscal variables: the budget surplus and government consumption both as a proportion of GDP.
[14] DFID (2005) *op.cit*.
[15] See, for example:
Stefan Koeberle, "Should Policy-Based Lending Still Involve Conditionality?", *The World Bank Research Observer*, 18 (2): 249-273, Fall 2003; and
World Bank, *From Adjustment Lending to Development Policy Support Lending* (Washington DC: World Bank, 2002)

design of public policy. The deficiencies of central planning were also becoming apparent well before they were dramatically underlined by the implosion of the Soviet Union.

The paradigm got turned upside down and the naïve or overly simplistic faith in governments was replaced by an equally naïve belief in markets. Ironically, this was happening at around the same time as the full measure of the success of the East Asian developmental states was becoming apparent. But its lessons appear to have somehow gotten lost in the disillusionment with governments as correctors of market failures not just in developing countries but also in the rich countries as reflected in the rise of Thatcherism and Reaganomics. Perhaps this was because it seemed so much easier, especially for outsiders, to prevent governments from intervening than to reform governments and their institutions or help them with the detailed, context-specific design of interventions.

In as much as the Washington Consensus served to redress the balance between markets and governments, it performed a valuable function. It focused attention on the importance of macroeconomic stability for growth; along with that of openness to trade; and of the case for privatization, deregulation and liberalization. What it can be criticized for is going too far in the opposite direction for too long; for neglecting the fact that one can have too much of "good policies" in that beyond a point, more of a good policy can be bad. That reducing budget deficits or inflation can be good does not mean the more the better. A bloated and inefficient public sector does not mean that the greater the speed and breadth of privatization the better without regard to concerns with "fire sales" fetching too low prices or with replacing public with private monopolies or the transparency of privatization processes. Too often adjustment programs under the aegis of the BWIs seemed to suffer from this sort of surfeit of good polices. These and other failures of particular policies such as liberalization of the financial sector or agricultural prices without attention to attendant government actions to ensure that they served their purposes adequately; along with such spectacular financial crises as the East Asian one in the closing years of the last century and the Argentinean one at the beginning of the 21st century have been seen as further evidence of the excesses of liberalization. [16] In particular, the IMF's push for full and fast liberalization of the capital account has been held accountable in large measure for the East Asian financial crisis. [17]

In addition to such spectacular specific crises and particular policies with mixed or disappointing results, the concern to reform the reform packages emanating from the Washington Consensus, has also stemmed from the following trends in the world economy.

[16] For an account of these and other shortcomings of the policies advocated by the BWIs, especially the IMF, and the US Treasury see Joseph Stiglitz*, Globalization and Its Discontents*, (New York: W.W. Norton, 2002). Also see, Stiglitz (2004) *op.cit.*
[17] *Ibid*.

- The poor economic performance of Africa -- the region where the BWI policy conditionality has been most pervasive and prolonged -- during the 1980s and 1990s and into the 21st century. Not only has growth in many countries been slower than in the pre-reform decades of the 1960s and 1970s but several have experienced falling per capita incomes.
- The disappointing results of the reforms introduced widely in Latin America since the end of the 1980s. As Hausmann and Rodrik point out, in terms of the consensus view 'the quality of policymaking in Latin American countries has been unmistakably and significantly better in the 1990s . ……… yet these economies response to the reforms was extremely disappointing ……..economic growth in the 1990s has been on average much lower that in the decades before 1980, even though the region was closed to trade and had poorer institutions by most benchmarks in the earlier period"[18]
- The traumatic experience of the transition economies of Eastern Europe and the former Soviet Union with the depth and length of the transition recession far exceeding the prognosis of those at the forefront of advice and conditionality on reforms and where, on average, output is still to recover to its pre-transition level in 1989, with some dramatic failures in key policy areas.
- In striking contrast to these disappointments, stands the extraordinary success of the East Asian "miracle" model and its variants, first in the original star performers, especially Korea and Taiwan, but also in such countries as Thailand, Malaysia, China, India and Vietnam, all of whom pursued more interventionist policies than those of the Washington Consensus orthodoxy and liberalized in a more measured and heterodox manner. The East Asian success story has inspired a large literature on the ingredients for sustained, rapid growth and poverty reduction, including notably by the World Bank[19]. Alice Amsden[20] and Robert Wade[21] put particular emphasis on the "developmental state", able to intervene actively -- to both reward and punish—particularly in the areas of export promotion, the financial sector and technological upgrading. Others who have written extensively on the lessons of East Asain success include Evans, Hausmann, Rodrik and Stiglitz.[22]

The lessons of these failures and successes have not only led to research and rethinking but also modifications in the design of reform programs advocated by the BWIs. Perhaps the most dramatic case is that of the IMF abandoning its unqualified

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[18] Ricardo Hausmann and Dani Rodrik, "Economic development as self-discovery", *Journal of Development Economics* (72: 2003) p.603.
[19] World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press for the World Bank), 1993.
[20] Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization*, (New York: Oxford University Press, 1989)
[21] Robert Wade, *Governing the Market* (Princeton, NJ: Princeton University Press, 1990)
[22] See, for example: P. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton, NJ: Princeton University Press, 1995); R. Hausmann and D. Rodrik (2003) *op.cit.*; and J. Stiglitz, "Some Lessons from the East Asain Miracle", *World Bank Research Observer*, (11:151-177, 1996)

advocacy of liberalization of foreign capital inflows. Other notable examples include fiscal adjustments that are more sensitive to their social impact; privatization plans that do *not* set time-bound targets for enterprises to be privatized and are more selective in what, when and how to privatize; inclusion of institutional reforms centered around governance (especially public financial management and corruption); and more generally the recognition that liberalization of prices and controls is not sufficient for evoking a supply response and needs to be supplemented by other measures (improving the business environment, removing infrastructural bottlenecks, improving access to finance or the functioning of agricultural markets and so on). The extent to which these improvements are reflected in particular programs no doubt varies depending not only on country circumstances but also on the personalities involved and the relative roles and dispensations of various organizational units within the BWIs in particular instances of program design; as well as on how disputes between the staffs of the World Bank and the IMF are resolved. As an aside, it is worth noting that there is an important distinction between the two institutions that is often lost sight of. The World Bank is a more complex organization with a more varied mandate and professional background of staff; and a history of being rather more open, intellectually lively, eclectic and flexible.[23] There are often considerable disagreements between the staffs of the two organizations but they remain hidden because their major shareholders insist that they speak with one voice, especially when dealing with borrowers.

Joint reports of the IMF and the World Bank, such as the Global Monitoring Report on the MDGs[24] with which this paper began may reflect compromises and not necessarily the frontiers of their analytical work. But by the same token, it also serves to indicate the policy prescriptions that the BWIs are jointly advocating and where they stand in the debate on policies needed to accelerate growth or how far they are from the oversimplification that is referred to as the Washington Consensus. The Report repeatedly emphasizes the importance of acceleration of growth for achieving the MDGs, especially in Africa, and of reforms for faster growth. So what are its policy prescriptions?

Whilst noting that "cutting across the policy agenda is the need to improve governance", [25] the report identifies five areas of policy reform; three of which bear directly on the growth issues. These three and the main thrust of the reforms under them can be summarized as follow.[26]

1. Solidifying Macroeconomic Stability: while there has been widespread progress in developing countries, vulnerabilities remain; "fiscal management is the area of most concern". Also, in several middle-income countries, "the reduction of public debt, especially external debt, relative to GDP remains a

[23] This is illustrated by the varied schools of thought that its Chief Economists have come from ranging from Anne Krueger to Joseph Stiglitz. On the differences between the IMF and the World Bank, see for example, Stiglitz (2004) *op.cit.*
[24] IMF and World Bank (2004), *op.cit.*
[25] Ibid, p.5.
[26] The other two pertain to strengthening infrastructure and human development. Whilst these too have a bearing on growth, especially in the longer-term they are more about delivering the services needed b y the poor for achieving the MDGs.

key area ……. Governance of financial and corporate sector also needs to be strengthened to prevent the build-up of balance sheet vulnerabilities".[27]

2. Improving Private Sector Enabling Environment: first, by further "progress toward outward-oriented strategies. Despite significant liberalization there is substantial scope for further reduction in trade barriers". Also "the agenda includes efficient supply of services closely related to trade …… and improvement of the broader enabling environment for entrepreneurship and private investment".[28]
3. Upgrading Public Sector Governance: this is identified as the area where the "need to accelerate reforms is greatest". The key requirements are for (a) controlling corruption though "reform is complex" and "less amenable to 'technocratic' solutions"; and (b) building on progress in public financial management, the importance of which is "underscored by the need to create fiscal space for increased spending on key infrastructure and human development services"; this also calls for eliminating tax exemptions and improving tax administration to raise revenues "although the bulk of the financing needed to achieve MDGs will have to come from improving the efficiency of existing spending, economic growth and external resources".[29]

Whilst such a summary cannot do justice to the joint report, it aims to capture the highlights and the main thrust and flavor of its recommendations on the policy reforms needed to accelerate growth, especially in Africa, for achieving the MDGs. At this level of generality, there is little to quibble about with the recommendations. By and large, they are likely to be helpful in most circumstances. But there are two important caveats. One is that the devil will lie in the details: their efficacy in accelerating growth will depend on precisely how these general nostrums are translated into specific actions in particular country circumstances. The second caveat is the opportunity cost of such reforms i.e. the reforms that will be foregone because of their adoption. This may well be not so much a matter of mutual exclusivity as of competition for occupancy of limited reform space: the political and administrative capacity for reforms is limited, especially in the least-developed and poorly performing economies.

With regard to the first of these caveats, there is, for example, no gainsaying the importance of macroeconomic stability for growth but there can also be a conflict between stabilization and growth and the issue is one of striking the right balance. Similarly, exactly how fiscal deficits are reduced matters. Perhaps even more so do the details of outward-oriented policies. Indeed, central to the debate on the lessons of East Asia is the role of government intervention in promoting outward-orientation; the mixture of carrots and sticks used to promote exports and the role of industrial policy, including the use of protection to nurture infant industries and to foster dynamic comparative advantage. This debate also bears on the issue of how to provide the services related to trade and stimulate the private sector that the second of the three areas of reforms identified above also calls for. The phrase "enabling environment" has the connotation of

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[27] Ibid. p.6.
[28] Ibid, p.6.
[29] Ibid. pp 7-8.

getting rid of government restraints and regulations and whilst there may be much to be said for doing that in particular contexts, it begs the question of what positive role the government might play, for example, in facilitating access to credit or more generally socializing risks of private investment. Similarly for the third area of reform, there is the question of what type of governmental capacity building is to receive what priority. How far and with what urgency should that go beyond the ability to control corruption and manage public finances adequately into such areas as the capacity for the promotion and regulation of a dynamic, efficient, technologically progressive private sector both in industry and agriculture? What are the requirements of such capacity building?

These and other similar questions posed by the success of the Asian countries that strayed fairly far from the Washington Consensus and that are most likely to meet the MDGs are largely omitted from the joint IMF-World Bank report on the MDGs. The joint report does not systematically examine the policy options suggested by the successful countries for those that are not on track for meeting the MDGs, particularly in Africa. The World Bank's own study of the East Asian miracle[30] noted that rapid, sustained, poverty-reducing growth in the countries of East and Southeast Asia, saw resort to a wide variety of policy instruments but that they all performed a common set of basic functions. These included ensuring access to credit in adequate amounts and on appropriate terms, promotion of new exports and technologies and generally reducing the risks of private investments. Arguably all these are vital for MDG-achieving growth in Africa.[31]

Nonetheless, they receive scant attention in the joint BWI report in that its policy recommendations eschew any consideration of the heterodox, eclectic interventions used in the successful Asian countries and remain largely within the bounds of the predilections of the Washington Consensus. These may or may not be adequate for achieving the MDGs but they are unlikely to maximize the probability of doing so. At any rate, the pursuit of the MDGs in countries that are falling short requires the exploration of the full range of growth-enhancing policy options suggested by those most likely to achieve them.

Needless to say, this is not an easy task. The difficulties of design of context specific heterodox interventions are compounded by the implementation limitations of governments. These flow from both the technical/administrative capacity constraints as well as the political willingness and ability of governments to intervene effectively. Some sort of typology of states by their political economy and stage of development would help. On the first of these, there are the extremes of, on the one hand, the failed or fragile states caught in political chaos and/or civil war and/or predatory/kleptocratic governments -- there is little role for economic policies to accelerate growth in them and

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[30] World Bank (1993) op.cit.

[31] One type of risk that is especially acute in much of Africa with particularly deleterious effects on pro-poor growth is that which stems from poorly functioning agricultural markets, which result, inter alia, in a high degree of price volatility. These are related and compounded by weather related fluctuations in output. Insurance against such risks, including possibly measure to reduce price instability could have a very high pay-off for the poor and economic growth.

no hope for achieving the MDGs without a political transformation. On the other hand, there are the developmental or quasi-developmental states well on their way to reaching the MDGs. There is little for the BWIs or other IFIs to do in either. But most countries, no doubt, fall somewhere in the middle. And it is on these that the IFIs should focus their attention for policy advice, particularly those that are growing too slowly to get to the MDGs and have serious, committed and reasonably honest governments, at least at the highest political levels (Ethiopia is a prime example of such a government).

Classifying their member governments in this way would obviously pose delicate problems for the IFIs. But issues of corruption and governance, which were once deemed too sensitive, are now commonly addressed by the BWIs and other IFIs. Mobilizing the vast resources of the BWIs, especially their knowledge and experience of policy analysis and formulation, to systematically address the question of the policy options and of the detailed design and implementation of policies in a heterodox manner liberated from the confines of what is widely, if somewhat exaggeratedly, called the Washington Consensus is likely to have a high pay-off. That may even be necessary if the countries that are too poor and growing too slowly to achieve the MDGs at present are to shift to a path that will get them there. For that sort of evolution in the praxis of the BWIs to happen, it is not just a matter of the technocrats of these institutions telling themselves "physician heal thyself" but also for their major shareholders, notably the US, to allow them the license to do so.