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To: Members of the Committee of the Whole
for the Development Committee

From: The Secretary

Subject: **Achieving the MDGs and Related Outcomes—A Framework for Monitoring Policies and Actions**

Attached for consideration by the Committee of the Whole for the Development Committee is a paper, prepared jointly by the staffs of the Fund and the World Bank, on *Achieving the MDGs and Related Outcomes: A Framework for Monitoring Policies and Actions*, which is tentatively scheduled for discussion by the Committee of the Whole on **Wednesday, March 19, 2003**. At the World Bank, the note is scheduled for discussion by the Committee of the Whole on Tuesday, March 11, 2003.

This paper has been prepared in response to the Development Committee's request in September 2002 that the Bank and the Fund prepare a document proposing a framework for regular monitoring of the policies, actions and outcomes needed to achieve the Millennium Development Goals. Following discussion by the two Committees, the paper will be revised as needed and provided to the forthcoming Development Committee meeting. Following that the intention is to post the paper on the external website of the Development Committee.

Questions may be referred to Mr. Boughton (ext. 37477) and Mr. P. Fallon (ext. 35993) in PDR.

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DISCUSSION DRAFT

ACHIEVING THE MDGS AND RELATED OUTCOMES: A FRAMEWORK FOR MONITORING POLICIES AND ACTIONS

FEBRUARY 26, 2003

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CPIA	Country Policy and Institutional Assessment
DATA	Data Accountability and Technical Assistance
DC	Development Committee
DESA	Department of Social and Economic Analysis
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
I-PRSP	Interim PRSP
JSA	Joint Staff Assessment
LICUS	Low Income Countries Under Stress
MCA	Millennium Challenge Account
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NPV	Net Present Value
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OECD-DAC	OECD's Development Assistance Committee
OED	Operations Evaluation Department
PARIS 21	Partnership in Statistics for Development in the 21st Century
PRSP	Poverty Reduction Strategy Paper
QAE	Quality at Entry
QAG	Quality Assurance Group
RBCAS	Results-Based CAS
ROSCs	Reports on Standards and Codes
TB	Tuberculosis
TRI	Trade Restrictiveness Index
UN	United Nations
UNCTAD	UN Commission on Trade and Development
UNDG	UN Development Group
UNDP	UN Development Programme
UNICEF	UN Children's Fund
WBI	World Bank Institute
WDR	World Development Report
WDI	World Development Indicators
WHO	World Health Organization
WITS	World Integrated Trade Solution
WTO	World Trade Organization

ACHIEVING THE MDGS AND RELATED OUTCOMES: A FRAMEWORK FOR MONITORING POLICIES AND ACTIONS

ACHIEVING THE MDGS AND RELATED OUTCOMES: A FRAMEWORK FOR MONITORING POLICIES AND ACTIONS

Executive Summary

I. INTRODUCTION

i. At the last meeting of the Development Committee (DC), Ministers highlighted the importance of the determined implementation of the agreed strategies and partnerships for achieving the Millennium Development Goals (MDGs). They said that the Development Committee would contribute to the implementation agenda through regular monitoring of the policies, actions, and outcomes needed to achieve the goals, and asked the Bank and the Fund to make proposals for taking their intention forward. This draft report is an initial response to the Committee's request. In preparing it, staff have focused on how the exercise could best add value to existing international efforts to monitor the MDGs, especially by the UN where a comprehensive program of monitoring, research, and advocacy is under way.

ii. Staff have also considered how the exercise might contribute to ongoing efforts to enhance the effectiveness of the Development Committee. In line with the experience of the IMFC, for which the *World Economic Outlook* provides a unifying thread across meetings as well as the context for Ministerial discussion of particular issues, regular reporting on the implementation of the policies and actions for achieving the MDGs and related development outcomes could play a similar apex role for the Development Committee. In due course, such an apex report might also reduce the need for stand-alone progress reports by summarizing and consolidating relevant material on different topics even as it served as a vehicle for highlighting one or two particular issues for more in-depth treatment in a possible companion or follow-on report.

iii. These considerations lead staff to propose regular reporting to the Development Committee on the main policies and actions in the areas of Bank and Fund mandates that developing and developed countries are implementing to facilitate the achievement of the MDGs and related development outcomes. To give Executive Directors and Ministers a picture of what such reporting might involve, this paper has been drafted as an interim report along these lines. But it is still very early days in the current exercise, and much work will be needed to fully develop its potential for anchoring Development Committee discussions. In preparing this initial report, staff have focused on assembling and analyzing data from existing sources—within the Bank and the Fund but also from partners—to see how this information might be adapted to the needs of global monitoring in response to the Committee's request. Over time, with the strengthening of the data, further research on the development impact of specific policies, and feedback from Executive Directors and Ministers, reports to the Committee could become increasingly specific and quantified in terms of their findings and recommendations.

II. Priorities for Policies and Actions

iv. Within the international system, the monitoring of the MDG targets and indicators, and progress toward achieving them, is being led by the UN, through a major program of research and advocacy that is being supported by other agencies, including the Bank and the Fund. Complementing recent UN reports on the MDGs, the picture emerging from the Bank's work in the context of this year's WDR on *Making Services Work for Poor People*, the *World Development Indicators*, and the recently issued *Poverty Reduction Progress Report,* and the Fund's work in the context of the *World Economic Outlook* is broadly similar. On current growth trends in low-income countries, while other regions will achieve or come close to the goal of halving income poverty by 2015, Africa will fall far short. Most countries in Africa will need to almost double their GDP growth rates to achieve the poverty reduction MDG. And the human development MDGs are even more at risk. None of the regions will achieve the MDG for child mortality on current trends and most will fall far short. Nor will faster growth alone be sufficient. While growth has a significant effect on health and education outcomes, the magnitude of the effect is typically much smaller than on income poverty. Stronger actions aimed directly at the sources of human deprivation as well as faster growth are needed to achieve the goals.

v. The global consensus forged last year at Monterrey recognized this challenge. It embodied a view of the key drivers of development and poverty reduction in all their dimensions, especially the critical importance to developing countries of (i) creating an environment for growth, improvements in productivity, and enhanced job opportunities, and (ii) investing in poor people. It saw governance and capacity-building as crucial. And it recognized that developed countries had a vital role to play in many dimensions, in particular by providing more resources to support developing countries in their efforts to fight poverty and opening their markets to the products of developing countries. At Monterrey, developing and developed countries signed on to this agenda, noting that the goals called for rising above current trends and scaling up development efforts and their impact, and agreed to follow-up in their respective areas. One year later, where are we in delivering on the agenda—in particular on the critical policies and actions? What light does the preliminary work on global monitoring shed on the record of implementation and the priorities going forward?

vi. ***Developing Countries.*** Turning first to the developing countries, the assessment for this initial report focuses on the broad policies and actions noted above as being critical for the attainment of the MDGs and related development outcomes. Complementing the sectoral and micro approach adopted in the companion paper for the Development Committee—*Progress Report and Critical Next Steps in Scaling up: Education for All, Health, HIV/AIDS, Water and Sanitation,* the analysis and conclusions in this report are more cross-sectoral and macro, based on information drawn from existing Bank, Fund, and other reporting vehicles and the findings of research. Looking across developing countries, the data show that there has been encouraging progress on macroeconomic and trade policy (average inflation and tariff rates have halved in the past decade), which must be sustained and deepened. In many cases, however, this progress has not been reflected in commensurate improvements in growth, productivity, and poverty reduction. In 2001, more than half of low-income countries (with a combined population of about 800 million) had per-capita income growth of less than 2 percent, which may be considered the bare minimum to be on track to achieve the development goals, with nearly a third (with a combined population of about 225 million) experiencing negative growth. To be sure, exogenous factors such as adverse political and external circumstances—including the degree of availability of aid resources and market opportunities in developed countries—have played a role, but limited progress on structural and governance reforms has contributed to the slow pace of the growth response. Going forward, the review of policies and outcomes in low-income countries conducted for this report points to three broad areas for attention in most countries:

- The enabling environment for private sector activity needs major improvement. This includes upgrading the regulatory and institutional environment, complemented by continued strengthening of supportive infrastructure—physical and financial. In 2002, according to Bank Country Policy and Institutional Assessments (CPIAs), almost two-thirds of low-income countries had business environments that could seriously inhibit domestic and foreign investment. This picture is corroborated by findings from the Bank's Doing Business project and country Investment Climate Assessments. The most serious shortcomings are in property rights and rules-based governance, underscoring the need to pay greater attention to policies and institutions to establish and enforce the rule of law (including legal and judicial reform and reduction of bureaucratic harassment).

- For many countries, the need for improvement is greatest and most urgent in public sector governance. The need for accelerated reform and capacity-building spans public sector management broadly, including public expenditure and financial management, but especially transparency, accountability, and control of corruption. Public sector governance was rated less than satisfactory in more than three-quarters of low-income countries in 2002 CPIAs, making it the weakest area of performance—although it must be noted that this is a particularly complex area of reform and there is a trend toward improvement. The HIPC expenditure-tracking indicators and the World Bank Institute's corruption index tell a similar story.

- Human development efforts need to be scaled up, including both higher public spending on education and health (currently it is only 6.5 percent of GDP on average in low-income countries) and more effective service delivery to poor people. This calls for more pro-poor allocation of spending, capacity-building and higher quality of governance, attention to intersectoral linkages (for example, importance of water, sanitation, and education to the health goals—with gender issues playing a critical cross-cutting role), and increased public-private partnerships, including civil society involvement, as spelled out in greater detail in the *Progress Report and Critical Next Steps in Scaling up.*

vii. For the middle-income countries, policy performance indicators are on average higher than for the low-income countries across the board, but the relativities remain broadly the same, with governance also the weakest area. Overall, while there has been substantial progress on policies, many of these countries still face a sizable reform agenda to ensure sustained growth and extend gains in poverty reduction. Since the middle-income countries are typically more integrated with international capital markets, strengthening policies to foster sustainable economic growth and reduce the incidence and severity of economic and financial crises is a particular priority. The output losses from crises have been large (averaging some 7½ percent of pre-crisis levels), sharply eroding hard-won gains on poverty reduction in many cases. Avoiding crises and sustaining growth requires improvements in macroeconomic policies, governance, and the structure of the financial and corporate sectors.

viii. ***Developed Countries.*** The review of relevant policies of developed countries in this initial report draws on existing Bank and Fund reporting vehicles and reports and studies of partner agencies such as the DAC and the WTO. With respect to these countries, there are two priority areas for action, in addition to the broad conduct of macroeconomic policies that are conducive to the stability and growth of the world economy that is so vital to developing country prospects:

- Increased market access is crucial, to enable developing countries to reap the benefits of reforms they are undertaking. Priorities are: agricultural liberalization (total public support to agriculture in OECD countries is more than $300 billion, six times their ODA), increased market access for exports of textiles and apparel (barriers to developing country textile exports cost them an estimated 27 million jobs), and elimination of tariff escalation (the average tariff on imports from developing countries is four times as high as on imports from other developed countries, with escalating rates on processed developing country exports). More rapid growth in developing countries associated with a full liberalization of trade in goods could lift an additional 300 million people out of poverty by 2015. The opportunity provided by the Doha Development Round must be seized to make major progress in these priority areas.

- Reaching the MDGs will require more and better aid. At current ODA levels, around $50 billion annually (which also covers items such as technical assistance and related administrative costs, and emergency and disaster relief), there is a large gap between the development ambitions of the international community and the resources provided. New commitments made since Monterrey, if fulfilled, would raise ODA by $15 billion by 2006, but are well short of the $50 billion or more needed in additional aid if the MDGs are to be achieved. Also important is adequate support to debt relief for the heavily indebted poor countries. Complementary actions are needed to improve aid effectiveness, especially better allocation of aid across countries, closer strategic alignment with PRSPs within country programs, and harmonization and simplification of operational procedures as agreed in Rome at the High-Level Forum on Harmonization. The aid effort should include adequate and timely support to critical global programs, including the fight against HIV/AIDS, the Education for All Fast Track Initiative, and the efforts under way to scale up assistance for water infrastructure.

ix. ***International Financial Institutions***. The international financial institutions (IFIs) have important roles to play in the above—both as facilitators and as development actors in their own right. The World Bank and other multilateral development banks have a particularly important role in the policy dialogue and in supporting national development and poverty reduction strategies. The IMF, in addition to supporting such strategies, has a more general responsibility to help countries implement sound macroeconomic policies and to ensure a well-functioning international financial system. Key issues relate to Bank and Fund support for low-income countries, their work on the prevention and resolution of crises in middle-income countries, and their efforts to improve their own effectiveness through enhanced transparency and monitoring and evaluation.

- The Bank and the Fund are working to upgrade their lending, analytic, and capacity-building work in support of country development. The Bank has embarked on a major effort to increase its focus on results, grounded in its Country Assistance Strategies (CASs), building in turn on PRSPs (for low-income countries) and other national strategies (for middle-income countries). The MDGs are central to the Bank's corporate agenda, which is focusing on implementation at the country level, including through support for the enabling environment for private sector development, infrastructure, public sector governance, and global programs in HIV/AIDS, health, education, and water and sanitation. The Fund is seeking to improve the content and process of the PRGF by strengthening consistency between the Fund's program support and the PRSP and by working with the Bank to help countries reflect the MDGs in their PRSPs.

- Work is also under way, at the Bank and the Fund as well as other agencies, on a range of initiatives to improve the institutional capacity of emerging-market countries to put their financial systems on a sounder footing and to facilitate risk assessments by financial market participants. These include fostering the adoption of internationally recognized standards and codes, providing technical assistance on strengthening financial systems, and—in the case of the Fund—strengthening surveillance so as to give better and more timely warnings of potential crises.

- Also important for the credibility of the current exercise are ongoing Bank and Fund efforts to increase their own transparency and effectiveness. Both institutions have embarked on major efforts to this end in recent years, with new disclosure policies, greater attention to self- and independent evaluation, and open dialogue with critics. But there is no room for complacency. Going forward, transparency about Bank and Fund policies, actions, and outcomes and open reporting on measures of their own effectiveness and efficiency will need to be a central aspect of the global monitoring framework.

III. Priorities for Monitoring, Data Development, and Research

x. While the immediate task in preparing this report has been to inventory and analyze existing data and reporting vehicles, a systematic and phased effort will be needed to develop more robust, timely, transparent, and coherent data and indicators. These improvements are needed both to underpin future reporting to the DC and to inform monitoring between DC meetings. For the latter, a platform has been designed for the Development Gateway; data posted on it would allow developing and developed countries to benchmark their own policies, actions, and outcomes vis-à-vis comparators and to assess and compare country and agency efforts and performance more broadly. Priorities in the effort to improve data and policy metrics include the following:

- The need for social sector data is greatest in countries that are most likely to fall short of the MDG targets. The adoption of the MDGs has helped to focus donor efforts on measuring key target indicators, but significant data gaps remain, reflecting low country capacity, lack of incentives for reporting, and fragmentation in the international data system. These problems need to be addressed through a coordinated effort (building on the PARIS 21 initiative) to establish a time-bound reporting process, based on country-owned data processes (including regular household surveys) and international standards, combined with a sustained effort to help countries build capacity in their statistical systems. Such data systems are crucial for countries to manage their own efforts to fight poverty.

- While much of the underlying data and analyses assembled for this report are country specific, the conclusions presented in the paper are highly aggregated. In part this reflects the preliminary nature of this report. But it also reflects the fact that the data sources are not all publicly available at this stage. Policy and performance indicators for developing countries need to be made more transparent and quantified. The Bank's CPIAs could be used more effectively for country monitoring as well as for strengthening the policy dialogue and development partnerships if they were more publicly available. The IMF's Article IV reports and the Joint Staff Assessments of PRSPs and their implementation could also provide a more focused and explicit assessment of the consistency of a country's macroeconomic policies and poverty reduction strategy with the development goals. Also, given the importance attached to the quality of governance, the development of more robust, objective metrics in this area warrants special emphasis.

- With respect to developed countries, the monitoring of trade policy requires the further development and coordinated use of indicators and data compiled by the IMF, World Bank, UNCTAD and WTO. On aid, the main area for improvement is in the assessment of aid quality, especially in light of the Rome Declaration on Harmonization and the commitment to track and, as necessary, refine lead indicators of progress on harmonization. Relatedly, in connection with its work on the donor Peer Review process, the DAC Secretariat is embarking on work on possible norms and benchmarks, and also plans to prepare a synthesis report on findings on policy coherence based on the Peer Reviews done in 2001-2003. These initiatives need to be supported and accelerated.

- In parallel with the above work on indicators and data, there is need for further research. Current Bank and Fund efforts are focused on some key areas related to the agenda for the attainment of the development goals: the interrelationships between macroeconomic and structural factors in growth and poverty reduction; the role of investment climate and governance; trade (including the cost to developing countries of protection in developed countries); the macroeconomic implications and development effectiveness of aid; and improved delivery of public services to poor people. Going forward, there is need for further work to decompose the relative importance of the various policy and institutional determinants of poverty reduction and the other MDG outcomes, thereby sharpening the links between the CPIAs and the MDGs, which also will benefit from the work under way in the UN's Millennium Project to which the Bank and Fund are contributing.

IV. Issues for discussion

xi. In light of the dual nature of this interim report, two kinds of issues warrant discussion—the substantive analysis and conclusions drawn about the priorities for policies and actions for achieving the MDGs, and the procedural issues and priorities for monitoring and data development. With respect to the former, the following issues are proposed for discussion:

- ***Developing Countries.*** The report's focus on, and the relative importance of, the identified priorities for action with respect to the policy and institutional environment for private sector development, public sector governance, and critical service delivery to poor people.

- ***Developed Countries***. The emphasis on the need for increased market access for developing country exports, including the reduction of domestic subsidies in agriculture, and on more and better aid, including adequate support for global programs on education, HIV/AIDS, and water, and implementation of the good practice approaches to development assistance agreed in Rome.

xii. The proposals for monitoring and reporting to the DC presented in the paper are tentative, pending discussions by Bank and Fund Executive Directors in March and by the Development Committee in April. Subject to their endorsement, staff would move to implement the envisaged monitoring system over time. The proposed implementation would include further development of the data—including bringing in additional sources from MDB and other partners—and of the Gateway monitoring platform, and more detailed and specific regular reporting to the DC, with the coverage broadened to reflect more fully relevant monitoring efforts of the UN, other agencies, and civil society. In the meantime, the following issues are proposed for discussion:

- ***Overall Approach of Paper and Monitoring Platform.*** The paper's coverage and balance with respect to the proposed monitoring of developing countries, developed countries, and international financial institutions; and the proposed plan to provide a report at each meeting—an annual progress report at one meeting a year and a report on selected policy and monitoring issues at the other—as a vehicle for enhancing the continuity in the Development Committee's discussions and for focusing on implementation.

- ***Priorities for Monitoring, Data Development, and Research.*** The monitoring vehicles, especially the emphasis on (a) the need for a time-bound action plan to improve the social sector data for countries most at risk of not meeting the MDGs and to improve the robustness and transparency of the CPIAs and other policy metrics (in particular those relating to governance); and (b) for developed countries, the need for comparative measures of trade policy and aid quality and harmonization. The emphasis on research on the relative importance of the various policy and institutional determinants of the MDGs and related development outcomes, including interrelationships among them, to allow a sharper delineation of policy priorities and trade-offs.

ACHIEVING THE MDGS AND RELATED OUTCOMES: A FRAMEWORK FOR MONITORING POLICIES AND ACTIONS

I. Introduction

1. During the past 50 years, the developing world has seen tangible but uneven progress on growth and poverty reduction. Many countries have recorded substantial improvements in economic and social indicators, but others have lagged behind. The collective record of the past yields three main lessons. First, good development outcomes require good policies and institutions that in turn must be country-owned and country-specific. Second, the global economic environment, including for trade and market access, must be supportive. Third, when these conditions are in place, development assistance can be highly effective. As the Monterrey meeting made clear, there is broad consensus on these lessons. There also is broad consensus that the Millennium Development Goals (MDGs) provide a framework for many of the desired outcomes as well as agreement about the actions for achieving them—especially the policies and institutions that developing countries need to put in place, and the trade and aid measures that developed countries must take. On both sides, consistent and coherent implementation is key, reflecting the spirit of shared accountability in the new partnership for development.

2. ***Development Committee Request.*** When Ministers discussed the new partnership at the last Development Committee (DC) meeting, they stressed the importance of consistent and coherent monitoring in order to ensure the continued advance of the implementation agenda. As reflected in paragraph 9 of the Communiqué,[1] they concluded:

> *Our discussions have reinforced our conviction that major progress on achieving the Millennium Development Goals is possible. What is needed now is determined implementation of agreed strategies and partnerships on the part of both developed and developing countries, as well as multilateral agencies and the setting out of a clear framework identifying responsibilities and accountabilities by which progress can be regularly measured. The Development Committee intends to contribute to moving this implementation agenda forward through regular monitoring and review of the policies, actions and outcomes needed to achieve these goals. We request the Bank and the Fund to present proposals at our next meeting for taking this forward, whilst recognizing the role of the United Nations in monitoring the MDGs.*

3. ***Initial Response.*** This draft paper has been prepared jointly by Bank and Fund staff, in cooperation with the staff of other agencies, as an initial response to the DC's request. In summary, staff propose to commence regular reporting to the DC on the implementation of the main policies and actions that developing and developed countries need to take to facilitate the achievement of the MDGs, drawing on a global monitoring

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[1] See *Development Committee Communiqué*, September 28, 2002.

data platform for which a prototype has been designed. For this initial response, which is a first step in a series of efforts relating to a complex subject, we have focused on assembling and analyzing data from existing products—from the Bank and the Fund but also partner sources—to see how this information can best be adapted to the needs of global monitoring in response to the Committee's request. Over time, with the strengthening of the data and the monitoring platform and further research on the development impact of specific policies, these reports will become increasingly specific and quantified in terms of their findings and recommendations.

4. ***Structure of the Paper***. This paper is organized as follows. Chapter II provides background and context for the paper and the monitoring platform on which it is based, in terms of the international architecture for monitoring and the prospects for achieving the MDGs. Chapters III and IV look behind the MDGs to the conceptual framework and empirical evidence linking them to the policies and actions of developing and developed countries. Chapter V sets out the implications and options going forward. Following the discussion of the paper by Bank and Fund Executive Directors, the paper will be revised and shortened; a companion background document will be issued containing much of the material currently in Chapters III and IV, in footnotes, and in annexes.

II. Background and Context

5. In shaping the proposals for global monitoring, staff have focused on how the exercise could best add value to existing international efforts to achieve and monitor the MDGs, consistent with the mandate of the DC (Box 1). With this objective in mind, this chapter provides background and context on two issues central to this report—the existing international architecture for global monitoring and current thinking about where we are in terms of progress toward achieving the MDGs—as a basis for considering in subsequent chapters the monitoring of the implementation of key policies and actions for achieving the MDGs.

Box 1. Development Committee Mandate

The Committee's mandate under the 1974 Joint Bank-Fund Resolution establishing it can be described in these terms:

- The Committee is to provide a focal point in the structure of international economic cooperation for the formation of a comprehensive overview of diverse international activities in the development area and for efficient and prompt consideration of development issues.
- It is to coordinate international efforts to deal with problems of financing development.
- It is to maintain an overview of the development process.
- It is to advise and report to the Boards of Governors of the World Bank and the IMF on all aspects of the broad question of the transfer of real resources to developing countries and to make suggestions regarding the implementation of its conclusions.

A. Institutional Architecture for Global Monitoring

6. Given the breadth of coverage of the policies and actions of developing and developed countries relevant to the MDGs, there are a number of international

institutions involved in monitoring relevant aspects. This section deals in turn with those whose monitoring work underpins this preliminary report.

7. ***United Nations.*** Within the international system, the monitoring of the MDG targets and indicators, and progress toward achieving them, is being led by the UN, through a major program of research and advocacy that is being supported by other agencies, including the Bank and the Fund. These efforts involve monitoring at the global level through an annual report by the Secretary General and at the country level by UNDP-sponsored country MDG Reports, as well as the Millennium Project, a 3-year research project designed to identify strategies for reaching the MDGs, and the Millennium Campaign aimed at enhancing public support for the MDGs and fostering country ownership. Also, specialized UN agencies, such as UNICEF, UNCTAD, and WHO are important sources of data on some of the policies and outcomes related to the MDGs. The developments at the UN will continue to be supported and taken into account by staff as the global monitoring exercise takes shape.

8. ***International Financial Institutions***. The Bank and the Fund have important monitoring roles, given their policy dialogue with developing countries and their reporting requirements and accountabilities to their Executive Boards. Mirroring many of the World Bank's functions at the regional level, the Regional Development Banks have important monitoring functions that both serve the needs of client countries for benchmarking and feedback and also meet the needs of their respective Executive Boards. Going beyond these functions, the IMF has a special monitoring role given its mandate to exercise firm surveillance over developing and developed countries' macroeconomic and exchange rate policies.

9. ***DAC***. Given the central importance of enhanced aid flows to the achievement of the MDGs, the role of the Development Assistance Committee (DAC) of the OECD, which monitors aid flows, aid quality, and donor practices through the Peer Review System, is critical. DAC data also cover some aspects of the composition of aid relevant to aid effectiveness. DAC Peer Reviews monitor Members' development cooperation policies and programs and assess their effectiveness—inputs, outputs, results—against the goals and policies agreed in the DAC as well as nationally established objectives.

10. ***WTO***. The WTO administers trade agreements, provides a forum for trade negotiations, conducts diagnostic studies on specific trade issues, and monitors individual countries' trade policies through periodic trade policy reviews. The data and analysis prepared by the WTO serve as an important complement to the analysis and metrics developed by Bank and Fund staff in their work on country-level and global trade issues. Collaboration with the WTO will be especially important in monitoring progress on the Doha Development Round.

B. MDG Progress and Prospects

11. In line with the heightened interest in the MDGs throughout the world, much work is under way to assess progress toward achieving them. Some of this work predates

the actual adoption of the MDGs, but clearly work among researchers and national and international agencies has intensified with the adoption of the Millennium Declaration.[2] These reports all tell a similar story, in which the *global* target for eradicating extreme poverty—reducing the worldwide proportion of people living on less than one dollar a day by half between 1990 and 2015—is within reach if current trends continue, thanks largely to stronger economic growth.[3] These global trends, however, have been dominated by growth in China and India. Formidable challenges must be met if this progress is to be extended throughout the developing world, and especially in Sub-Saharan Africa, where many countries will not meet the target unless the current pace of development is accelerated. Low-income countries under stress (LICUS), about half of which are in Africa, are especially at risk of falling far short. For the other MDGs, even greater efforts will be needed, as most of them will not be met at current trends even at the global level.

12. ***Economic Growth and the MDGs.*** The emerging evidence points very strongly to the fact that many low-income countries will have to accelerate their economic growth if they are to achieve the MDGs. In turn, achieving stronger growth will require actions and policies by both developing and developed countries as set out in subsequent chapters. Table 1 summarizes the projections for poverty, primary education, and child mortality for the year 2015, based on current growth trends and outlook. It shows that for all regions but Africa the poverty reduction target is achievable on current trends.[4] In Africa, the pace of growth will have to quicken substantially, on some estimates double from current trends, if the poverty goal is to be achieved. The goals of education and health are particularly at risk. On the basis of current trends, the education target will not be achieved in some regions, and none of the regions will achieve the target for child mortality. While growth has a significant effect on health and education outcomes, just as it does on poverty, the magnitude of the effect is typically much smaller.[5] Prospects for progress on these goals also depend importantly on the scale and effectiveness of development interventions specifically directed toward them. On health, HIV/AIDS and other communicable diseases continue to spread at alarming rates, further aggravating

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[2] See *Implementation of the United Nations Millennium Declaration*, Report of the Secretary-General, United Nations, July 31, 2002.

[3] See *Poverty Reduction and the World Bank: Progress in Fiscal Year 2002* (SecM2002-0581; IDA/SecM2002-0558), November 22, 2002.

[4] While the income poverty MDG is defined in terms of proportion of people living on less than $1 per day, that definition underestimates the extent of poverty in regions where the true poverty line would be higher, e.g., in Europe and Central Asia. Numbers in Table 1, therefore, should be interpreted with that caveat in mind. Also, in some middle-income countries, especially large ones, while the national poverty rate may be relatively low, poverty may be much higher in parts of the country, e.g., Northeast of Brazil, Southern States in Mexico.

[5] The growth elasticity of income poverty is typically between 1 and 2, whereas that of child mortality and primary enrollment is around 0.5 (see D. Filmer and L. Pritchett, "The Impact of Public Spending on Health: Does Money Matter," *Social Science and Medicine*, Vol. 49, 1999; L. Pritchett and L. Summers, "Wealthier is Healthier," *Journal of Human Resources* 31(4), 1996; and P. Schultz, "School Expenditures and Enrollments, 1960-1980: The Effects of Income, Prices and Population Growth," in G. Johnson and R. Lee, eds., *Population Growth and Economic Development*, Madison, University of Wisconsin Press, 1987). These elasticities are of course not fixed, and can be higher with better policies and governance.

conditions affecting child and maternal mortality, and entailing serious economic and social consequences more broadly. Meanwhile, all regions are far from providing access to safe water, particularly to rural populations. The number of people with access to drinking water has to increase by about 250,000 people per day to meet the MDG for water supply. This is higher than the performance levels of the 1990s. It is lower than the levels of the 1980s, but many of those connections did not provide sustainable access to safe water. As for the sanitation target, providing access for more than 350,000 additional people per day will require a doubling of the efforts made in the past.

Table 1. Prognosis for Poverty, Education and Child Mortality MDGs

	Poverty headcount (% living on less than $1 per day)		*Primary completion rate (%)*		*Under-five child mortality (per 1,000 live births)*	
Region	MDG Target	*2015 growth alone*	*MDG Target*	*2015 growth alone*	*MDG Target*	*2015 growth alone*
East Asia	14	4	100	100	19	26
Europe & Central Asia	1	1	100	100	15	26
Latin America & Caribbean	8	8	100	97	17	30
Middle East & North Africa	1	1	100	96	25	41
South Asia	22	15	100	100	43	69
Sub-Saharan Africa	24	35	100	60	59	151

Source: *Global Economic Prospects*, World Bank, 2003; Devarajan, S., "Growth is not Enough," World Bank, 2001.
Note: "Growth alone" estimates are based on Global Economic Prospects base-case outlook.

III. CONCEPTUAL FRAMEWORK

13. The MDGs embody the multidimensionality of development. They span income and important non-income dimensions of development, which are also interlinked. In turn, the policy agenda implied by these goals is broad and multisectoral.[6] Economic growth is central to the reduction of poverty and related development goals. And, as discussed above, the attainment of the MDGs will require policies to promote stronger economic growth than seen recently or currently projected. But reaching these goals will also require policies specifically targeted to enhancing the capabilities of the poor to participate in growth, especially through improved access to education and health, as well as policies to improve environmental outcomes. Also essential will be increased cooperation at the global level, in which stronger reform efforts by developing countries are matched with enhanced support from developed countries and international financial

[6] The interlinked nature of the MDGs and their multisectoral determinants are illustrated by a recent study with respect to child mortality. The study finds that, holding other factors constant, child mortality declines by 3 to 4 percent if access to drinking water improves by 10 percent, by 3 percent if years of schooling among women rise by 10 percent, by 0.8 to 1.5 percent if government health spending rises by 10 percent, by 1 to 1.5 percent if the density of paved roads rises by 10 percent, and by 2 to 3 percent if per capita income growth rises by 10 percent. See Adam Wagstaff, "Intersectoral Synergies and the Health MDGs: Preliminary Cross-Country Findings, Corroboration and Policy Simulations," processed, World Bank, 2003.

institutions, in line with the commitments made at Monterrey, Doha, and Johannesburg. The challenge is to rise above current trends, and *scale up*—stronger growth, increased development effectiveness of services to the poor, more resources and market access in support of development. As the quest for better development outcomes must begin with developing countries—and their policies, institutions, and governance—this chapter likewise begins there. It then turns to the policies and actions of developed countries.

A. Developing Countries

14. The lessons of research and experience have produced a broad consensus on an effective strategy for development, one that is country-owned and country-led, promotes growth, and ensures that poor people participate in it and benefit from it—and that produces maximum progress toward the MDGs. The strategy has two interlinked and mutually reinforcing facets: (a) the need for a good enabling climate for economic activity that encourages private firms and farms to invest, create jobs, and increase productivity; and (b) the need for empowerment of and investment in poor people. Improvements in the enabling economic climate spur growth but also expand opportunities for the poor. Empowerment of poor men and women through improved access to education and health fosters social inclusion but also promotes growth through stronger participation of these groups in economic activity.[7]

15. ***Enabling Economic Climate.*** The first facet focuses on the process of growth, and is concerned with improving the environment for entrepreneurship, investment and innovation by the private sector, the main engine of growth in an economy. A good economic climate not only spurs domestic economic activity, but is also the most important determinant of inflows of foreign investment. An enabling climate is a function of several policy elements, the main ones being:

- Sound macroeconomic policies—sustainable fiscal, monetary, and exchange rate policies and prudent debt management—are key to generating sustainable economic growth with low inflation and instilling investor confidence. By fostering a stable economic environment, sound policies—neither too loose nor overly restrictive—encourage saving and investment. Good macroeconomic policies also play an important role in averting the high costs imposed by financial crises in terms of lost output and increased poverty. Emerging market countries in particular need to maintain policies that sustain investor confidence and avoid the risk of capital flight.

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[7] Improvements in education and health are ends in themselves, but are also means to stronger economic growth by raising worker productivity. One study estimated that a 10 percent improvement in life expectancy at birth can raise the per capita income growth rate by 0.4 percentage point (see *Macroeconomics and Health: Investing in Health for Economic Development,* Report of the Commission on Macroeconomics and Health, World Health Organization, 2001). Another study estimated that an additional year of schooling can raise the growth rate by about 0.5 percentage point (see Robert Barro, "Human Capital and Growth," *American Economic Review,* Papers and Proceedings, Vol. 91, May 2001).

- Trade policy is another key area as openness to trade expands opportunities for growth and diversification and spurs innovation. Development success has generally been associated with an outward orientation with respect to trade policies, with trade acting as a crucial engine of growth.

- Good governance and institutions are essential to competitive and efficient functioning of markets, providing a level playing field and predictability and enforceability of contracts to investors. This is especially important for smaller firms, with their weak capacity to finance the costs of dealing with excessive and arbitrary regulations.

- Investment and productivity also depend on the availability of adequate infrastructure, financial and physical—banking and finance, transport, power, telecommunications. The soundness of the financial sector is also an important complement to sound macroeconomic management in maintaining economic stability and strengthening an economy's resilience to shocks.

16. ***Investing in Poor People.*** The second facet of the development strategy is concerned with increasing the capabilities of poor people, by enabling their access to key public services, and fostering social inclusion:

- Better access of the poor to education and health care, and better quality of these services, are critical to expanding opportunities for them to improve their well-being. This calls for allocating adequate public resources to spending on human capital development and, equally importantly, improving public sector management and governance, including building the capacity of related institutions, to ensure the effective delivery of these services to the poor. Good governance is key to the effectiveness of public services more generally.

- Also important is the poor's access to social protection—well-targeted safety nets that mitigate risks faced by the poor and vulnerable, arising from unforeseen shocks or the initial social costs of elements of policy reform.

- The effectiveness of a strategy to empower and invest in the poor depends to an important degree on mechanisms that foster the poor's participation in decisions that affect them. Enabling the poor to have an increased voice needs to be an integral element of this strategy.

- Cutting across this agenda is the empowerment of women by removing barriers to their fuller participation in the development process.

17. ***Environmental Sustainability.*** Both the investment climate and empowerment of the poor have environmental dimensions. The goal of environmental sustainability requires that the principles of sustainable development be fully integrated in economic policies. Environmental concerns are addressed through an agenda similar to that outlined above, spanning policies that generate the right incentives for private agents

(using and creating markets, through instruments such as taxes, user charges, concessions, tradable permits), regulation (particularly for toxic substances or where market-based instruments are impractical), capable institutions, and engagement of the public. There exist important linkages between environmental and other development outcomes, such as those relating to poverty alleviation and human development, that need to inform policymaking (e.g., importance of appropriate natural resource management to rural incomes, of access to water and sanitation to child mortality).[8]

18. ***Country Focus.*** The different elements of the policy agenda outlined above need to come together at the country level within coherent overall country strategies for sustainable growth and poverty reduction, which are responsive to local conditions and priorities and are nationally owned. For low-income countries, the PRSP is the primary expression of such a strategy. Policy priorities vary across countries and time, and policies also vary in terms of the relative weights they carry with respect to the different development goals. It is through integrated country development strategies that priorities are determined and coherence achieved. And country ownership and leadership of the development strategy are crucial; indeed, an overarching lesson of research and experience has been how they are vital to effective implementation and achievement of results.

B. Developed Countries

19. As recognized in the MDG number 8, the attainment of the agreed development outcomes will require, in addition to stronger reform actions on the part of developing countries themselves, enhanced support from their developed country partners. The latter help when their macroeconomic polices contribute to stability and growth in the world economy. But the Monterrey Consensus also envisages increased support from developed countries in two key areas that affect outcomes in the developing world more directly—trade policy (especially market access) and aid.

20. ***Macroeconomic Policies.*** As developing countries become more integrated into the world economy, developments in these countries are increasingly affected by external influences, particularly economic conditions in the advanced countries. These influences are channeled principally through the impact on trade and capital flows. Growth in developing countries cannot thrive if the world economy is not robust. It is estimated that a 1 percent reduction in output growth in G7 countries has on average been associated with a 0.4 percent reduction in developing country growth.[9] Advanced country macroeconomic policies that are supportive of a stable and growing world economy, therefore, make an important contribution to progress toward the desired development outcomes in developing countries.

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8 Lack of access to water supply and sanitation kills an estimated 2.1 to 3.5 million children per year (*World Health Report*, WHO, 2002).

9 See "How Do Fluctuations in the G-7 Countries Affect Developing Countries," *World Economic Outlook*, IMF, October 2001.

21. ***Trade.*** Increased access to the markets of developed countries is critical to the development of poor countries. Many developing countries that have opened their trade regimes are prevented from reaping the benefits of trade because of the market access barriers imposed by developed countries, especially on agriculture, textiles and clothing, which are labor-intensive sectors where developing countries typically have a comparative advantage. Agricultural subsidies in developed countries amount to more than $300 billion a year, roughly six times total official aid to poor countries. These subsidies hurt growth in agriculture, where the concentration of the poor in developing countries is highest. Tariffs and quotas on textile exports to developed countries cost developing countries an estimated 27 million jobs.[10] Escalating tariffs frustrate efforts by poor countries to diversify their economies and move up the technology ladder. In addition to the removal of barriers to trade in goods, large gains could flow from liberalization of trade in services. The Doha Development Round provides an opportunity to make major progress on improving market access for developing country exports, as well as for further liberalization by developing countries themselves. This should be supported by increased trade-related financial and technical assistance to developing countries, to help with "behind-the-border" investments necessary to take advantage of market access and to enhance institutional capacities to deal with the trade-related policy agenda.

22. ***Aid.*** Reaching the MDGs will require more and better donor assistance. On some estimates, additional official development assistance (ODA) on the order of $50 billion per year will be necessary, roughly double the ODA volume in recent years, coupled with continued improvements in the effectiveness with which aid is used.[11] The increase actually needed could turn out to be still greater. A major factor influencing whether aid is effective is of course the recipient country's own policies—hence the focus on developing-country actions, including sound macroeconomic management, structural policies, and improved institutions and governance.[12] Such policies not only enhance aid effectiveness, but also help alleviate macroeconomic instability that could result from a large influx of aid. Recent and ongoing reforms in many developing countries have improved the setting for effective use of aid, and these reform efforts must be sustained. But aid effectiveness also depends importantly on the policies of donors. By focusing aid on countries with substantial concentrations of poverty and a strong commitment to reform, the effectiveness of aid can be considerably increased.[13] Experience also shows that local ownership and involvement, including of civil society, contribute to the

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[10] See "Market Access for Developing Countries—Selected Issues," IMF SM/02/280, September 2002.

[11] See Ernesto Zedillo et al., *Report of the High-Level Panel for Financing for Development,"* UN, A/55/100, New York, 2001; and Shantayanan Devarajan, Margaret Miller, and Eric Swanson, *Goals for Development: History, Prospects, and Costs*, Policy Research Working Paper 2819, World Bank, 2002.

[12] There is now considerable evidence documenting that aid contributes to development in good policy environments. See, for example, Craig Burnside and David Dollar, "Aid, Policies, and Growth," *American Economic Review*, Vol. 90, 4, 2000.

[13] See Paul Collier and David Dollar, "Aid Allocation and Poverty Reduction," *European Economic Review*, 46, 2002. See also Ian Goldin, Halsey Rogers, and Nicholas Stern, *The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience*, Development Economics, World Bank, 2002.

development effectiveness of aid. Also, as demonstrated in the work of the DAC Task Force on Donor Practices and endorsed this week in Rome at the High-Level Forum on Harmonization, the modalities for aid (projects versus program- or sector-based approaches, better coordination among donors and better alignment of their support with national strategies, procurement and financial management rules), emphasis on capacity-building and results, and harmonization of operational procedures all matter greatly for aid efficiency and effectiveness.[14]

23. ***Debt Relief.*** For the highly indebted poor countries, supported by the enhanced HIPC Initiative, alleviation of their crippling debt burdens is essential to enable them to allocate more resources to social spending and poverty reduction, underscoring the importance of continued progress on this initiative. If these countries are to avoid slipping back into unsustainable debt positions, they will have to continue to strengthen their policies to promote increased efficiency in resource use and stronger economic growth, and new external assistance will have to be provided on appropriately concessional terms. Stronger export growth is especially important for these countries, underscoring the need for better market access and improved trade-related infrastructure.

24. ***Global Public Goods.*** Alongside expanded assistance to developing countries that are making progress on reform, developed countries need to step up action in support of key global public goods. In some areas, notably the prevention and treatment of infectious and communicable diseases, especially HIV/AIDS, investment in global public goods will provide essential support for national programs. Major issues relating to the global environmental commons—mitigation of global warming (tropical countries are particularly vulnerable to climate change and environmental degradation), preservation of biodiversity—also call for stepped-up efforts at the global level. Developed countries have a special contribution to make to protecting the global environment, as they dominate energy use and are the largest consumers of most natural resources and the largest producers of most pollutants. Of course, developing countries also need to play their part in this global public goods agenda, including through increased regional cooperation among themselves that aid donors should support.

IV. Empirical Foundations

25. This chapter uses the conceptual framework set out in Chapter III to look at the implications for monitoring. It examines a number of indicators of policies and intermediate outcomes that are currently being monitored and that can help inform an assessment of policy requirements. Based on a review of these indicators, the chapter provides a broad assessment of the current status of policies. These indicators should be regarded tentatively and cautiously and as subject to modification in future reports. It also identifies gaps in the data and in reporting and monitoring vehicles. In general, the current state of knowledge about the linkages between such indicators and the desired

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[14] See *Harmonising Donor Practices for Effective Aid Delivery: Good Practice Papers—A DAC Reference,* OECD, Paris, 2003.

outcomes is limited and the quality of the data is imperfect. Some areas for further work to improve the underlying data and monitoring mechanisms are identified in Chapter V.

A. Developing Countries

26. It is clear from the conceptual framework set out in Chapter III that the attainment of the MDGs will depend on progress in developing countries across a broad range of policies to improve the enabling environment for economic activity, enhance the capabilities of the poor, and ensure environmental sustainability. The implied policy agenda can be classified into four policy clusters: economic and financial policies, public sector governance, social sector policies, and environmental policies. The main elements of policies in each cluster, and the links to the development outcomes, are set out schematically in Annex B. Taken together, these policy clusters define a framework that can be used to assess developing countries' progress on the policy agenda and identify areas for priority action.

27. For the monitoring of progress on these policies, there are two broad approaches and sources of information that can be used. The first involves identifying a set of indicators for key policy areas that can be measured consistently for most countries and that will contribute to an understanding of progress and areas for priority action. The other involves basing the assessment on detailed reviews of each country's overall policy framework and implementation. The latter, of course, provides a better way to gauge whether a given country's policies are adequate for achieving development goals, as it is based on an analysis that takes full account of the country's circumstances. But it is also more resource-intensive and the feasible frequency of reporting is less than one based on the monitoring of a set of indicators. In this section, information is drawn from existing data and reporting vehicles of both types.

1. Economic and Financial Policies

a. Macroeconomic Policies

28. Sound macroeconomic management is an essential foundation for sustained growth and, in turn, sustained poverty reduction. Key policy or related outcome indicators that capture the macroeconomic environment for stability and growth would include inflation, the fiscal balance, debt and debt service burden, external sector indicators (external balance, real exchange rate behavior, reserve coverage), and financial conditions (real interest rates, depth of financial intermediation, private sector access to credit). Regular monitoring based on these indicators, for which data availability is relatively good, could help inform an assessment of whether macroeconomic policies are conducive to growth and hence the attainment of the development goals. The challenge is to develop adequate benchmarks for assessing performance, which requires detailed modeling and analysis of the complex linkages between policies and the MDGs at both the global and country level.

29. To illustrate how the policy indicators might be monitored, IMF staff have compiled recent data for 75 low-income countries and 61 middle-income countries.

Those data suggest that a significant number of countries need a broad strengthening of macroeconomic performance. In 2001, as many as 55 percent of low-income countries (with a combined population of about 800 million) had per capita income growth of less than 2 percent, which may be considered to be the bare minimum to be on track to achieve the development goals, with nearly 30 percent experiencing negative growth. However, weak *policies* provide only part of the explanation for shortfalls in performance. Over the past five years, many low-income countries have strengthened their macroeconomic policies, leading to lower inflation and reduced debt service costs, and yet median per capita GDP growth has fallen from 2.3 percent per year to 1.7 percent (Table 2). For a number of countries, including some with reasonable macroeconomic policy implementation, economic performance is constrained by a mixture of poor initial conditions, including excessive past accumulation of debt, weak structural policies and institutions, and adverse political (e.g., conflict) and external (e.g., terms of trade) circumstances. For middle-income countries, the picture is qualitatively similar.

Table 2. Selected Indicators of Macroeconomic Policies and Performance
(median values)

Variable	Low-Income		Middle-Income	
	1995-96	2000-01	1995-96	2000-01
CPI Inflation (annual average)	10.7	4.7	9.0	5.0
External current account (% of GDP)*	-6.7	-5.7	-2.8	-2.4
Debt service (% of exports)	15.8	13.6	12.9	18.3
General government balance (% of GDP)*	-3.3	-3.6	-1.8	-2.9
M2/GDP (%)	23.4	27.4	38.8	44.7
Memo: Per capita GDP growth (%)	2.3	1.7	3.4	1.3

Source: IMF WEO database
* Including grants.

30. The Bank's Country Policy and Institutional Assessments (CPIAs) rate individual country performance in key policy areas on the basis of staff assessments (see Annex C for more information on the CPIAs). For 2001, these assessments rate macroeconomic management unsatisfactory in about 20 percent of the low-income countries and moderately unsatisfactory in another about 20 percent (with higher percentages of about 25 percent in each of these rating categories in Sub-Saharan Africa). These data thus confirm the need for many countries to strengthen macroeconomic policies and performance.

31. In addition to the general challenge of implementing sound macroeconomic policies, emerging market countries have had to contend with the risk of financial crisis. Crises have been a common occurrence in emerging markets over the past two decades, and financial globalization has increased the vulnerability to changes in financing

conditions in world capital markets. One recent study,[15] focusing on currency crises in 30 developing countries and 20 advanced economies over the period 1975-97, found that developing countries experienced an average of one crisis in each country every five years—roughly twice the average for advanced economies. The cumulative estimated loss from currency crises in developing countries averaged 7.6 percent of pre-crisis GDP. Losses of this magnitude make poverty alleviation far more difficult. Avoiding crises requires a broad range of improvements in policy implementation. For example, Mexico in 1994 faced both macroeconomic imbalances and serious problems in the domestic financial sector. In the Asian crisis of 1997-98, weaknesses in financial and corporate sectors were key sources of vulnerability.

b. Trade Policy

32. ***Progress on Trade Policy Reform.*** There has been encouraging progress in developing countries on trade policy reform over the past decade. But reform efforts need to go much further. Average tariffs declined in all regions (on average by half) from the late 1980s to the late 1990s. Databases with a relatively good coverage of developing countries are available that can be used for periodic monitoring of trade policy, including the Trade Restrictiveness Index (TRI) developed at the IMF and the World Bank's WITS database, that draw on UNCTAD's and WTO's trade data. TRI data for 2002 classify 14 percent of low-income countries as having restrictive trade regimes (down from 24 percent in 1999) and another 26 percent as having moderately restrictive trade regimes (down from 29 percent). The Bank's CPIAs, which use a somewhat broader definition of trade policy (including some aspects of customs and exchange administration), confirm this picture of progress but with a sizable unfinished reform agenda. The 2002 CPIA classifies trade policy as unsatisfactory or moderately unsatisfactory in 18 percent of the low-income countries, down from 25 percent in 1999. In Sub-Saharan Africa where most of the low-income countries are located, the corresponding numbers were 32 percent in 1999 and 19 percent in 2002.

33. ***Behind-the-Border Agenda.*** The above indicators principally capture "border" protection—import tariff and non-tariff barriers. An area for improvement going forward would be to develop metrics for capturing the "behind-the-border" agenda—removal of barriers to trade posed by bottlenecks in customs, standards, trade-related infrastructure—progress on which is important for developing countries to take full advantage of the growth possibilities opened by trade liberalization.[16] Also, the traditional "border" protection measures do not take into account protection resulting from domestic subsidies. In the future, for the least developed countries covered by the Integrated Framework for Trade-Related Technical Assistance, the trade diagnostic studies under

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[15] See Jahangir Aziz, Francesco Caramazza, and Ranil Salgado, "Currency Crises: In Search of Common Elements," *World Economic Outlook Supporting Studies*, IMF, 2000. See also Gerard Caprio and Daniela Klingebiel, "Episodes of Systemic and Borderline Financial Crises," World Bank, 2003.

[16] For example, it has been found that it takes half as long to move goods through the port of Shanghai (9 days) as it does through Karachi (18 days)—based on firm-level surveys conducted for World Bank's country investment climate assessments.

way would provide an important source for more in-depth and comprehensive assessment of the trade-related policy agenda.

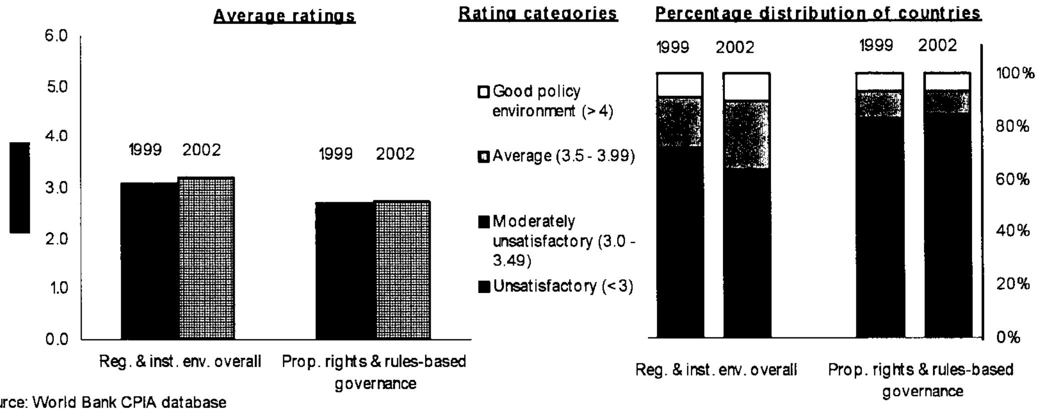
c. Private Sector Environment

34. The preceding sections indicate that on macroeconomic and trade policy, low-income countries have achieved some encouraging progress. But this progress has not been equally reflected in an improved growth performance. Part of the explanation is that there has been less progress on structural reforms and governance to improve the environment for entrepreneurship and investment by the private sector, limiting the supply response. This is confirmed by a review of indicators relating to the enabling environment for the private sector and public sector governance.

35. Several initiatives are currently under way that will help provide better information for tracking progress in the policy and institutional environment for private sector activity. The Bank's Doing Business project is developing indicators relating to business entry, contract enforcement, property rights, access to credit, labor regulations, and bankruptcy regime. The country and indicator coverage under this project will be broadened over 2003-05. The Bank has also initiated a series of detailed country Investment Climate Assessments based on firm surveys. This again is being conducted in a phased manner and will over time provide detailed information at the individual country level on the quality of the investment climate. The CPIAs include criteria relating to private investment environment. Various aspects of the business environment are also covered in indices and ratings developed by commercial sources.

36. ***Regulatory and Institutional Environment.*** The Doing Business data are currently available for about 40 low-income countries, and show major deficiencies in the private sector regulatory and institutional environment in a majority of them. For example, in these countries, on average it takes 70 days and costs 114 percent of per capita GNI for an entrepreneur to complete the required registration procedures for a business start-up. In contrast, for about 70 middle-income countries for which data are now available under the same project, the corresponding numbers are 50 days and 23 percent. In Canada and New Zealand it takes 2 days to register a business, and in Denmark the registration is free of charge. The Investment Climate Assessment surveys find that bureaucratic harassment is a major problem experienced by firms, especially smaller firms, in many developing countries. This picture is consistent with the CPIA results. In 2002, as many as 63 percent of low-income countries were classified as having an unsatisfactory or moderately unsatisfactory private sector regulatory environment (Figure 1). Essentially this means the kind of environment that inhibits investors. The most serious shortcomings were in property rights and rules-based governance, where this proportion was as high as 84 percent, implying the need for particular attention to improvements in this area—legal and judicial reform, reduction of bureaucratic harassment.

Figure 1: Regulatory and institutional environment for private sector activity needs improvement
(Low-income countries)



Source: World Bank CPIA database

37. ***Infrastructure.*** Weaknesses in the policy environment are compounded by inadequate development of supportive infrastructure, physical and financial. The deficiencies are greatest in Sub-Saharan Africa and South Asia, home to the bulk of the poor. In 2000, electrification rates in these regions were 23 percent and 41 percent, respectively, compared with rates above 85 percent in all other regions of the developing world. Even in urban areas, the electrification rate was 51 percent in Sub-Saharan Africa. In rural areas, it was only 8 percent. Besides being important to the enabling environment for private investment and hence economic growth,[17] availability of basic infrastructure directly influences the attainment of the MDGs—for example, electricity to serve schools and health clinics and roads to access them, and improved water and sanitation systems to prevent disease.[18] Efforts are under way in the Bank, though at an early stage, to develop more comprehensive policy and outcome indicators for key infrastructure supporting private activity, building on data available from partner agencies.

38. ***Financial Sector.*** Weaknesses in the financial sector infrastructure also encumber private sector growth, and in several emerging market countries have acted as a major source of vulnerability to shocks. One source of monitoring data on the financial sector is the CPIAs, which include an assessment of the policy and institutional

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[17] While the efficacy of infrastructure investment varies across projects and countries, research shows that these capital outlays can be highly productive. One study finds, for example, that an increase in investment in transport and communications of 1 percent of GDP is associated, on average, with a 0.6 percent increase in annual per capita GDP growth (see William Easterly and Sergio Rebelo, "Fiscal Policy and Economic Growth: An Empirical Investigation," *Journal of Monetary Economics,* Vol. 32, December 1993).

[18] A recent cross-country study exploring the link between infrastructure availability and the MDGs found that a 10 percent improvement in a country's infrastructure index was associated with a 2.8 percent increase in school enrollment, 6.9 percent reduction in illiteracy, 8 percent reduction in the maternal mortality rate, and 10 percent reduction in the proportion of the poor living on less than $1 a day (see Danny Leipziger, "Millennium Development Goals: The Infrastructure Contribution," processed, World Bank, 2002).

framework governing the sector. As with other elements of the private sector enabling environment, a sizable proportion of low-income countries had unsatisfactory or moderately unsatisfactory ratings with respect to financial sector management in 2002—55 percent. Among low-income countries in Sub-Saharan Africa, and in East Asia and Pacific, this proportion was still higher. In many poor countries, small enterprises, a key potential source of dynamism in an economy, are especially at a disadvantage in obtaining access to credit, implying the need for special attention to policies to facilitate broader access to financial services—regulations fostering competitive access to credit, laws on asset registration and collateral, microfinance institutions. In the future, country assessments conducted under the Financial Sector Assessment Program (FSAP), which include a focus on development issues, and Reports on Standards and Codes (ROSCs) will provide a richer database for assessment of sector status and priorities.

39. ***Environment for FDI.*** Besides influencing domestic investment, the private sector regulatory and institutional environment also determines the attractiveness of a country to foreign investment. Given low-income countries' limited access to debt markets, FDI is the major source of private external financing for them, which brings with it additional benefits of transfer of skills and technology (and also stability relative to other types of private capital). As a result of substantial liberalization implemented in the 1990s, most developing countries today do not impose significant direct barriers to FDI. Their attractiveness to FDI is influenced more by the broader regulatory and governance environment. There is evidence that investors have become more sensitive to the policy regime over the past decade, as exemplified by the success of some Sub-Saharan African countries with improved investment climates in attracting more FDI despite the low average rating for the region. Given the importance of FDI as a potential source of financing for the low-income countries, and the sensitivity of FDI to the recipient country's investment climate, it would be useful to include as part of the monitoring framework some indicators directly related to FDI, such as the FDI performance and potential indicators developed by UNCTAD. The DAC's statistics on FDI flows to developing countries are another source of information that can be used for monitoring purposes.

2. Public Sector Governance

40. Public sector governance has been another major area of weakness, indeed the weakest compared to the other broad policy clusters. Research shows that weak governance is not only inimical to improved economic performance generally,[19] but also

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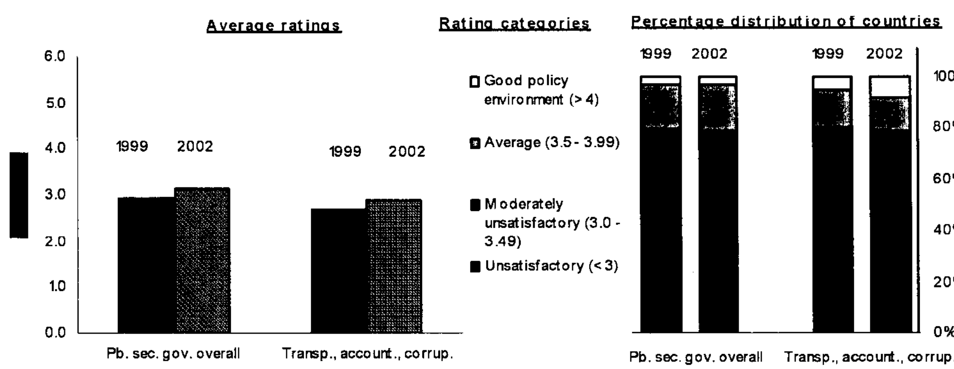
[19] A number of recent studies have found that the quality of governance and institutions is a key factor explaining cross-country differences in per capita income levels and growth. See, for example, D. Rodrik, A. Subramanian, and F. Trebbi, "Institutions Rule: The Primacy of Institutions over Integration and Geography in Economic Development," *IMF Working Paper,* WP/02/189, 2002; D. Acemoglu, S. Johnson, and J. Robinson, "Reversal of Fortunes: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics,* Vol. 117, 2002; D. Acemoglu, S. Johnson, J. Robinson, and Y. Thaicharoen, "Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth," *NBER Working Paper,* No. 94, 2002; and R. Hall and C. Jones, "Why Do Some Countries Produce So Much More Output per Worker than Others," *Quarterly Journal of Economics,* Vol. 114, 1999.

results in the poor receiving a smaller share of the benefits from public spending, higher poverty and income equality, and less favorable outcomes for social indicators.[20] The review of the indicators and related data below serves to focus attention on public sector governance as a priority area of reform, and it highlights in particular the need to improve transparency and accountability and reduce corruption.

41. As recognition has grown of the cross-cutting significance of the quality of governance to development performance, so have efforts to develop measures of and data on governance, and several indicators of governance are now available. There remain, however, questions about the adequacy, reliability, and comparability of some of these data, making this an area for continued research.

42. ***Overall Quality of Governance.*** The Bank's CPIAs include evaluations of countries' public sector governance, covering public expenditure and revenue management, quality of public administration, and transparency, accountability, and control of corruption in the public sector. The CPIA ratings for public sector governance show this to be a much weaker area of performance than economic and social sector policies. Close to 80 percent of low-income countries were rated unsatisfactory or moderately unsatisfactory for this policy cluster in 2002. Within the policy cluster, the ratings were lowest for transparency, accountability, and control of corruption (Figure 2). The ratings were low across the regions, but with somewhat better results for Latin America and South Asia. In the future, ROSCs, which include an evaluation of fiscal transparency, will provide supporting evidence on institutional weaknesses in this area.

Figure 2: Performance in public sector governance is particularly weak, though improving
(Low-income countries)



Source: World Bank CPIA database

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[20] A recent study found that an increase in corruption by one unit (on a scale of one to ten) is associated with a 2 to 10 percent decrease in the income of the poor, a 0.9 to 2.1 percentage point increase in the Gini coefficient, 1.1 to 2.1 more deaths per 1000 live births, and a 1.4 to 4.8 percentage point increase in primary student drop-out rates (see George Abed and Sanjeev Gupta, eds., *Governance, Corruption, and Economic Performance,* IMF, 2002).

43. On corruption, possible additional sources for monitoring include the corruption indices developed by the World Bank Institute and Transparency International. For 2001, WBI's corruption index shows that on average low-income countries fall well below the mean for all countries. The average for low-income countries in Latin America was better than the average for low-income countries in other regions, and significantly better than in Sub-Saharan Africa, though still well below the mean for all countries.

44. Governance reforms are now a key element of the policy agenda in many developing countries. In Africa, for example, improved governance is at the core of the New Partnership for Africa's Development (NEPAD) initiative. Control of corruption has also been high on the policy agenda in the Europe and Central Asia Region. These efforts are beginning to be reflected in an improvement in governance indicators. This is the case with the CPIA indicators that show a modest trend toward improvement between 1999 and 2000 (Figure 2). A gradual trend toward increased accountability of government is also indicated by available indices of political and civil liberties. Governance is a politically complex area of reform and sustained progress will require careful nurturing of reform ownership and a focus on capacity-building in key public institutions. In low-income countries under stress (LICUS), the establishment and strengthening of institutions of governance is an especially critical priority.

45. ***HIPC Expenditure Tracking.*** In the context of the HIPC initiative, a set of indicators has been developed to track poverty-reducing public spending. These indicators, with their specific focus on government capacity to mange priority public spending, provide a useful complement to the broad indicators of the quality of governance reviewed above. The first assessment undertaken for 24 HIPCs concluded that the public financial system needed substantial upgrading in 15 countries and some upgrading in another 9 countries. Also, as many as 88 percent of the countries had inactive or ineffective audit, and 83 percent did not have a medium-term perspective integrated into their budget formulation process. On the positive side, in two-thirds of the countries it was possible to establish a broad mapping of budget data to the poverty-reducing spending categories defined in PRSPs or I-PRSPs.[21] Moreover, more than half (15) of the 24 countries had conducted public expenditure tracking surveys to monitor whether budget allocations actually reached the intended service providers. Further steps are being taken to update and refine these assessments.

3. Social Sector Policies

46. Improved public expenditure management and governance are especially key to the effective delivery of social services—education, health, social protection. As much of social service delivery takes place at the sub-national level, appropriate decentralization arrangements and enhancement of the capacity of sub-national institutions warrant special emphasis. The attainment of the MDGs will require both the allocation of increased public resources to these services and increased effectiveness and

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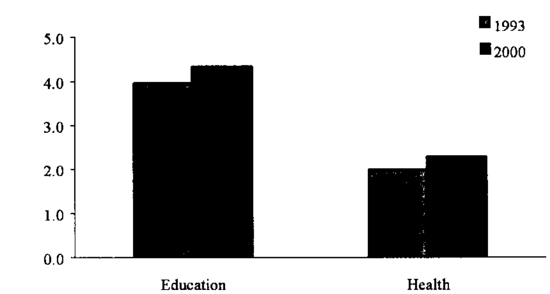
[21] See "Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries," IDA and IMF, March 22, 2002.

efficiency in the delivery of these services to the poor. The framework for monitoring progress on policies and actions needs to capture both of these dimensions. In addition to the tracking of progress on public expenditure management and governance, as outlined above, this suggests the need for a set of monitoring indicators spanning trends in public spending on these services, both level and allocation, and key intermediate outcomes that signal progress on actual delivery, such as primary completion rates and measles and DPT immunization rates. While data are currently available on some of the main indicators, gathered by the Bank and the Fund and partners such as WHO and UNICEF, fuller monitoring of progress in these sectors would require substantial additional effort to improve the quality and coverage of social data.

47. ***Public Spending Levels.*** Public spending on education and health rose modestly in low-income countries in the past decade (measured as a percentage of total government spending and GDP). In the latest year for which comparable data are available (2000 in most cases), public spending on education in these countries was 4.3 percent of GDP and 14.8 percent of total government spending. Public spending on health was lower, at 2.3 percent of GDP and 7.6 percent of total government spending.[22] From 1993 to 2000, public spending on education rose on average by 0.4 percent of GDP and 1.7 percent of total government spending and on health by 0.3 percent of GDP and 1.2 percent of total government spending (Figure 3). Not all regions shared in the increase, with both education and health spending falling in the transition countries. Analysis at the country level suggests that further increases in spending on these sectors—along with spending on other high priority sectors such as infrastructure and water and sanitation—are likely to be necessary to meet the MDGs.[23] To that end, the allocation of public spending will need to shift further toward these sectors, accompanied by measures to enhance the efficiency and

Figure 3: Human development expenditure is rising but remains low
(Public spending as % of GDP)



Source: IMF GFS data (50 low-income countries)

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[22] For comparison, in 2000, public expenditure on education and health, together, averaged 8 percent of GDP in middle-income countries and 11 percent in high-income countries. The different levels of GDP per capita imply that spending per capita in absolute terms diverges much more.

[23] Recent research finds that a one percentage point increase in government education spending as a share of GDP is associated with a 0.67 percentage point decline in primary school drop-out rates and that a one percentage point increase in government health spending as a share of GDP is associated with a 0.3 percentage point decline in child mortality rates (see Sanjeev Gupta, Marijn Verhoeven, and Erwin Tiongson, "The Effectiveness of Government Spending on Education and Health Care in Developing and Transition Economies," *European Journal of Political Economy,* Vol. 18, 2002).

effectiveness of spending, especially improvements in governance and institutional capacities, as higher spending alone will not deliver the desired social outcomes.[24]

48. ***Public Spending Allocation.*** Available data indicate that public spending on these sectors still disproportionately benefits higher-income groups. Public spending on primary education is more pro-poor than spending on tertiary education, and, in health, spending on basic health care, such as immunization, has a larger impact on the poor than other types of health spending. Yet, the allocation of public spending is often not sufficiently oriented toward these pro-poor expenditures. Benefit incidence analysis of public education and health spending in a sample of countries in Africa in 1999 showed that the benefit accruing to the richest quintile of the population was a multiple of that accruing to the poorest quintile.[25] Effective service delivery in these sectors also requires adequate allocation to non-salary inputs—textbooks, medicines. Accordingly, in addition to tracking trends in total spending in these sectors, it is important to develop data to monitor key allocations, such as expenditure by level of schooling, type of health service, and salary versus non-salary costs.

49. ***Intermediate Outcomes.*** With respect to some key intermediate outcome indicators, latest available data for primary completion rates indicate that Africa and the Middle East substantially lag behind the rest of the group (rates of 48 and 57 percent, respectively, compared to a low-income country average of 69 percent and an average of 92 percent in East Asia and Pacific). Primary completion rates for females were particularly low in the Middle East (38 percent). Measles immunization in low-income countries shows a steady upward trend, though the pace of progress that picked up in the mid-1990s subsequently declined. The immunization coverage rate of one-year olds in these countries currently averages about 60 percent

50. ***Overall Assessment.*** The CPIAs provide a more holistic evaluation of country social sector policies. CPIA ratings for policies relating to education and health show a modest improving trend over 1999-2002, but in 2002 still one-half of low-income countries were classified as having unsatisfactory or modestly unsatisfactory policies. In Sub-Saharan Africa this proportion was higher, close to 60 percent, but even there the average rating improved slightly over this period. Ratings for social protection (social safety nets) were in general lower than for education and health services, and appreciably

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[24] A survey found that in Uganda, during 1991-95, weak governance, reflected in substantial leakage of public funds, resulted in only an estimated 13 percent of central government non-wage budgetary allocations for primary education actually reaching schools. As a result of strong government action triggered by this finding, the use of funds improved dramatically, with schools receiving an average of 90 percent of the allocated funds in 1999 (see Ritva Reinikka and Jakob Svensson, *Explaining Leakage of Public Funds*, Policy Research Working Paper 2709, World Bank, 2001).

[25] See J. Castro-Leal, L. Dayton, L. Demery and K. Mehra, "Public Spending in Africa: Do the Poor Benefit," *World Bank Research Observer* 14 (1), 1999. The study found that in Cote d'Ivoire, Guinea and Madagascar, for example, the share of benefits from public spending in health and education accruing to the richest 20 percent of the population was double or more that accruing to the poorest 20 percent of the population. See also H. Davoodi, S. Sachjapinan, and E. Tiongson, "How Useful Are Benefit Incidence Studies," IMF Working Paper (forthcoming).

lower than the average for middle-income countries, reflecting nascent social protection arrangements in many of the low-income countries.

51. ***Inclusion/Voice.*** The CPIAs also provide indicators of progress toward greater inclusiveness and voice for the poor, through their assessment of equity in public resource use and use of poverty impact analysis and participatory processes in policy formulation. The increasing recognition of the role of empowerment of the poor in enhancing the effectiveness of public services for the poor is reflected in a steady improvement in the average CPIA ratings, though in 2002 47 percent of low-income countries were still classified as having unsatisfactory or moderately unsatisfactory performance in this area. Progress toward a more participatory approach to governance is also reflected in the Freedom House indices of political and civil liberties.

52. ***Gender.*** The empowerment of women is itself an MDG and also important to the attainment of other MDGs and to the development process more broadly. The CPIAs provide assessments of country policies in providing equal access and opportunities to women that can serve as part of the monitoring of progress on policies relating to gender, together with the use of specific indicators such as female/male ratios at different levels of education and in literacy. Average CPIA ratings for empowerment of women show a clear improving trend, thanks to the increased integration of gender concerns in policymaking in recent years. In 2002, 38 percent of low-income countries were classified as having unsatisfactory or moderately unsatisfactory policies on gender, down from 56 percent in 1999. The rating for the Middle East and North Africa was well below the group average, indicating the need for particular attention to gender issues in development policy in that region.

4. Environmental Policies

53. The World Development Indicators (WDI) database provides information on several indicators of environmental outcomes—land use (forests, protected areas), access to water and sanitation, water resources, energy, pollution. These indicators, complied from various sources (e.g., WHO/UNICEF on access to water and sanitation), provide an indication of where different countries are with respect to the different environmental objectives and of the implied priorities, and can be used as an input into the monitoring of progress toward the environmental MDGs. The coverage and quality of these indicators, however, are mixed at present.

54. ***Outcomes.*** As an illustration of how these indicators might be used in monitoring, data on access to improved sanitation facilities show that, despite progress globally in this area, access rates remain extremely low in some regions. In low-income countries, only 45 percent of the population have access to improved sanitation, despite this rate having risen by 9 percentage points during the 1990s (average access rate in upper middle-income countries is more than 80 percent). The access rate is lowest in South Asia, at 38 percent, even though it improved by 12 percentage points during the past decade. Given these low rates, and the importance of adequate sanitation to the population's health, especially the poor who cannot afford alternative private means, the implied priority to this sector in these regions is clear. Other environmental outcome

indicators, such as the deforestation rate and adjusted net saving rate, show that low-income countries typically have higher rates of natural resource depletion than middle- and high-income countries. For example, the average annual deforestation rate in low-income countries during 1990-2000 was an estimated 0.8 percent compared to a world average of 0.2 percent.

55. ***Policies and Institutions.*** Policies and actions affecting environmental outcomes are more difficult to monitor than environmental outcomes. For example, the WDI includes pricing data on transport fuels, but there are no global databases on the pricing of other energy products (electricity, coal), or water pricing. Information on other relevant policies (agricultural subsidies, resource rent capture, etc.) is also extremely scattered. The Bank's CPIA includes an assessment of countries' overall policies and institutions for environmental sustainability. The ratings for low-income countries in 2002 show that this is a policy area where the bulk of the agenda is still to be addressed. The average ratings are low, much lower than the average for middle-income countries, with as many as three-quarters of low-income countries classified as having unsatisfactory or moderately unsatisfactory policies.

B. Developed Countries

56. How well are developed countries doing at maintaining growth, and how well are they living up to their commitments on trade, aid, debt relief, and global public goods? The following paragraphs summarize the findings of the available evidence.

1. Macroeconomic and Growth Outlook

57. This section draws on two existing vehicles: the IMF's *World Economic Outlook*, which conducts regular reviews of developments in the global economy; and the World Bank's *Global Economic Prospects*, which focuses on analysis of the implications of these developments for developing countries.

58. The sharp slowdown in developed country growth from late 2000 through late 2001 had a significant negative impact on the developing world, although the impact varied widely according to countries' specific circumstances. Since then, a global recovery has been under way, albeit at a moderate pace, aided by generally accommodative policies in developed countries. This, in turn, has had positive effects on developing countries: trade flows have picked up; commodity prices have risen, although they remain low by historical standards (and for poor countries the benefits of high non-fuel commodity prices are being partly offset by higher oil prices); and there has been some recovery in the IT sector, particularly benefiting countries in East Asia, although it is as yet unclear how well this will be sustained. Beyond these effects, rising global growth and relatively low global long-term interest rates should also have benefited developing countries through the finance channel, although in some cases the impact was offset by country-specific difficulties and—at times in 2002—heightened global risk aversion. With the important exception of Latin America, net private capital flows in most regions are estimated to have increased modestly in 2002, and regional yield

spreads are generally lower than their average in 2001. Looking forward, a continued moderate recovery in developed country activity in 2003 should continue to exert positive effects, although important risks remain, including in the geopolitical sphere.

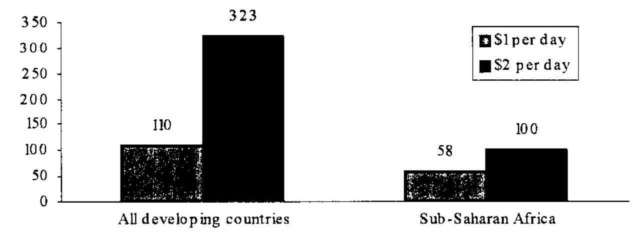
2. Trade

59. Increased access to the markets of developed countries is critically important to enable developing countries to reap the benefits of reforms they are undertaking. Indicators exist that can be used to monitor progress in this area, but will need to be supplemented with additional information. The IMF's Trade Restrictiveness Index (TRI) can assist with cross-country comparisons of trade policies in developed as well as developing countries, though the index does not presently capture the protection implied by subsidies. Information obtained from this index can be supplemented with information on tariff peaks and tariff escalation, which can be derived from WTO and UNCTAD databases. Access for agricultural exports is particularly important for developing countries and the OECD has developed indicators of developed country trade policies on agriculture that can be used for monitoring. Similarly, it would be useful to have metrics for improved market access in other areas of particular importance to developing countries, notably textiles and apparel. Analytic reports prepared on these and other key aspects of the trading system, by WTO and others, can serve as an additional source of information.

60. ***Market Access.*** The OECD indicators show a high-degree of protection in agriculture. In 2001, total support to agriculture in OECD countries amounted to $311 billion or 1.3 percent of GDP, with producer support estimated at almost one-third of total farm receipts. Prices received by farmers were on average 31 percent above world prices. The absolute level of producer support was largest by far in the EU, although, as a share of farm receipts, support levels in Iceland, Japan, Korea, Norway, and Switzerland were substantially higher. A large share of support is directed at temperate zone agriculture (grains, oilseeds, dairy), but support for products of interest to tropical suppliers is often particularly high as a share of producer receipts (sugar, rice, cotton, tobacco). On protection of manufactures, data show that the average tariff levied by developed countries on developing country exports is four times as high as that on exports originating in other developed countries. The problem is compounded by escalating tariffs on processed goods exports from developing countries.

Figure 4: Trade liberalization can be a powerful force for poverty reduction

(Reduction in number of poor, in millions, compared to baseline in 2015)



Source: Global Economic Prospects, World Bank, 2002

61. Removal of these and other barriers to trade can yield major benefits for developing countries, and for consumers in developed countries themselves. According to World Bank analysis, stronger growth associated with a full liberalization of trade in goods could lift an additional 320 million people in developing countries out of poverty (based on the $2 per day criterion) by 2015, reducing poverty by about 14 percent of what it otherwise might be. Extreme poverty (those living on less than $1 per day) could decline by 110 million, of which more than half would be in Africa (Figure 4). Income gains from liberalization of trade in services would be additional, and could potentially be even larger.

62. ***Doha and Follow-up.*** While the degree of protection in developed countries remains relatively high, these countries have committed themselves, at the Doha and Monterrey meetings, to help increase market access for developing countries and ensure greater coherence between their trade policies and development assistance. In the context of the Doha Development Agenda, WTO members are committed to negotiations aimed at substantially improving market access for agricultural and industrial products, in particular for developing countries. The trade policy agenda includes the liberalization of trade in services, another area of substantial and increasing export interest to developing countries. Several developed countries have been offering the poorest countries duty- and quota-free access to world markets that would greatly benefit these countries at little cost to the rest of the world.[26] The recent market-opening initiatives of the EU[27] and other countries including Canada, New Zealand, Norway, and Switzerland, represent important steps in this regard. Trade-related technical assistance to the least developed countries has been stepped up, through the Integrated Framework for Trade-Related Technical Assistance.[28] In order for these countries to benefit from preferential access schemes and better Doha-negotiated access to markets, they will need support in strengthening related institutions—for product standards, trade facilitation. However, there have also been developments that cloud prospects for progress, including the recent steps in the US and the EU that represent a retreat from needed reform of farm subsidies. Liberalization of trade in agriculture is particularly important (and the major industrial countries have a

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[26] In order to ensure that duty/quota-free access schemes actually benefit recipients, one area for action is to adopt liberal rules of origin. Recent research has shown that this is a key factor underlying a strong supply response to duty/quota-free access initiatives.

[27] The EU's "Everything but Arms" initiative aims to give the least developed countries duty- and quota-free access for over 900 items, with restrictions on rice, sugar, and banana imports phased out by 2009.

[28] Some 2.4 percent of ODA commitments in 2001 were for trade-related technical assistance and capacity building (WTO/OECD Trade Capacity Building Database: http://tcbdb.wto.org/).

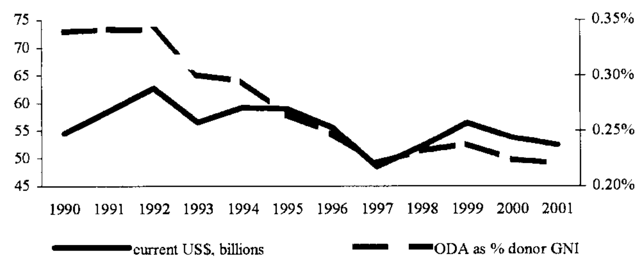
lead role to play in that) as it is estimated to account for as much as 70 percent of the potential income gains that could flow from a global liberalization of trade in goods.

3. Aid

63. The Development Assistance Committee (DAC) of the OECD maintains data on aid flows and monitors donor practices through the Peer Review System. The DAC data also cover some aspects of the composition of aid relevant to aid effectiveness.

64. ***Quantity and Terms of Aid.*** There has been a trend decline in ODA flows in the past decade. In 2001, net ODA from DAC countries was $52.3 billion, compared with an average of $54.1 billion over 1998-2000. This amounted to 0.22 percent of donors' GNI, unchanged from 2000, down from the 0.23 percent average over 1998-2000, and well below the 1990-91 average of 0.33 (Figure 5).[29] The actual cash transfer of resources to aid recipients is much less than the reported ODA total, as a large part of ODA is provided in kind in the form of TA (consultants, scholarships), related administrative costs, emergency and disaster relief, and equipment for specific projects—and recipients also have to meet interest charges on ODA loans of around $3 billion per year.

Figure 5: The declining trend in ODA must be reversed
(Net ODA from DAC donors)



Source: DAC, OECD

65. At the time of the Monterrey conference, most donors made individual or collective announcements of significant increases in ODA, including Canada, the individual countries of the EU, Norway, Switzerland, and the U.S. (through the Millennium Challenge Account).[30] If fulfilled, the new commitments made so far would raise ODA by about $15 billion by 2006, or from the current 0.22 percent of donors' GNI to 0.26 percent. This is promising, but still well short of the $50 billion or more in additional assistance that is estimated to be needed as part of the global partnership to achieve the MDGs.

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[29] Only five donor countries have reached or surpassed the 0.7 percent target adopted by the UN in 1970—Denmark, Luxembourg, the Netherlands, Norway, and Sweden.

[30] The breakdown is as follows: Canada—to increase its ODA by 8 percent annually up to 2010 (ODA/GNI ratio rising to an estimated 0.28 percent by 2006); EU—members to strive to reach at least 0.33 percent ODA/GNI by 2006, with the EU ODA/GNI average rising to 0.4 percent or more; Norway—to increase its ODA to 1 percent of GNI by 2005; Switzerland—to increase its ODA to 0.4 percent of GNI by 2010 (ODA/GNI ratio rising to an estimated 0.37 percent by 2006); and US—to increase its ODA in the next three years to achieve a $5 billion annual increase over current levels by 2006 (ODA/GNI ratio rising to an estimated 0.13 percent by 2006).

66. In addition to the indications of higher aid commitments, the intent to improve the distribution of aid by directing more to poorer countries and those engaged in credible reform efforts is encouraging. In 2001, low-income countries received 64 percent of total DAC bilateral ODA that is allocable by country, of which roughly half was received by the least developed countries; middle-income countries received 36 percent.[31] Looking regionally, Sub-Saharan Africa received 29 percent of the total. Efforts to better target aid need to take into account the special needs of the conflict-affected and LICUS countries, including ensuring that the peace process and reconstruction are supported through timely transition from emergency aid to development assistance, avoiding the hiatus often seen in the transition. With respect to the terms of aid, the picture has improved in the past decade, with the share of tied or partially tied aid in DAC bilateral ODA declining from an average of 40 percent in the early 1990s to around 20 percent today, notwithstanding modest year-to-year fluctuations. Since January 2002, most aid to least developed countries has been untied.

67. ***Quality of Aid.*** Improving the management and effectiveness of aid has been the focus of much work in the DAC and in individual donor countries in recent years. And subject to a few exceptions, there is now broad agreement on what constitutes good practice in the management of bilateral donor programs. The critical issues as discussed in Rome at the High-Level Forum on Harmonization are (a) strategic allocations across country programs to maximize the impact of aid; (b) strategic alignment with the PRSP within country programs and stronger coordination among donors; (c) simplification and harmonization of operational reporting and other procedures; and (d) effective results orientation. Individual donor countries are moving forward with specific elements of the consensus. What is needed now is consistent implementation of these efforts and concerted monitoring of them to ensure learning and cross-fertilization as set out in the Rome Declaration on Harmonization, including the commitment "to track and, as necessary, refine lead indicators of progress on harmonization such as those described in the DAC/OECD Good Practice Papers."[32]

4. Debt Relief

68. It will be important to ensure that all HIPCs make effective use of the resources freed up by debt relief, progress expeditiously toward their decision and completion points, and avoid the accumulation of new unsustainable debt. Key indicators for monitoring, already reported in joint Bank-Fund reports on HIPC implementation status, include the number of countries that reach their decision or completion points, the amount of debt relief committed under the Initiative for each country and how it is being used for poverty reduction, and debt sustainability indicators (debt stock and flow relative to fiscal and external payment capacity). The extent of creditor participation, which is essential for the full delivery of the benefits of the Initiative, is also monitored.

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[31] About 20 percent of DAC bilateral ODA cannot be attributed to specific countries.

[32] See "Rome Declaration on Harmonization," February 25, 2003.

69. ***Experience to Date.*** Twenty-six countries have so far reached the decision point under the enhanced HIPC Initiative, including 6 which have reached their completion points. As of end-November 2002, HIPC debt relief committed to these 26 countries, together with debt relief under the traditional mechanism and additional bilateral debt forgiveness over and beyond the HIPC Initiative, represented a reduction in the outstanding debt of about $40 billion in NPV terms at decision point. By consequence, the stock of debt of these countries will fall from around $62 billion to $22 billion, and their average annual debt service is expected to be about 40 percent lower during 2001-2005 than in 1998-99. These substantial savings in debt service payments are expected to allow more resources to be allocated to social spending and poverty reduction. Indeed, the average ratio of social expenditure to GDP increased from 6 percent in 1999 to 8 percent in 2001 and is expected to rise to 9 percent over 2002-05. An estimated $26 billion of HIPC relief (2001 NPV terms) has already been committed to the 26 countries reaching the decision point, corresponding to about 70 percent of the estimated total cost of HIPC relief ($37.2 billion).

5. Global Programs

70. An important element of the aid agenda that needs to be monitored is the set of programs focused on global public goods related to the MDGs—HIV/AIDS, health, education, water and sanitation, environment—that bring together the recipient countries and the donor community in a concerted effort. Donor commitments to some of these programs have increased, but significant financing gaps remain. For example, over 40 country proposals for support from the Global Fund to Fight HIV/AIDS, TB and Malaria (GFATM) were approved in the first round in April 2002, but the flow of funds is only now beginning. Despite the increased resources allocated to the fight against HIV/AIDS, a resource gap of $1.5-2 billion is estimated for the next two years through 2005. There is also the need to facilitate access by developing countries to essential drugs at affordable prices. Under the Education for All Fast Track Initiative (EFA FTI), 7 country proposals were endorsed for support in November 2002, requiring external financing of $430 million, but only $60 million has been pledged so far. For programs in health and education, which entail especially large recurrent costs, the need is not only for more resources now but also for a longer-term commitment that gives recipient countries assurance that the requisite resources will be available in the future as long as the overall program and policies remain on track.

71. Another key area of global collective action, and one closely related to the attainment of the health goals, is the development of water and sanitation systems to provide access to millions who are currently deprived of these essential services. With an estimated 1.3 billion people in developing countries to be provided access to safe water and 1.8 billion people to be provided access to adequate sanitation in order to meet the development goals, the implied need for substantial donor support for financing the needed investment and building institutional capacities is clear. Progress has been made at recent international summits toward developing a coordinated framework of country action and donor support, and the agenda for action would be further informed by the forthcoming report of the Camdessus Panel on Financing Water Infrastructure. The key

challenge going forward, and the main theme of the third World Water Forum to be held in Kyoto in March 2003, will be implementation.[33]

72. On environment, the Global Environment Facility (GEF) is the key instrument by which developed countries assist developing countries in achieving agreed international goals on biodiversity, climate change, and pollution. In 2002, 32 donor countries pledged nearly $3 billion to fund the GEF over the next four years, a slight increase from the $2.75 billion pledged by 36 countries in 1998. With regard to climate change, the Kyoto Protocol to the UN Framework Convention on Climate Change commits developed countries to a 5 percent reduction in their net emissions of greenhouse gases from 1990 levels by 2012. As of January 2003, 31 developed (Annex I) countries representing 44 percent of Annex I greenhouse gas emissions had ratified the Protocol—Kyoto becomes binding once ratified by 55 countries, including Annex I countries emitting at least 55 percent of Annex I emissions. At the Johannesburg World Summit, another important goal set was to achieve a significant reduction in the rate of loss of biological diversity by 2010. Baselines, monitoring systems, and specific developed country responsibilities for the achievement of this goal have yet to be established.

V. IMPLICATIONS

73. This chapter draws out the implications of the conceptual framework and empirical foundations for priorities for action—by developing countries, developed countries, and international financial institutions. It summarizes the priorities for monitoring work going forward. It also looks at the implications for the Bank and the Fund in the work going forward and their own priorities for self- and independent assessment.

A. Policy Priorities

74. A clear message from the foregoing review is that the international community will need to *scale up* its development efforts and their impact if the MDGs and related development goals are to be achieved. This means both committing more and implementing more.

1. Developing Countries

75. Economic growth is essential to the reduction of poverty and related development goals. Central to the attainment of the MDGs, therefore, will be policies and institutions in developing countries supportive of strong and sustainable growth. But also important will be focused efforts toward improved delivery of public services to the poor. Within this framework, the preceding assessment based on an initial review of indicators of relevant developing country policies points to the following areas where, going forward,

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[33] Fore more details on the global programs for HIV/AIDS, health, education, and water and sanitation, see the companion papers prepared for the Spring 2003 Development Committee meeting: "Progress Report and Critical Next Steps in Scaling Up: Education for All, Health, HIV/AIDS, Water and Sanitation – Synthesis Paper and Case Studies."

progress will be especially important to the achievement of the development goals and, therefore, will need close monitoring:

- Macroeconomic management is an area where performance in low-income countries overall appears to be better than in the other broad policy areas, thanks to the progress over the past decade toward the adoption of sound policies. But in a significant number of the low-income countries, especially in Sub-Saharan Africa, progress has been uneven and fragile, and the need remains for a broad strengthening of macroeconomic performance. Even in the countries with better performance, maintaining and building on progress on macroeconomic stability, an essential foundation for sustained growth, will be a continuing challenge.

- Notwithstanding improved macroeconomic management in the low-income countries, and notable progress also on trade policy reform, commensurate improvements in growth and poverty reduction have not been forthcoming. While factors such as adverse political and external circumstances have played a significant role, an important reason has been slower progress on structural and governance reforms, limiting private sector response. The policy and institutional environment for private sector activity needs major improvements in a majority of the low-income countries, both for spurring domestic entrepreneurship and attracting more foreign investment. While improvements are needed in several areas—reducing the burden of regulations, enhancing competition—the most serious shortcomings are indicated in property rights and rules-based governance. This implies the need for greater attention to policies and institutions for the establishment and enforcement of the rule of law (including legal and judicial reform, reduction of bureaucratic harassment). Improved regulatory environment needs to be complemented with continued strengthening of supportive financial and physical infrastructure.

- The need for improvement appears to be the greatest and most urgent in public sector governance, a policy area with cross-cutting significance to development effectiveness. Available indicators show public sector governance as unsatisfactory or moderately unsatisfactory in as many as four-fifths of the low-income countries, making it the weakest area of performance, although it must be noted that this is a particularly complex area of reform and there is a trend toward improvement. The need for accelerated reform and capacity-building spans public sector management broadly, including public expenditure and financial management, but especially transparency, accountability and control of corruption for which performance indicators are the lowest.

- Efforts directed toward human development goals need to be scaled up. Public spending on human development needs to increase, but also must become more effective, to scale up impact. Spending on education and health has risen in recent years as a proportion of total government spending and GDP in the low-income countries, but remains low relative to what is needed to attain the human development goals. More effective delivery of these and other public services to the poor calls for reallocation of spending toward activities that directly benefit the poor, such as primary education and basic health care, capacity-building and higher quality of governance, attention to intersectoral linkages (e.g., importance of access to clean water and sanitation to the health goals), and increased public-private partnerships, including community involvement and participation of the poor, and women, in decisions that affect them.

2. Developed Countries

76. As noted above, the attainment of the development goals will require a global partnership in which stronger reform efforts by developing countries are matched by enhanced support from developed countries. Macroeconomic policies in developed countries supportive of a stable and growing world economy are an important element of that. In addition, progress will be needed, and should be closely monitored, in the two key areas of trade and aid:

- Increased market access for developing country exports can give a major boost to growth and poverty reduction in these countries. Priority areas for action are removal of tariff and non-tariff barriers, including domestic subsidies, to exports of major interest to developing countries—agricultural products, textiles and apparel—and reform of tariff escalation that hurts developing country exports of processed goods and manufactures more generally. The opportunity provided by the Doha Development Round must be seized to make major progress in these priority areas, as well as to extend trade liberalization by developing countries themselves.

- At current ODA levels, there is a large gap between the development ambitions of the international community and the resources provided. The indications of increased ODA from a number of donors in follow-up to the Monterrey conference are encouraging, but much more will be needed to meet the resource requirements of the MDGs. Concerted donor efforts are also needed to increase the effectiveness of aid, through improved aid allocation, coordination, and delivery modalities, and harmonization and simplification of operational procedures, building on the important work that has been done by the DAC Task Force on Donor Practices and endorsed in Rome by the High-Level Forum. The PRSP process provides an appropriate framework for identifying effective channels for official assistance and for donor coordination as well as for strengthening the growth and poverty reduction efforts in recipient countries that also will contribute to improved aid effectiveness. The aid effort should include adequate support to debt relief for the heavily indebted poor countries, and to critical global programs—on HIV/AIDS, education, and water.

B. Priorities for Measuring and Monitoring Work

77. The preparation of this paper and the global monitoring platform on which it rests has recognized that the monitoring work will need to be phased in over time, in part reflecting gaps in existing data sets. The immediate task has involved inventorying and analyzing existing reporting vehicles and considering possible extensions and upgrades over the medium term. But, going forward, it will be essential to invest more systematically in robust, timely, and transparent data and develop more precise indicators of policies, actions and outcomes—both for developing countries and for developed countries, as set out below. It also will be useful to reflect the broader monitoring effort of civil society (Box 2).

Box 2. Monitoring by Civil Society

In recent years, a growing number of private organizations have been developing monitoring and reporting tools on development indicators and MDGs. For example:

- Social Watch,[a] an "international NGO watchdog network" present in more than 60 countries and producing various scorecards on the MDGs as well as reports on poverty indicators, available from 1999 through 2001.
- The Global Reporting Initiative,[b] established in late 1997 with funding from the UN foundation, US Environmental Protection Agency, Ford Foundation and others, with the aim of enhancing organizations' reporting on environmental and social performance.
- The World Economic Forum's[c] Global Governance Initiative, launched on January 25, 2003 to monitor progress on the efforts being made to achieve the MDGs. The first report is expected to be released at the World Economic Forum's next Annual Meeting in January 2004.
- The Development Friendliness Index, being developed by the Center for Global Development,[d] covering developed countries' policy coherence with respect to development.

a. See www.socialwatch.org
b. See www.globalreporting.org
c. See www.weforum.org
d. See www.cgdev.org

1. Developing Country Issues

78. Two main issues warrant further work—investments in country-level social sector data and capacity, especially for the countries most at risk of not meeting the MDGs, and systematic measures for the key policy and institutional drivers needed to achieve the MDGs.

79. ***Social Sector Data.*** With respect to developing country data, the major gaps in the data for the social sectors are well known. They have been clearly documented in UN and Bank publications,[34] and addressing them is especially important for countries that are most at risk of not meeting the MDGs. These problems reflect low country capacity, lack of incentives for data collection and reporting, and fragmentation in the international data system. To help address the underlying problems in a systematic way, staff are

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[34] See *World Development Indicators* (Washington, D.C., World Bank, 2003) and UNDP country MDG reports (available at www.undp.org/mdg/countryreports.html).

working with colleagues in UN and bilateral agencies on a DATA (Data Accountability and Technical Assistance) Proposal, building on existing statistical systems in the Bank and Fund and other international agencies and working with the Partnership in Statistics for Development in the 21st Century (PARIS 21), which brings together donors, developing countries, and NGOs to coordinate support for statistical capacity building. Under the DATA Proposal, participating agencies (including client countries) would seek to agree on a clear architecture, accountabilities, and timeframe for reporting and quality standards for the key indicators, and to support it with a time-bound coordinated and country-owned system of household surveys. The architecture would include graduated reporting expectations for countries at different income levels coupled with donor support for training/capacity building for meeting any new reporting needs in a timely manner. The proposal would be designed to better empower the agencies with lead responsibility for the particular indicators to get the job done, even as it gets the development community (including client countries and IDA) closer to having the key data needed to monitor progress in real time with real numbers.[35]

80. ***Transparent Metrics for Policies.*** There are a number of initiatives for assessing country policies, but few are both transparent and quantified. Nor, taken as a group, do they add up to what is needed for systematic global monitoring. The monitoring of policies can be improved in two directions: making fuller use of existing country-specific policy assessments; and improving the quality and timeliness of data on cross-country indicators of key policies.

- The Bank's CPIA exercise could be used more effectively for global monitoring as well as for strengthening the policy dialogue with clients and related development partnerships if it were disclosable, supported by investment in upgrades to ensure robustness and consistent quality. In line with the IDA13 Agreement, Bank's Management is preparing to report at the IDA13 Mid-Term Review on the readiness of the system for public disclosure and the timing of public disclosure of individual IDA-eligible country ratings.[36] Other, complementary possibilities are: (i) use of the IMF's Article IV reports to assess whether a country's macroeconomic policies are consistent with the growth requirements for reaching the development goals;[37] (ii) inclusion in the Joint Staff Assessments (JSAs) of PRSPs and of their implementation reports of an assessment relating to the consistency of the totality of a country's policies for

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35 Monitoring the MDG indicators could build on the General Data Dissemination System (GDDS), particularly as the staffs of the Bank and the Fund are considering ways to align the socio-demographic component of the GDDS with the MDG indicators.

36 Pending the completion of this work and further discussions and decisions about possible disclosure of actual ratings, relative Country Policy and Institutional Assessment ratings for countries eligible for IDA financing, classified by quintile, are publicly available. See *Linking IDA Support to Country Performance: Third Annual Report on IDA's Country Assessment and Allocation Process* (IDA/SecM2002-0248), April 30, 2002, and www.worldbank.org/ida/idasecm2002-0248.pdf. See also *World Bank Disclosure Policy Review* (R2001-0146), July 27, 2001; and *World Bank Policy on Disclosure of Information* (SecM2002-0311), June 10, 2002.

37 In incorporating this role into Article IV reports, care would need to be taken that this did not overburden the Article IV process. This issue will be further examined.

poverty reduction with the development goals, supported by encouragement to countries to give more emphasis to MDG achievement in their implementation reports; and (iii) use of the country policy ratings of the other MDBs, such as the EBRD's Transition Indicators.

- Given the cross-cutting significance of improved public sector governance, this is an area where development of more robust, objective indicators would have a high payoff. The approach being followed in the Doing Business project on private investment climate indicators—which is systematic, documented, and transparent—provides a model for possible extension to other sectors.[38]

2. *Developed Country Issues*

81. For monitoring of developed country policies and actions, better metrics also are needed on market access for developing country exports and on aid.

82. ***Trade.*** The IMF's TRI index could be supplemented with information on subsidies and tariff peaks and escalation, drawing on data available from WTO and UNCTAD. The further development of the World Bank's WITS database would provide an important complementary source. In order to identify more clearly those agricultural policies that are particularly trade distorting, it would be worth monitoring separately the level of export subsidies and of the so-called "amber box" subsidies (subsidies regarded as significantly trade distorting), drawing on WTO data.

83. ***Aid.*** The discussion of linkages between aid and the MDGs provides a basis to extend and deepen available indicators for monitoring official aid to developing countries—both quantity and quality. Quantitative ODA flows are already monitored based on data maintained by DAC. These data could be complemented by more current information drawn from IMF Article IV staff reports of donor countries, DAC Peer Reviews, and staff reports for recipient countries. Development of aid quality measures could be part of the follow-up on the DAC Task Force on Donor Practices, especially in light of the Rome Declaration on Harmonization and the commitments made there to track indicators of progress. Relatedly, the DAC Secretariat is planning to work on possible norms and benchmarks, in collaboration with the DAC Working Party on Aid Evaluation. Such indicators and measures could in turn be included in the global monitoring platform and reflected in future monitoring reports to the Development Committee, along with the findings of the synthesis report the Secretariat plans to prepare on the Peer Reviews conducted in 2001-2003.[39]

3. *Research*

84. In parallel with work on indicators and data for monitoring, the Bank and the Fund are engaged in research to deepen our understanding of, and provide more guidance

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[38] See *Doing Business in 2003: Understanding Regulations,* the World Bank, Washington, DC (forthcoming). Website address for more information on the Doing Business project: rru.worldbank.org.

[39] See *Client Survey of Peer Reviews*, DCD/DAC (2002) 28, OECD, Paris, November 5, 2002.

to developing countries on, the determinants of growth—macroeconomic, structural, institutional—and their impact on poverty. Specific topics of ongoing research include the effects of Bank- and Fund-supported programs on growth; the macroeconomic and structural implications of aid flows; the interrelationships among debt, aid, growth, and poverty reduction; the role of investment climate and governance; and trade (including the cost to developing countries of protection in developed countries). By shedding further light on the links between policies and growth and poverty reduction, this work should help strengthen the conceptual and empirical underpinnings for both policy formulation and monitoring. How the delivery of public services can be improved to better serve poor people is another important topic of ongoing research, and is the subject of the Bank's 2003 World Development Report. Research is also under way in the Bank on the policy determinants of the different MDGs, their multisectoral nature, and their relative elasticities and weights with respect to the development goals, which would permit a sharper delineation of priorities. Complementary research on these issues is being conducted under the Millennium Project of the UN, to which the Bank and the Fund are contributing.

C. International Financial Institutions

85. The international financial institutions (IFIs)—the World Bank, the IMF, and regional development banks—can contribute to country development strategies for achieving the MDGs by serving as effective channels for policy dialogue, capacity-building, and financial support in the areas of their remit. The World Bank and the other multilateral development banks (MDBs) have a particularly important role in supporting national development and poverty reduction strategies. The IMF, in addition to supporting such strategies, has a more general responsibility to help countries implement sound macroeconomic policies, and to ensure a well-functioning international financial system so as to help prevent economic and financial crises when possible and to manage their resolution when necessary. Together, the Bank and Fund have been working with low-income countries on the PRSP process, which could also serve as a vehicle for monitoring progress toward achieving the MDGs at the country level. And for the emerging market countries, they have been working together with other IFIs on a range of initiatives both to help these countries strengthen their financial systems through technical assistance and the joint Bank-Fund Financial Sector Assessment Program, and to facilitate risk assessments by participants in financial markets, including by fostering the adoption of internationally recognized standards and codes. Also important from the perspective of the current exercise are ongoing Bank and Fund efforts to increase their own transparency and effectiveness. Both institutions have embarked on major efforts to this end in recent years, with new disclosure policies, greater attention to self- and independent evaluation, and open dialogue with critics.

1. World Bank

86. The World Bank has been engaged in a wide-ranging and complex effort over the past few years to improve the strategic focus, quality, and results of its own operations and research. Reflecting the broader evolution of development paradigm, the country has replaced the project as the "unit of account" in the Bank's work. With that shift, the

Country Assistance Strategy (CAS) has become the Bank's core country programming tool and "business strategy," summarizing the Bank's support for the country's PRSP in the case of low-income countries and the national strategy document in the case of middle-income countries and positioning that support in the context of the Bank's comparative advantage vis-à-vis other partners. Also vis-à-vis partners, the Bank has been working on the harmonization agenda and seeking to simplify its own operational procedures so as to reduce the transaction costs to developing countries of Bank support and of aid more generally. Complementary efforts have been made to modernize and upgrade the Bank's lending instruments and analytic work in support of country development, and the recent reports from the Bank's Quality Assurance Group and independent Operations Evaluation Department attest to the progress that has been made.[40] Building on the work on both quality and country strategy, the Bank has recently embarked on a major effort to increase its results focus,[41] which also will find reflection in the IDA Results Measurement System.[42] The MDGs are central to the Bank's corporate agenda, which is focusing on implementation at the country level through the CAS process, including support for the enabling environment for private sector development, infrastructure, public sector governance, and global programs in HIV/AIDS, health, education, and water and sanitation.

2. IMF

87. The Fund also is country-focused, supporting low-income as well as emerging market countries through technical assistance, policy advice, and financial support. The challenge it faces in helping low-income countries achieve their development goals is to ensure that its support is consistent with the country's own development strategy as expressed in the PRSP and that sound macroeconomic policies underpin that strategy. Such sound policies support the objectives of the PRSP by fostering macroeconomic stability, including by avoiding the need for sudden policy change, and by lowering inflation which hurts the poor. The Fund Board will shortly review a paper on the specific issues and options for better aligning the content and process of the PRGF with the PRSP. In this context, the Fund, together with the Bank, is also trying to help countries improve the alignment between the PRSP and the annual budget cycle. The Fund is conducting a review to look at how its assistance to low-income countries should evolve over the medium term, taking into account, *inter alia,* its commitment to supporting the PRSP process and MDGs. The Fund is also aiming to focus more heavily on its core areas of competence. The Fund has recently adopted new conditionality guidelines that will promote national ownership through more flexible processes of interaction and that should result in clearer and more focused conditions. Of particular importance to the emerging market countries, the Fund is strengthening surveillance at both country and multilateral levels to give earlier warning of potential crises and allow

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40 See *2002 Annual Review of Development Effectiveness (ARDE), Achieving Development Outcomes: The Millennium Challenge* (Report no. 25159, World Bank, Operations Evaluation Department, December 20, 2002), and *Annual Report on Portfolio Performance (ARPP)*, (fiscal year 2002, Quality Assurance Group, World Bank, December 12, 2002.

41 See *Better Measuring, Monitoring, and Managing for Development Results: Implementation Action Plan* (SecM2003-0038), January 31, 2003.

42 See *IDA Results Measurement System: Progress and Proposals* (SecM2003-0060), February 20, 2003.

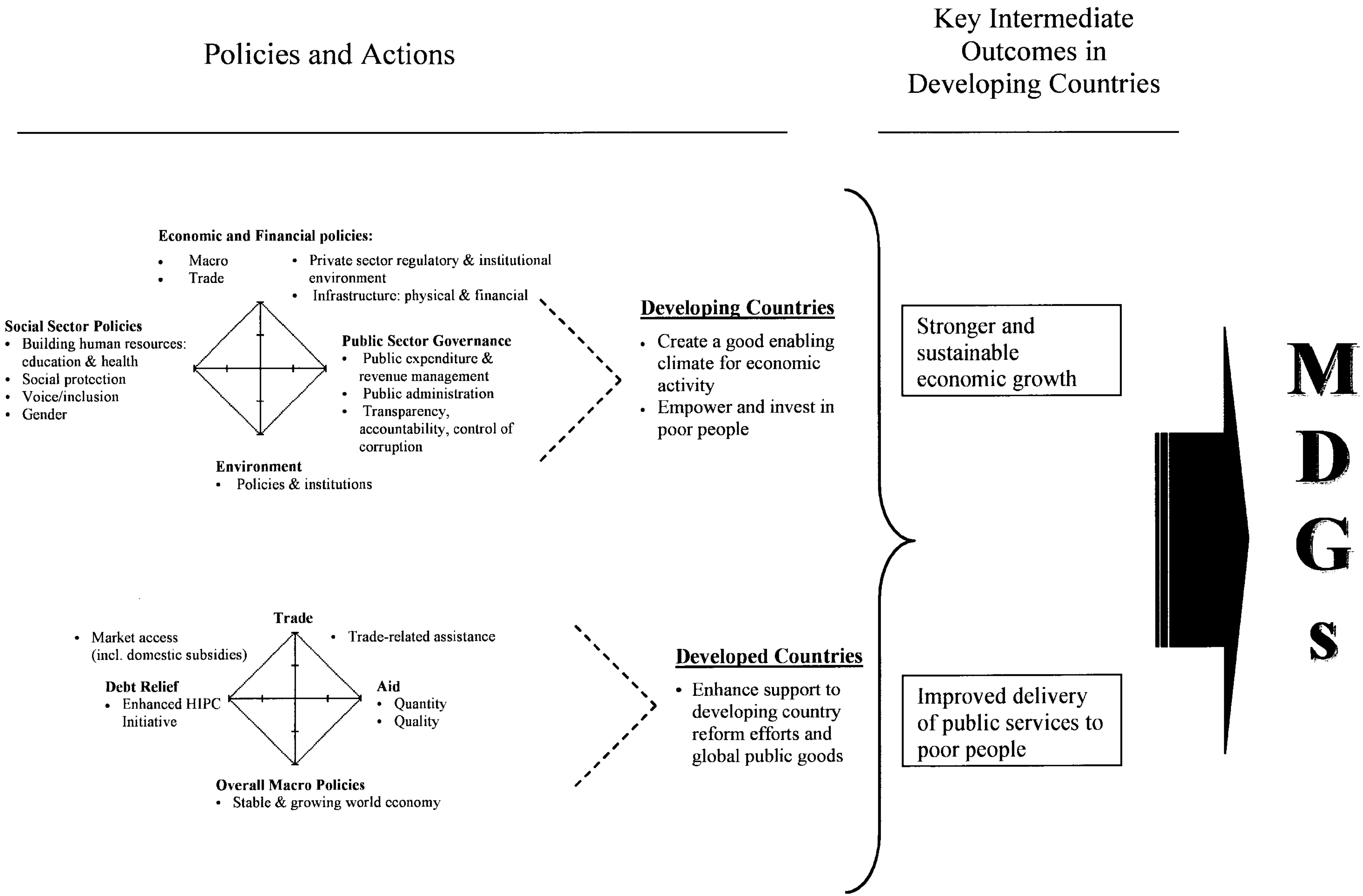
the provision of appropriate policy advice; refining its financial facilities to enable it to meet the needs of members more efficiently; and working to make sovereign debt restructurings more orderly and predictable.

Millennium Development Goals (MDGs)	
Goals and Targets (from the Millennium Declaration)	**Indicators for monitoring progress**
Goal 1: Eradicate extreme poverty and hunger	
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day	**1.** Proportion of population below $1 (PPP) per day **2.** Poverty gap ratio [incidence x depth of poverty] **3.** Share of poorest quintile in national consumption
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger	**4.** Prevalence of underweight children under-five years of age **5.** Proportion of population below minimum level of dietary energy consumption
Goal 2: Achieve universal primary education	
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling	**6.** Net enrolment ratio in primary education **7.** Proportion of pupils starting grade 1 who reach grade 5 **8.** Literacy rate of 15-24 year-olds
Goal 3: Promote gender equality and empower women	
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015	**9.** Ratios of girls to boys in primary, secondary and tertiary education **10.** Ratio of literate females to males of 15-24 year-olds **11.** Share of women in wage employment in the non-agricultural sector **12.** Proportion of seats held by women in national parliament
Goal 4: Reduce child mortality	
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate	**13.** Under-five mortality rate **14.** Infant mortality rate **15.** Proportion of 1 year-old children immunized against measles
Goal 5: Improve maternal health	
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio	**16.** Maternal mortality ratio **17.** Proportion of births attended by skilled health personnel
Goal 6: Combat HIV/AIDS, malaria and other diseases	
Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS	**18.** HIV prevalence among 15-24 year old pregnant women **19.** Condom use rate of the contraceptive prevalence rate **20.** Number of children orphaned by HIV/AIDS
Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	**21.** Prevalence and death rates associated with malaria **22.** Proportion of population in malaria risk areas using effective malaria prevention and treatment measures **23.** Prevalence and death rates associated with tuberculosis **24.** Proportion of tuberculosis cases detected and cured under directly observed treatment short course (DOTS)
Goal 7: Ensure environmental sustainability	
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources	**25.** Proportion of land area covered by forest **26.** Ratio of area protected to maintain biological diversity to surface area **27.** Energy use (kg oil equivalent) per $1 GDP (PPP) **28.** Carbon dioxide emissions (per capita) and consumption of ozone-depleting CFCs (ODP tons) **29.** Proportion of population using solid fuels
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water	**30.** Proportion of population with sustainable access to an improved water source, urban and rural

Target 11 By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers	**31.** Proportion of urban population with access to improved sanitation **32.** Proportion of households with access to secure tenure (owned or rented)
Goal 8: Develop a global partnership for development	
Target 12: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally **Target 13**: Address the special needs of the least developed countries Includes: tariff and quota free access for least developed countries' exports; enhanced program of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction **Target 14:** Address the special needs of landlocked countries and small island developing States (through the Programme of Action for the Sustainable Development of Small Island Developing States and the outcome of the twenty-second special session of the General Assembly) **Target 15:** Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term	***Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked countries and small island developing States.*** ***<u>Official development assistance</u>*** **33.** Net ODA, total and to LDCs, as percentage of OECD/DAC donors' gross national income **34.** Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation) **35.** Proportion of bilateral ODA of OECD/DAC donors that is untied **36.** ODA received in landlocked countries as proportion of their GNIs **37.** ODA received in small island developing States as proportion of their GNIs ***<u>Market access</u>*** **38.** Proportion of total developed country imports (by value and excluding arms) from developing countries and LDCs, admitted free of duties **39.** Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries **40.** Agricultural support estimate for OECD countries as percentage of their GDP **41.** Proportion of ODA provided to help build trade capacity *<u>Debt sustainability</u>* **42.** Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative) **43.** Debt relief committed under HIPC initiative, US$ **44.** Debt service as a percentage of exports of goods and services
Target 16: In co-operation with developing countries, develop and implement strategies for decent and productive work for youth	**45.** Unemployment rate of 15-24 year-olds, each sex and total
Target 17: In co-operation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries	**46.** Proportion of population with access to affordable essential drugs on a sustainable basis
Target 18: In co-operation with the private sector, make available the benefits of new technologies, especially information and communications	**47.** Telephone lines and cellular subscribers per 100 population **48.** Personal computers in use per 100 population and Internet users per 100 population

The Millennium Development Goals and targets come from the Millennium Declaration signed by 189 countries, including 147 Heads of State, in September 2000 (<u>www.un.org/documents/ga/res/55/a55r002.pdf</u> - A/RES/55/2). The goals and targets are inter-related and should be seen as a whole. They represent a partnership between the developed countries and the developing countries determined, as the Declaration states, "to create an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty."

Framework Linking Policies and Actions with Development Outcomes



COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)

1. The World Bank's CPIA is done annually for all its borrowing countries. The number of criteria, currently twenty, and grouped into four policy clusters,[43] reflect a balance between ensuring that all key factors that affect growth and poverty reduction are captured, without overly burdening the evaluation process. Ratings for each of the criteria reflect a variety of indicators, observations, and judgments. They focus on the quality of each country's *current* policies and institutions. Improvements during the course of the year are reflected in the subsequent year's performance ratings.

Country Policy and Institutional Assessment Criteria

A. Economic and Financial Policies

Macroeconomic management

- Management of inflation and macroeconomic imbalances
- Fiscal policy
- Management of public debt (external and domestic)

Trade policy

- Trade policy and foreign exchange regime

Private sector regulatory and institutional environment

- Competitive environment for the private sector
- Factor and product markets
- Property rights and rules-based governance

Financial sector management

- Financial sector depth, efficiency and resource mobilization
- Financial stability

B. Public Sector Governance

- Quality of budgetary and financial management
- Efficiency of revenue mobilization
- Quality of public administration
- Transparency, accountability, and corruption in the public sector
- Management and sustainability of the development program

C. Social Sector Policies

- Building human resources
- Social protection and labor
- Equity of public resource use
- Monitoring and analysis of poverty outcomes and impacts
- Gender

D. Environmental Policies

- Policies and institutions for environmental sustainability

2. The rating scale used in the CPIAs runs from 1-6 as follows: 1 (unsatisfactory for an extended period); 2 (unsatisfactory); 3 (moderately unsatisfactory); 4 (moderately satisfactory); 5 (good); and 6 (good for an extended period).

43 The distribution of the twenty criteria into the four policy clusters used for the purposes of analysis in this report is slightly different from that used in the regular CPIA exercise.