GLOBAL MONITORING REPORT 2004

POLICIES AND ACTIONS FOR ACHIEVING THE MDGs

AND RELATED OUTCOMES

April 12, 2004

This paper, which is being released in draft form, is a report prepared for the April 25, 2004 meeting of the Development Committee by the staff of the World Bank and the International Monetary Fund. It is scheduled to be published in final form in May 2004.

DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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GLOBAL MONITORING REPORT 2004

**POLICIES AND ACTIONS FOR ACHIEVING THE MDGs
AND RELATED OUTCOMES**

Attached for the April 25, 2004, Development Committee meeting is a report entitled "Global Monitoring Report 2004 – Policies and Actions for Achieving the MDGs and Related Outcomes," prepared by the staff of the World Bank and the International Monetary Fund. This item will be considered under Item I of the Provisional Agenda.

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DEVELOPMENT COMMITTEE

April 25, 2004

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ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
DAC	Development Assistance Committee
EC	European Commission
EFA-FTI	Education For All-Fast Track Initiative
GFATM	Global Fund for HIV/AIDS, Tuberculosis, and Malaria
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IFIs	International financial institutions
LICUS	Low-income countries under stress
MCA	Millennium Challenge Account
MDB	Multilateral development bank
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
O&M	Operation and maintenance
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
TRIPS	Trade-Related Intellectual Property Rights
UN	United Nations
WTO	World Trade Organization

EXECUTIVE SUMMARY AND ISSUES FOR DISCUSSION

MDG Prospects—Need to Scale Up Action, Significantly and Swiftly

i. On current trends, most MDGs will not be met by most countries. The income poverty goal is likely to be achieved at the global level, but Africa will fall well short. For the human development goals, the risks are much more pervasive across the regions. Likely shortfalls are especially serious with respect to the health and related environmental goals—child and maternal mortality, access to safe drinking water and basic sanitation. Few, if any, regions will achieve the mortality goals.

ii. The implication is clear. Achievement of the MDGs requires rising above current trends and substantially accelerating progress toward the goals. There is an urgent need to scale up action, on the part of all parties. The agenda has three essential elements:

- Accelerating reforms to achieve stronger economic growth—Africa will need to double its growth rate.
- Empowering and investing in poor people—scaling up and improving the delivery of human development and related key services.
- Speeding up the implementation of the Monterrey partnership, matching stronger reform efforts by developing countries with stronger support from developed countries and international agencies.

Priorities for Developing Countries

iii. Policies in developing countries have improved, enhancing their capacity to make effective use of resources for development, domestic and external. Performance varies widely, however, and reform needs to be accelerated and deepened in many countries, especially in Sub-Saharan Africa. The analysis suggests four areas for particular attention:

- ***Improving the enabling climate for private sector activity,*** by solidifying progress on macroeconomic stability, further reducing barriers to trade, and shifting emphasis from regulating business operations to strengthening market institutions. In macroeconomic policy, the main area for improvement is fiscal management. Strengthening property rights and the rule of law are the key areas for attention with respect to the institutional environment. An improved enabling economic climate is essential both for mobilizing domestic investment and attracting more foreign investment.
- ***Strengthening capacity in the public sector and improving the quality of governance***—the biggest challenge for many countries. The most serious shortcomings are in transparency, accountability, and control of corruption. Performance is better in general in public financial management—expenditure and revenue management—but needs to improve further. On average, low-income countries can increase tax revenue by at least 1-2 percent of GDP by eliminating tax exemptions and improving tax administration. The bulk of the financing needed to achieve the MDGs, however, will have to come from improving the efficiency of existing spending, economic growth, and external resources. In Africa, which has the weakest governance indicators, the New Partnership for Africa's Development (NEPAD) initiative provides a very promising foundation for reform to build on.
- ***Scaling up investment in infrastructure and ensuring its effectiveness,*** according priority to infrastructure services closely linked to the human development goals—water and sanitation, transport. Compared to the levels of the 1990s, infrastructure spending (investment plus operation and maintenance) will need to rise by 3.5 to 5 percent of GDP

in low-income countries and 2.5 to 4 percent of GDP in lower-middle-income countries, with the pace of the increase depending upon institutional capacity and macroeconomic conditions in the country concerned.

- ***Enhancing the effectiveness of service delivery in human development,*** by better targeting education, health, and social assistance services toward poor people, addressing governance-related impediments to service quality and effectiveness, increasing community participation, and scaling up on the basis of successful programs (for example, the Female Secondary School Assistance Program in Bangladesh, the Education with the Participation of Communities (EDUCO) program in El Salvador, and the Education, Health, and Nutrition (*Progresa*) Program in Mexico). Implementation needs to be expedited on two key donor-supported programs—the Education for All-Fast Track Initiative (EFA-FTI) and the Global Fund for HIV/AIDS, Tuberculosis, and Malaria (GFATM). As of January 2004, only $6 million had been disbursed under the former against initial commitments of $170 million (total external financing needs for primary education in low-income countries are estimated to rise to at least $3.7 billion by 2005-06 compared with actual assistance of about $1 billion in 2002) and $230 million under the latter against $3.4 billion in pledges and $1.5 billion in commitments. Swifter action is needed on the part of both donors in providing funds and recipients in addressing implementation constraints.

iv. Cutting across the policy agenda is the empowerment of women, by removing barriers to their fuller participation in the development process, and the need to ensure environmental sustainability. These cross-cutting concerns should be fully integrated into policymaking.

v. Within the foregoing agenda, specific priorities and sequencing of actions of course vary across countries and must be determined at the country level in the context of coherent, country-owned development strategies, as reflected in the Poverty Reduction Strategy Papers (PRSPs) in the case of low-income countries and respective national strategy frameworks in middle-income countries.

Priorities for Developed Countries

vi. Overall, developed country actions to date have fallen well short of the Monterrey vision. Progress seriously lags commitments in most areas. This must change, and change quickly, to help accelerate progress toward the development goals. The vision of Monterrey needs to be translated rapidly into concrete actions. Priorities for developed countries relate to trade and aid policies. But also important are the broad conduct of macroeconomic and financial policies conducive to robust growth in the world economy and increased attention to key global public goods, including environmental sustainability.

- ***Sustaining stable and strong growth in the global economy.*** A key issue is the orderly resolution of fiscal and external imbalances, especially the large U.S. external current account deficit. An abrupt adjustment in the large economies could retard growth and leave global economic conditions vulnerable to shocks. Further work by developed countries—working with emerging market countries and the IFIs—is needed to improve the international financial architecture to enhance prospects for stronger and more stable capital flows to developing countries and to reduce the likelihood and severity of financial crises. Rapid progress is being made in the use of collective action clauses, but substantial work remains to improve practices in sovereign debt restructuring.
- ***Ensuring a successful, pro-development, and timely outcome to the Doha Round.*** High-income countries, given their weight in the system, must lead by example. They should aim for reform targets that are sufficiently ambitious. These could include: complete elimination of tariffs on manufactured products; complete elimination of

agricultural export subsidies and complete decoupling of domestic agricultural subsidies from production, and reduction of agricultural tariffs to, say, no more than 10 percent; and commitments to ensure free cross-border trade in services delivered over telecommunications links, complemented by actions to liberalize the temporary movement of workers. Developing countries also must seize the opportunity provided by the Round to further their own trade liberalization. In order for developing countries to take full advantage of improved market access, they (especially the low-income ones) will need support in dealing with the "behind-the-border" agenda. Some countries will also need assistance with adjustment costs associated with trade liberalization.

- ***Providing more and better aid.*** Aid flows need to rise well above current levels. Although donors have made post-Monterrey additional commitments of about $18.5 billion p.a. by 2006, estimates show that an initial increment of at least $30 billion annually can be effectively utilized by developing countries. As countries improve their policies and governance, the amount of additional aid that can be used effectively will rise into the range of $50 billion plus p.a. that estimates suggest will be needed to support adequate progress toward the MDGs. ODA rose by $6 billion in nominal amount ($4 billion in real terms) in 2002, but the increase was almost wholly accounted for by special-purpose allocations—technical cooperation, debt relief, emergency and disaster relief. More aid will need to be provided in forms that can flexibly meet the incremental costs of achieving the MDGs, including providing a higher proportion directly to countries in the form of cash, supporting good policy performance with predictable and longer-term aid commitments, and allowing for the financing of recurrent costs where country circumstances warrant. There is also substantial scope for increasing the effectiveness of aid by improving the allocation of aid across countries, aligning aid with national development strategy and priorities (as expressed through PRSPs in the case of low-income countries), and harmonizing donor policies and practices around the recipient country's own systems. To ensure debt sustainability in heavily indebted poor countries that are pursuing good policies, a larger proportion of additional aid should be provided in the form of grants. Timely and adequate assistance in the event of adverse exogenous shocks is especially important for these countries.
- ***Improving policy coherence for development.*** Increased aid and other actions need to be part of a coherent overall approach to supporting development. In many cases, there are contradictions in policies, with support provided in one area undercut by actions in another. Putting in place processes that enable an integrated assessment of the coherence of policies that affect development—trade, aid, foreign investment and other capital flows, migration, knowledge and technology transfer, environment—would help avoid such outcomes. Recent actions by Sweden to institute an "integrated global development policy," and by Denmark and other countries to prepare regular assessments of their contribution to the goal of establishing a global partnership for development, go in the right direction.

Priorities for International Financial Institutions

vii. Review of how the international financial institutions are playing their role in contributing to the achievement of the MDGs and related outcomes shows that they have made progress in enhancing their development effectiveness. This is reflected in progress in country focus and ownership, results orientation of operations, transparency and accountability, and partnership. But there is much more to do. There are three key areas for action to deepen and build on the progress made:

- ***Refining and strengthening institutional roles in low-income countries,*** including by deepening the PRSP process, harmonizing operational programs and practices around national strategies and systems, while also continuing to adapt approaches and instruments to the evolving needs of middle-income countries.

- ***Furthering progress on the results agenda,*** including implementation of the action plan endorsed by the sponsoring agencies at the Marrakech Roundtable on Managing for Development Results held in February 2004.
- ***Improving selectivity and coordination*** of agency programs in line with comparative advantage and mandate to achieve greater systemic coherence and effectiveness.

Priorities for Strengthening the Monitoring Exercise

viii. To carry this agenda forward, the Bank and the Fund plan to focus future Global Monitoring Reports on specific challenges—at the country, agency, and global levels—for meeting these priorities. This will require further work, especially in the following areas:

- Strengthening the underlying development statistics, including timely implementation of the action plan agreed among international statistical agencies at the Marrakech Roundtable.
- Conducting research on the determinants of the MDGs, on critical issues such as effectiveness of aid, and on development of more robust metrics for key policy areas such as governance and for the impact on developing countries of rich country policies.
- Deepening collaboration with partner agencies in this work, building on respective agency comparative advantage and ensuring that the approach to monitoring and evaluation is coherent across agencies.

Issues for Discussion

ix. The following issues are proposed for Ministerial consideration at the Development Committee meeting on April 25, 2004:

- Do Ministers agree with the priorities for action and the associated accountabilities—for developing countries, developed countries, and international financial institutions—as summarized above? What specific actions would they propose to scale up and speed up action?
- What guidance would Ministers offer as to how the monitoring exercise should evolve so as to support most effectively the Development Committee's strategic oversight of the policy agenda?

I. INTRODUCTION

1. ***From Vision to Action***. The turn of the century was marked by some significant and promising events for world development. The Millennium Declaration—signed by 189 countries in September 2000—led to the adoption of the Millennium Development Goals (MDGs), which set clear targets for eradicating poverty and other sources of human deprivation and promoting sustainable development. Major international meetings in Doha, Monterrey, and Johannesburg in 2001 and 2002 contributed to the emergence of a shared understanding of the broad development strategy and policies needed to attain the MDGs. The meeting in Monterrey (March 2002) ushered in a new compact between developing and developed countries that stressed mutual responsibilities in the quest for the MDGs. The Monterrey Consensus called on the developing countries to improve their policies and governance and on the developed countries to step up their support, especially by providing more and better aid and more open access to their markets.

2. With broad agreement on the goals and strategies to achieve them, the task now is implementation—to translate vision into action. This needs to happen within countries and at the global level. All parties must deliver on their part of the compact. This was also the central message of the 2003 IMF and World Bank Annual Meetings held in Dubai—that it is time for action and to strive for a better balance in the development effort so that all parties play their part. Is this actually happening? What progress has been made? What constraints are blocking implementation? How are all parties doing in delivering on their commitments?

3. ***Global Monitoring.*** The Global Monitoring Report attempts to answer these questions. The themes of *implementation* and *accountability* constitute the fundamental motivation behind the global monitoring initiative, launched at the request of the Development Committee. The annual global monitoring reports, of which the present report is the first, will provide an assessment of progress on policies and actions for achieving the MDGs and related development outcomes. These reports will underpin the Development Committee's regular monitoring of progress on the policy agenda and reinforcement of the priorities for action and the accountabilities of the key actors—developing and developed countries, as well as multilateral agencies.

4. The first Global Monitoring Report has been prepared jointly by Bank and Fund staff, and in collaboration with partner agencies—other MDBs, UN, WTO, OECD, EC. The full report will be issued as a background document for the Development Committee discussion, and will be published following the Committee meeting in order to disseminate its findings and messages more broadly. This paper sets out the report's main conclusions about the priorities for action and related accountabilities and proposes issues for discussion by the Ministers.

II. MDG PROSPECTS — REASONS FOR OPTIMISM, GRAVE CONCERNS

5. ***Income poverty goal: a mixed picture.*** Reviewing the prospects of reaching the MDGs raises both optimism and grave concerns. At the global level, the world will likely meet the first goal of halving income poverty between 1990 and 2015, thanks to stronger economic growth spurred by improvements in policies. With current trends, most regions will achieve or come close to achieving the goal. East Asia has already met it. However, Sub-Saharan Africa is seriously off track, with just 8 countries representing about 15 percent of the regional population likely to achieve the goal. Within other regions that will likely meet the goal at the aggregate level, a number of countries will not. Low-income countries under stress (LICUS), about half of which are in Africa, are especially at risk of falling far short. The trends are broadly similar with respect to the target of halving the proportion of people who suffer from hunger, also part of Goal

1. The target is likely to be met at the global level, but Sub-Saharan Africa and a number of countries in other regions will fall short.

6. ***Human development and environmental goals: more serious concerns.*** The risks are more pervasive across the regions with respect to the human development goals. While economic growth has a significant effect on education and health outcomes, just as it does on income poverty, the magnitude of the effect is typically smaller. Prospects for progress on the human development goals also depend importantly on the scale and effectiveness of development interventions directed specifically toward them. The determinants of these goals are multiple and cut across sectors. The prospects are brighter in education than in health. With current trends, several regions will achieve or approach the goal of providing universal primary education, but again shortfalls are likely in Sub-Saharan Africa, and possibly in South Asia and Middle East and North Africa as well. Gender gaps in education are the most serious in the same three regions. While the target for gender equality in primary and secondary education is to be achieved preferably by 2005, about one-third of developing countries appear unlikely to achieve it even by 2015. Prospects for gender parity at all levels of education, including higher education, are even less comforting.

7. But the prospects are gravest in health. On current trends, the goals of reducing child and maternal mortality will not be attained in most regions, and only a small proportion of countries (15 to 20 percent) appear to be on track. The goal of halting and reversing the spread of HIV/AIDS and other major diseases (malaria, tuberculosis) appears daunting; their incidence continues to rise, further aggravating conditions affecting child and maternal mortality and entailing broad and serious economic and social consequences. The risks of failure to halt the spread of HIV/AIDS are especially high in Sub-Saharan Africa, but are substantial in many countries in other regions as well.

8. The health goals are rendered more difficult by the large gaps in access to safe drinking water and basic sanitation. The gaps are largest in Sub-Saharan Africa for water and in South Asia for sanitation. The goal of halving, by 2015, the proportion of population without access to safe water and sanitation means providing an additional 1.5 billion people with water and 2 billion with sanitation. With current rates of progress at about half what is needed, most regions will fall well short. At those rates, only about one-fifth of countries will achieve the target increase in access. Among low-income countries, only half as many will make it.

9. ***Global and regional trends hide considerable variation across countries.*** East Asia, with its rich diversity, provides a good example. At one end, the region has middle-income countries, such as China and Thailand, that have already met or will soon meet several of the MDGs. Some of those countries are developing "MDG-plus" agendas. At the other end, low-income countries such as Cambodia and Papua New Guinea are seriously off track. Diversity also appears within countries, especially large ones. Although China has already met the income-poverty MDG at the national level, progress has been much slower in some inland provinces that continue to have large concentrations of poverty.

10. Middle-income countries in general are much better positioned than low-income countries for achieving the MDGs, with many of them having already met them or well on their way. Yet, notwithstanding their progress on income poverty, those countries remain home to 280 million people living on less than $1 per day and 870 million people living on less than $2 per day. A number of them lag on some of the non-income MDGs. For example, China, despite its spectacular performance in reducing income poverty, is not on track, based on current trends, to meet the child mortality goal.

11. ***The MDGs present a daunting challenge, but past development successes give cause for hope.*** Globally, adult illiteracy was halved in the past 30 years, while life expectancy at birth was raised by 20 years in the past 40 years. Some countries have advanced particularly far, particularly fast. Vietnam, for example, a low-income country, reduced poverty from 51 percent to 14 percent from 1990 to 2002. Even in Sub-Saharan Africa, there are encouraging stories of success. Botswana doubled the proportion of children in primary school in 15 years, nearly achieving universal primary education. Benin increased its primary enrollment rate and Mali its primary completion rate by more than 20 percentage points in the 1990s. Mauritania increased the ratio of girls to boys at school from 67 to 93 percent between 1990 and 1996. Uganda reduced HIV/AIDS infection rates for eight consecutive years in the 1990s. And Zambia may soon become the second African country to slow the spread of this scourge. These achievements demonstrate that rapid progress is possible, given good policies and the support of partners.

III. SCALING UP — ON THE BASIS OF MONTERREY CONSENSUS

12. The implication of the foregoing assessment is clear. The achievement of the development goals will require rising above current trends and accelerating the pace of development, and doing so swiftly. In line with the principles and partnership established at Monterrey, all parties must scale up their action. The agenda has three essential elements:

- Accelerating and deepening reforms to achieve stronger economic growth
- Empowering and investing in poor people—stepping up action to improve the delivery of services affecting human development
- Speeding up the implementation of the Monterrey partnership, matching stronger developing country efforts to spur growth and improve service delivery to poor people with stronger support from developed countries and international agencies.

13. ***Acting on multiple fronts.*** The multidimensionality of the MDGs, the linkages among them, and their multisectoral determinants imply that the policy agenda for achieving the goals is similarly broad. Indeed, the agenda spans the gamut of development. There is no one-to-one link between the MDG relating to a sector and policies relating solely to that sector. The outcome in a given sector depends importantly on factors outside that sector. For child survival, for example, mother's education and access to safe water and sanitation may be more important than access to health facilities. Likewise, schools and health facilities may exist, but girls may be prevented from attending if they spend much of their time fetching water from distant sources or if adequate and safe means of transport are lacking. The agenda cuts across sectors, and across policies, investments, and institutions. The scaling-up effort, therefore, requires concerted action on multiple fronts.

14. ***Promoting stronger economic growth.*** At the center of the strategy to achieve the MDGs and related development outcomes must be the promotion of stronger economic growth. Growth directly reduces income poverty and expands resources for use toward reaching the non-income goals. So, first and foremost, economic growth in developing countries needs to be stronger than recently achieved or currently projected. Sub-Saharan Africa needs to double its average GDP growth rate, to around 6 percent. This is an ambitious goal, of course, but some countries in the region achieved it in the 1990s—Cape Verde, Mauritius, Mozambique, Uganda. What is needed is accelerated policy and governance reform to improve the enabling climate for growth—macroeconomic stability and openness, the regulatory and institutional environment for private sector activity, physical and financial infrastructure, public sector governance.

15. ***Scaling up service delivery.*** Reaching the goals also requires policies and actions that enhance the capabilities of poor people—men and women—to participate in and benefit from

growth. For their participation to be effective, the poor need to be empowered through improved delivery of education and health services, as well as related infrastructure services, such as water and sanitation and rural roads. Stepped-up investments in those services must be accompanied by reforms in sector policy and institutional frameworks to improve the effectiveness of delivery, including greater involvement of communities, especially poor people, in making decisions.

16. ***Enhancing the global development partnership.*** The developing countries are in the driver's seat in setting the agenda for achieving the development goals, but they need help from development partners. Implementation requires increased cooperation at the global level. The developing countries need expanded access to markets in developed countries to increase exports and spur growth and they need more aid to finance development programs that improve the delivery of human development and infrastructure services. This mutualism was clearly recognized and affirmed at Monterrey, but progress to date has been relatively slow. The spirit of Monterrey needs to be translated rapidly into action.

IV. Priorities for Action — Developing Countries

17. ***Policies improving but much further to go.*** Indicators for the past five years show improvement in policies in all regions, though to varying degrees. On average, policy indicators remain the lowest in Sub-Saharan Africa, but even there show an encouraging improvement on most dimensions, suggesting that recent reforms are beginning to take hold. The improvement in policies is creating conditions that enhance countries' capacity to make effective use of resources for development, domestic and external. While some improvement has occurred in all policy areas, progress is especially notable in macroeconomic management and trade policy: average inflation and tariff rates have been cut in half in the past decade. The improved policy environment has contributed to a pick-up in economic growth. Indeed, average per capita GDP growth in low-income developing countries in the past five years was higher than during any other five-year period in the past two decades. Better policies pay off.

18. Despite this improvement, however, growth in many countries—most of them in Sub-Saharan Africa—remains below the level needed to achieve the MDGs. In 1998-2002, in nearly 60 percent of low-income countries (with a combined population of 950 million), per capita growth was less than 2 percent, while in 32 percent (with a combined population of 555 million) per capita growth was negative. Whereas factors such as adverse political and external circumstances—including the limited availability of aid resources and impediments to access to export markets in developed countries—have played a role, the growth response to improvements in the macroeconomic and trade policy environment has been dampened by slower progress on structural and institutional reforms that are essential for improving the enabling climate for private sector activity. Stronger growth in the future will depend crucially on more vigorous and consistent efforts to speed up reforms in these areas.

19. In the delivery of services—human development, infrastructure—the picture is broadly similar, showing some areas of encouraging progress and others requiring stronger action. Resource allocation has improved somewhat, as evidenced by the increased investment in human capital. Education and health spending increased over the 1990s from 6.9 to 7.4 percent of GDP in those low-income countries for which data are available. In some countries, there are encouraging examples of successful innovation in service delivery to the poor—among them the Education with the Participation of Communities (EDUCO) program in El Salvador, the *Progresa* program of conditional cash transfers to the poor linked to school and clinic attendance in Mexico, and the Female Secondary School Assistance Program in Bangladesh that employs targeted financial incentives and community engagement to increase girls' school enrollment. Key ideas from these innovations are now being applied in other countries, including most

recently Nepal. In many countries, however, the quality and effectiveness of service delivery show major deficiencies, pointing to the need to accelerate improvements in the underlying policy and institutional framework to raise the yield of increased spending on services.

20. ***The core of the reform agenda is institutional.*** Cutting across the policy agenda is the need to improve governance. Public sector governance, while improving, remains the weakest area in most countries. Institutional dimensions of reform are paramount also in the improvement of the private sector business climate and the performance of the service delivery sectors. In macroeconomic management as well, performance is strongly correlated with the quality of institutions responsible for policy implementation. And in most developing countries, improved management of the environment requires building up fledgling environmental institutions. Responding to these challenges, governments in more and more developing countries have launched governance and institutional reforms. An important example is NEPAD, an initiative owned and led by African countries that places improvement in governance at the center of the reform agenda.

21. ***Country focus and ownership.*** The primary determinant of the prospects for achieving the MDGs is developing countries' own policies. Overall, progress has been encouraging, but reforms need to be accelerated and deepened. The review conducted for the Global Monitoring Report points to five areas needing particular attention, as set out in the paragraphs below. Within these broad areas, policy priorities for individual countries must be determined at the country level, in the context of coherent country development strategies. Country ownership and leadership of the development strategy are crucial to effective implementation and achievement of results.

22. For low-income countries, the PRSPs are the primary avenue for expression of a country-owned and -led development strategy. In middle-income countries the policy integration and prioritization role is performed within respective national strategy frameworks. By the end of March 2004, 37 countries had prepared and were implementing full PRSPs; 16 more had prepared Interim PRSPs. Countries are increasingly reflecting the MDGs in their PRSPs, and the PRSP process itself is being deepened along various dimensions—participatory process, growth strategies, public expenditure management, poverty and social impact analysis. Continued strengthening of the PRSP process, and deepening of the links with the MDGs, will ground the agenda for achieving the development goals in country-owned strategies. Countries can spell out their commitments to policy and institutional reforms in these strategies, which in turn enables donors to commit support in a coherent and consistent way.

(i) Solidifying Macroeconomic Stability

23. ***Main area for improvement is fiscal management.*** While all regions show an improvement in macroeconomic management, progress has been uneven and remains fragile in many countries, especially in Sub-Saharan Africa. Fiscal management is the area of most concern—performance is much better on monetary and exchange rate management. Fiscal policy, in relation to the goals of public debt sustainability and containment of fiscally derived macroeconomic imbalances, remains unsatisfactory in about one-third of low-income countries. The deficiencies in structural aspects of fiscal policy are more serious, with close to one-half of these countries assessed to have an unsatisfactory composition of public expenditures. For these countries, therefore, a strengthening of macroeconomic policies, especially fiscal management, remains necessary. Even in countries with better performance, maintaining and building on macroeconomic stability, an essential foundation for sustained growth, will be a continuing challenge.

24. In middle-income countries, macroeconomic policy indicators are better, on average, than in low-income countries. Because these countries typically are more integrated into international capital markets, maintaining sound macroeconomic policies is especially important for reducing vulnerability to crises that can wash away hard-won gains in reducing poverty. Average output loss from currency crises in the past two decades is estimated at 7.5 percent of pre-crisis GDP. Although vulnerability indicators have improved in the past few years, the reduction of public debt, especially external debt, relative to GDP remains a key area for further progress in several countries. Also important are improvements in the governance of financial and corporate sectors to prevent the build-up of balance-sheet vulnerabilities.

(ii) Improving the Private Sector Enabling Environment

25. ***Extending progress toward outward-oriented strategies.*** Despite significant liberalization, the scope for further reductions in trade barriers is substantial, especially in some regions. In South Asia, for example, despite sharp declines since the late 1980s, the average tariff remains around 20 percent. Taking into account non-tariff barriers (excluding technical product regulations), South Asia's average tariff equivalent was an estimated 32 percent in 2001, the highest among developing regions. Developing countries should take advantage of the Doha Round to make further strides toward trade openness. Countries that derive a sizable part of government revenue from trade taxes may need assistance in adjusting to a regime of lower trade tariffs. In addition to reducing trade barriers, countries should move vigorously on the "behind-the-border" agenda, to enable the private sector to exploit the opportunities created by lower trade barriers. That agenda includes the efficient supply of services closely related to trade—customs, transport and telecommunications, financial services—and improvement of the broader enabling environment for entrepreneurship and private investment. Evidence suggests that full liberalization and regulatory reform in services trade could add significantly to economic growth.

26. ***Less regulation, stronger institutions—especially property rights, rule of law.*** While improving, the regulatory and institutional environment for private sector activity still needs significant reform in many countries. Regulation typically is much heavier and more complex in low-income countries, notwithstanding their more limited implementation capacities, raising the cost of starting and operating a business and creating opportunities for corruption. It typically takes an estimated 30 days and costs less than 10 percent of per capita income to start a business in high-income countries; in low-income countries, it takes 74 days and costs twice per capita income. While regulation is heavy, the essential institutions underpinning markets are weak. The most serious shortcomings are in property rights and rules-based governance, an area assessed as less than satisfactory in almost four-fifths of low-income countries. Such an environment deters investors, both domestic and foreign. Weak creditor rights and contract enforcement also inhibit the growth and deepening of the financial system.

27. Countries need to shift emphasis from regulating business operations to building institutions that facilitate business by supporting efficient and fair functioning of markets. A key area of reform is the strengthening of property rights and of institutions that establish and enforce the rule of law—legal and judicial reform, reduction of bureaucratic harassment. A related area for attention, especially in middle-income countries, is the continued strengthening of the institutions of corporate governance.

(iii) Upgrading Public Sector Governance

28. ***The need to accelerate reform is greatest in public sector governance.*** To be sure, progress is being made, and the quality of governance has improved, especially in Europe and Central Asia and South Asia. But the reform agenda calls for more vigorous action in many countries. In as many as three-fourths of low-income countries, overall public sector governance

is assessed to be less than satisfactory, making it the weakest area of performance. The weaknesses are most pervasive in low-income countries in Sub-Saharan Africa, precisely where stronger institutional capacities are needed to manage development interventions that will spur progress toward the MDGs. And they are especially acute in the LICUS in all regions. Governance ratings are higher in middle-income countries, but those ratings still are lower than their ratings in other policy areas. These findings focus attention on governance and institution-building reforms as an area for particular attention, as poor governance and weak institutions can seriously undermine the effectiveness of policies and programs throughout an economy. Initiatives such as the NEPAD, therefore, are especially valuable and timely.

29. ***The most serious shortcomings are in transparency, accountability, and control of corruption.*** Reform is complex in these areas, which are less amenable to "technocratic" solutions. Progress will depend on a careful nurturing of reform ownership and of needed changes in bureaucratic culture. Political will is key, as are political processes that allow broad participation, build in checks on executive authority, and enable citizens to hold administrations accountable.

30. ***Public financial management needs to improve further.*** Performance is better on average in public financial management—expenditure and revenue management, budget systems. More attention to public expenditure and budget management in the preparation of the PRSPs and in the Heavily Indebted Poor Countries (HIPC) Initiative has contributed to progress in these areas that must be sustained and deepened. The importance of improved management of public resources is underscored by the need to create fiscal space for increased spending on key infrastructure and human development services (see below) within sustainable overall fiscal positions. In many countries, the scope for reallocating spending toward development remains substantial. On the revenue side, analysis shows that low-income countries, on average, can increase their tax-to-GDP ratio by at least 1-2 percentage points by eliminating tax exemptions and improving tax administration. Doing so would help mobilize resources, although the bulk of the financing needed to achieve the MDGs will have to come from improving the efficiency of existing spending, economic growth, and external resources.

31. Decentralized governance can improve the delivery of services at the local level. This is especially important for large, middle-income countries like Brazil and China that need to devise strategies to tackle major concentrations of poverty at the sub-national level. To be effective, decentralization must be underpinned by sound intergovernmental fiscal systems and adequate local institutional capacities.

(iv) Strengthening Infrastructure

32. ***Substantial scaling up of investment is needed.*** Infrastructure plays a dual role in the effort to achieve the MDGs. An important part of the enabling environment for economic growth, it also delivers services that are key to achieving the human development and gender equality goals. At present, there are large gaps in the availability and quality of key infrastructure, especially in low-income countries and in rural areas within countries. Narrowing those gaps requires sizable increases in investment and associated spending on operation and maintenance (O&M). Estimates suggest that average spending on infrastructure (investment plus O&M) in low-income and lower-middle-income countries may have to almost double from the levels of the 1990s (when such spending fell by 2 to 4 percent of GDP). This implies increases in infrastructure spending (covering power, transport, telecommunications, and water and sanitation) on the order of 3.5 to 5 percent of GDP in low-income countries and 2.5 to 4 percent of GDP in lower-middle-income countries relative to the low levels of the 1990s, with the pace of the increase depending upon the institutional capacity and macroeconomic conditions in the country concerned.

33. Financing this spending will be a major challenge. Efforts must continue to improve the regulatory and institutional environment for private investment in infrastructure, which has increased but not as much as expected. Innovative instruments for risk mitigation could also help leverage more private financing. At the same time, public spending on infrastructure must reverse its decline of the past decade. That will require stronger mobilization of domestic resources, including improved cost-recovery and reallocation of spending, and increased external assistance. Especially in the low-income countries, external assistance must provide a larger share of total infrastructure spending than the roughly 10 percent it provided in the 1990s. Infrastructure requirements relating to water and sanitation warrant special attention in public spending and foreign assistance programs, given their close links to the health and gender goals, and the fact that this sector traditionally attracts less private financing than other infrastructure sectors such as power and telecommunications.

34. ***Increased investment is not the sole answer.*** To ensure its effectiveness and sustainability, investment must be underpinned by improvements in the policy and governance framework, especially the capacity of key institutions. With more and more responsibilities in infrastructure falling on local governments, strengthening administrative and financial capacities at the local level, including developing and facilitating the use of appropriate sub-sovereign financing instruments, will be increasingly important.

(v) Accelerating Human Development

35. ***More resources complemented by more effective use.*** Encouraging progress has been made in human development: more investment is being made in education and health and more attention is being paid to the effectiveness of service delivery. But progress needs to be accelerated and broadened if the human development goals are to be achieved. The deficiencies in service delivery are most serious in Sub-Saharan Africa and South Asia, though even in these regions individual countries are making progress—for example, Ghana on child mortality and Ethiopia and Rwanda on primary completion. While the targets in education and health require the commitment of more resources to these services in most low-income countries, in a number of them there is substantial scope for increasing the impact of existing spending by correcting poor targeting of subsidies, lax resource management, low efficiency and quality of service, and information failures. Examples abound. In Guinea, the share of public spending in education and health accruing to the richest quintile was found to be seven times that accruing to the poorest. In Uganda, 87 percent of non-wage resources intended for schools was diverted to other uses before the problem was discovered and corrective action taken. Teacher salaries absorbed more then 90 percent of the recurrent education budget in Kenya. Teacher absenteeism is 39 percent in Bihar, India. Among doctors in primary health facilities in Bangladesh, absenteeism is 73 percent. Despite free immunization, 60 percent of children are not immunized in India, because mothers are unaware of the benefit. Many of these problems can be traced to weaknesses in governance and institutional capacities.

36. ***Main elements of the agenda.*** Concerted action will be needed on several fronts: (a) scaling up investment in human capital in low-income countries while maximizing the impact of existing public spending by improving the targeting of public services in education, health, and social assistance; (b) paying attention to intersectoral linkages when developing and implementing programs (it is hard to reduce child mortality when only 10 percent of the poor households have access to an improved water source, as in Ethiopia); (c) addressing governance-related impediments to service quality and effectiveness; and (d) piloting and evaluating empowerment options to strengthen the involvement of stakeholders, especially poor people, in the design and delivery of services (and scaling up on the basis of successful programs, such as EDUCO and *Progresa*).

37. Community involvement is particularly important to the goal of reducing gender disparities in education. Since the success of interventions to educate girls is fundamentally embedded in the socio-cultural context, community involvement can help ensure that interventions are responsive to needs. Effective improvement of female access to education—and to other key services—requires that the design of services reflect gender concerns. Indeed, the goal of empowerment of women calls for gender concerns to be fully integrated into policymaking more broadly.

38. ***Donor support—EFA-FTI and GFATM.*** The scaling up of human development in low-income countries requires that more donor support come in forms that promote broad sector reform, encompassing the policy and institutional dimensions of the sector and moving away from past practices focused more on earmarked expenditures or vertical programs that delivered a narrow package of interventions. The Education for All-Fast Track Initiative (EFA-FTI) is helping to support a shift in that direction. Disbursements under the program, slow to take off because of agency programming and budgeting cycles, need to be expedited. As of January 2004, only $6 million of the first $170 million committed to the initial group of countries had been disbursed. World Bank projections suggest that as the FTI scales up to all low-income countries, at least $3.7 billion a year will be needed in external financing for primary education by 2005-06, compared with about $1 billion in 2002. Implementation has also been slow under the Global Fund for HIV/AIDS, Tuberculosis, and Malaria (GFATM); as of January 2004, out of $3.4 billion in pledges, $1.5 billion had been committed but only $230 million had been disbursed. Expediting progress in this priority area requires better donor coordination and the alleviation of institutional capacity constraints in recipient countries.

V. Priorities for Action — Developed Countries

39. ***Actions well short of the Monterrey vision.*** As agreed in Monterrey, stronger reform actions by developing countries must meet with stronger support from developed countries in an enhanced global development partnership if the MDGs are to be achieved. Priorities for developed countries relate to trade and aid policies. But also important is the broad conduct of macroeconomic and financial policies in a way that is conducive to strong global economic growth and stable private capital flows, as well as increased attention to key global public goods. How well are developed countries doing in living up to their commitments? The assessment carried out for the Global Monitoring Report shows that actions seriously lag commitments in most areas. Accelerating progress toward the MDGs requires much stronger actions of support from the developed world than witnessed so far. As for developing countries, the agenda can be grouped under five heads.

(i) Fostering a Robust Global Economic Recovery

40. Through their impact on trade and capital flows, global economic conditions exercise a major influence on prospects for growth and poverty reduction in developing countries. Growth in the developing countries cannot thrive in the absence of strong and sustainable growth in the advanced economies. Although the prospects for recovery in world economic growth appear to be reasonably bright over the near term, sustaining a strong global economy will require the major countries to address some outstanding issues and imbalances.

41. ***Orderly resolution of imbalances.*** Disorderly adjustment in the largest economies could retard growth or leave global economic conditions vulnerable to shocks. Most notably, the United States is running a large external current account deficit. Such large external imbalances, financed increasingly with debt instruments, are difficult to sustain for a long period. As economic growth in the United States gathers steam, a gradual tightening of fiscal and monetary policies could help

bring about an orderly adjustment. In Europe, the central challenge is to implement needed structural reforms, especially in labor markets and social security systems, in order to return economic growth to a sustainable 2-3 percent range over the medium term. In Japan, economic policy needs to continue to focus on countering deflationary tendencies, stabilizing public sector debt, and addressing the accumulation of imbalances in the financial and corporate sectors. A common, longer-term structural challenge is to address the fiscal impact of the demographic changes building up in the advanced economies.

42. The ongoing global economic recovery, buttressed by low interest rates in the advanced economies, is reflected also in some recovery in private capital flows to developing countries in 2003. The outlook for sustaining these flows in the longer term would improve if the large fiscal and external imbalances in the advanced economies were reduced, freeing up financing for developing countries, and the latter continued to improve their policy and institutional environment to make sound and sustainable use of external financing. Prospects for private capital flows would also benefit from improvements in the international financial architecture to make them more stable and reduce the likelihood and severity of financial crises, including more extensive use of collective action clauses and improved practices in sovereign debt restructuring.

(ii) Moving Forcefully on the Doha Development Agenda

43. ***Trade barriers are a major impediment to development.*** Improved market access for developing country exports can give a major boost to growth and progress toward poverty reduction and other MDGs. At present, trade barriers in developed countries in many cases effectively discriminate against developing countries. They are highest on products of major export interest. Protection in agriculture is a multiple of that in manufacturing. Taking into account both tariff and non-tariff barriers—including domestic subsidies but excluding technical product regulations—average protection in agriculture in high-income OECD countries in 2001 was 25.6 percent, compared to 3.6 percent in manufacturing. Both border barriers (tariffs) and domestic subsidies contribute significantly to the high protection in agriculture, but the former have a much larger impact. Protection is particularly high on key individual products. OECD protection rates for sugar are frequently above 200 percent, and its support to sugar producers of $6.4 billion per year roughly equals developing country exports. In the European Union, producer support for beef is as high as 84 percent of the value of domestic production. U.S. subsidies to cotton growers totaled $3.6 billion in 2001-02, two times U.S. foreign aid to Africa, and cost West African cotton growers an estimated $250 million through depressing prices.

44. Within manufacturing, while average protection is low, tariff peaks and escalation discriminate against developing country exports and efforts to move up the value chain. In clothing, for example, tariff peaks average 16-17 percent in Canada, Japan, and the United States. More than 60 percent of imports subject to tariff peaks originate in developing countries. The incidence of contingent protection—antidumping actions—also is higher, on average, against developing countries.

45. ***Gains from trade policy reform would be large.*** Estimates show that gains from a significant removal of these trade barriers would be substantial, both for developing and developed countries. Stronger growth resulting from a pro-development outcome of the Doha Round could increase real income in developing countries by $350 billion by 2015 (roughly equivalent to the entire GDP of Sub-Saharan Africa), and lift an additional 140 million people out of poverty by that year (a decline of 8 percent). The bulk, as much as 70 percent, of these potential income gains arise from liberalization in agriculture.

46. ***Substantial additional gains would flow from liberalization of services trade, including migration.*** On some estimates, gains from liberalization of trade in services, especially the

temporary movement of workers, could be a multiple of those from liberalization of merchandise trade. Services overall are the fastest growing component of developing country exports, with services provided over telecommunications links and through migrant workers showing particular dynamism. Estimated at $93 billion in 2003, workers' remittances are now the second-largest source, behind foreign direct investment, of private external funding for developing countries. Against this background, a cause for concern is the recent build-up of protectionist pressure against services imports in some developed countries, reflected for example in new legal norms in the EU and pending legislation in the United States that could limit outsourcing of government contracts.

47. ***A successful, pro-development outcome of the Doha Round is critical.*** Putting the Doha Round back on track must be accorded the highest priority. Developed countries, because of their weight in the system, need to lead by example. Bilateral or regional agreements are a poor alternative to a forward movement on the multilateral front. Agreement on some focal points or targets for trade policy reform would help give it an impetus. Such focal points could include: complete elimination by high-income countries of tariffs on manufactured products by a target date; complete elimination of agricultural export subsidies and complete decoupling of all domestic agricultural subsidies from production, and reduction of agricultural tariffs to, say, no more than 10 percent, by a target date; and commitments to ensure free cross-border trade in services delivered via telecommunications networks, complemented by actions to liberalize the temporary movement of service providers. At the same time, reform should aim to achieve greater transparency and predictability in trade policy, by limiting the use of less transparent instruments such as specific tariffs, simplifying regulatory requirements, and imposing greater discipline on the use of contingent protection.

48. Any incorporation of rules relating to domestic regulations such as competition and investment policies (the so-called Singapore issues) into WTO trade agreements needs to ensure that the rules support development and take into account the different implementation capacities of developing countries. A flexible approach is warranted. The agreement reached in 2003 to clarify the Trade-Related Intellectual Property Rights (TRIPS) Agreement to expand poor countries' access to essential drugs at low cost is an example of such flexibility. Relatedly, support to developing countries to build their institutional capacities to deal with the trade-related agenda and take advantage of better market access opportunities should be stepped up. The Integrated Framework for Trade-Related Technical Assistance is a useful initiative in that context. "Aid for trade," and complementary measures to facilitate technology transfers to developing countries, can have high impact, and will be needed to enable poor countries to realize the potential gains from global trade reforms noted above. Some of these countries will also need assistance in adjusting to a reduction in trade preferences following further non-discriminatory trade liberalization and to the potential effects of a significant increase in world food prices should that materialize.

(iii) Providing More and Better Aid

49. ***ODA needs to rise well beyond current commitments.*** At current levels of ODA, there is a large gap between the development ambitions of the international community and the resources provided. An increase in aid is critical for low-income countries, to support their reforms and enhance their prospects for achieving the development goals. Aid also plays an important role in middle-income countries by reinforcing domestic efforts to tackle concentrations of poverty and countering negative shocks. Against this background, it is encouraging to see aid volumes begin to reverse their decline of the past decade. ODA rose in 2002 and, according to preliminary estimates, again in 2003. Indications of increased assistance from the donor community in follow-up to Monterrey, if realized, would raise ODA by about $18.5 billion by 2006 from the 2002 level of $58 billion, or to 0.29 percent of donors' GNI from the 2002 level of 0.23 percent. This is

indeed welcome, but well short of what is needed as part of the global compact to achieve the MDGs. Country-level analysis conducted recently by the World Bank indicates that, as a conservative estimate, an initial increment of at least $30 billion could be used effectively. Early commitment of this additional sum would help create a virtuous circle by encouraging developing countries to undertake and sustain deeper reforms, which would make aid still more productive. As countries improve their policies and governance and upgrade their capacities, the amount of additional aid that can be used effectively could rise into the range of $50 billion plus per annum that estimates suggest is likely to be necessary to support adequate progress toward the MDGs. Ongoing work to examine the merits of various options, such as an international financing facility, to mobilize the substantial additional resources that are needed and can be effectively used to achieve development results is, therefore, important and timely.

50. It is useful to see the estimates of additional aid requirements in context. An additional $50 billion would raise ODA relative to donors' projected GNI in the latter half of the 2000s to roughly the same level as at the turn of the 1990s (levels in earlier decades were still higher). Since then, thanks to better policies, conditions for effective use of aid in developing countries on average have improved. Donors' income levels have also risen. Ironically, then, as aid has become more productive, and donors' capacity to give has grown, aid amounts have gone down sharply. This does not mean of course that all donors have reduced their assistance. The aid effort varies widely across members of the OECD Development Assistance Committee (DAC), ranging from a high of 0.96 percent of GNI in the case of Denmark to a low of 0.13 percent in the case of the United States in 2002 (however, the United States has more recently increased its aid commitments that would raise its net ODA in 2006 by about 50 percent over the 2002 level).

51. While aid volumes are rising again, there is some concern that much of the increase may be dominated by strategic considerations—the war on terrorism, conflict and reconstruction in Afghanistan and Iraq. Large amounts have recently been committed for these purposes, but it is unclear whether all of these commitments represent an increase in total aid or are in part a reallocation of aid from other countries. In the period ahead, it will be important to ensure that development aid is not crowded out by aid influenced by such strategic objectives.

52. ***Improving the allocation of aid.*** Most donors today are more selective than they were about a decade ago, allocating more aid to countries with better policies and more poverty. However, there is considerable variation among them. On average, multilateral assistance is now much more sharply targeted to good policies and to poverty. Based on a newly developed index that measures both policy and poverty selectivity in aid allocation, multilateral institutions on average are more than three times as selective as bilateral donors, with the International Development Association (IDA) being the most selective (bilateral aid accounts for about two-thirds of total ODA). Among bilateral donors, the Nordic countries, the Netherlands, and the United Kingdom are the most selective (with Denmark the highest). The index shows that some of the largest donors in absolute size, such as France and the United States, have not been particularly selective along either the policy or poverty dimension. Japan is selective on policy but not on poverty, reducing the overall selectivity of its aid. Thus, while the typical donor has improved its aid quality in terms of targeting more funds to poor countries with better policies and governance, this cannot be said for the typical aid dollar, as the largest donors in absolute amount are less selective. Looking ahead, actions now being taken by some of these donors, for example, the establishment of the Millennium Challenge Account (MCA) in the United States, are expected to contribute to further improvements in aid allocation. The MCA aims to improve aid effectiveness by tying increased assistance to performance.

53. Efforts to better target aid need to take account of the special needs of conflict-affected and other LICUS. The challenge is to balance issues of weak policies and institutions with the need to maintain critical engagement. Appropriately timed and directed aid, sensitive to local

efforts to rebuild and the institutional capacity constraints, can play a useful role in these situations. Recent research shows that well-timed aid can also be quite productive following adverse exogenous shocks, helping to limit the diversion of development resources into short-term relief efforts.

54. ***Increasing the effectiveness of aid through improved alignment and harmonization.*** Related to better allocation of aid across countries, the effectiveness of aid depends crucially on its alignment with national development priorities within country programs and on harmonization and coordination of donor policies and procedures around the recipient country's own systems. In low-income countries, the PRSP provides the framework for strategic alignment with country-owned and -led priorities and for achieving better coherence and coordination in donor support activities. The country-led alignment and harmonization efforts in Tanzania and Vietnam, centered on the PRSP, provide good examples. Aid alignment and harmonization efforts were given an impetus by the High-Level Forum on Harmonization held in Rome in February 2003, and important follow-up work is now being carried out by the donor community jointly under the auspices of the DAC Working Party on Aid Effectiveness and Donor Practices, including elaboration of a set of indicators of progress. Results from this work will be important to widening the application of good practices and better monitoring progress.

55. ***Providing aid in forms that are responsive to country circumstances and needs.*** As countries build a track record of policy performance, their efforts should be supported with timely, predictable, and longer-term aid commitments, to enable them to commit to sustained reforms and investments necessary to meet the MDGs with assurance that needed support would be forthcoming. Aid should be provided in forms that can flexibly meet countries' needs for incremental financing. Currently, only about a third of bilateral ODA is available for program and project expenditures in recipient countries. The rest is allocated to special purposes such as technical cooperation, debt relief, emergency and disaster relief, food aid, and costs of aid administration. These special-purpose grants accounted for almost all of the $6 billion nominal increase in ODA in 2002 (in real terms the increase was about $4 billion). Going forward, a much higher proportion of additional aid will need to be provided directly to countries in the form of cash so that it can be deployed in accordance with country priorities to finance the costs of meeting the MDGs. Where country circumstances warrant, and budget frameworks are sound, more aid could be provided in forms that allow for the financing of recurrent costs, either through budget or sector-wide support, or through targeted assistance to well-designed sectoral programs. Many activities in education and health that are crucial to progress toward the MDGs involve in major part an expansion of recurrent spending. To ensure debt sustainability in heavily indebted countries that are pursuing good policies, consideration should be given to providing a larger share of additional aid in the form of grants.

56. ***Debt relief and debt sustainability.*** Much progress has been made under the HIPC Initiative in reducing heavily indebted poor countries' debt and debt service burden and creating fiscal space for much-needed increases in poverty-reducing spending. While most acute in the case of the HIPCs, the issue of achieving and maintaining debt sustainability is of broader concern to low-income countries. Work is under way at the IMF and World Bank on a debt sustainability framework that is intended to provide guidance on issues relating to financing strategies for low-income countries, including the range of indicators for assessing debt sustainability, the role of policies in determining appropriate debt thresholds, the importance of including domestic debt in such assessments, and the appropriate mix of grants and new credits. These issues are becoming increasingly important in the light of the need for large increases in external financing to meet the MDGs and implications for country debt sustainability. Debt sustainability, however, is not only a resource flow issue; it also depends crucially on increasing growth, expanding and diversifying exports, improving access to global markets, and mitigating the effects of exogenous shocks.

(iv) Stepping-Up Action on Key Global Public Goods

57. As globalization has advanced, and awareness has grown of the international spillovers of local actions and conditions, there has been a welcome increase in attention to areas for global collective action. Reference has been made in the foregoing to several such areas—control of infectious diseases, promotion of education and dissemination of knowledge, opening up of the international trade regime, promotion of a more stable international financial system. In all of these areas, there is progress to report, but, as noted, also a need to step up action.

58. ***Stronger resolve needed to address environmental concerns.*** One key area for global collective action, and directly related to the MDGs, is environmental sustainability. Developed countries bear much of the responsibility for the preservation of the global environmental commons, as they are the largest contributors to the degradation of the commons and possess the financial and technical resources needed for prevention and mitigation. Developing countries must also of course play their part by improving their environmental management, including through increased regional cooperation among themselves that donors could support. While there has been good progress on protection of the ozone layer, thanks to implementation of the Montreal Protocol, progress in most other areas has been far less—greenhouse gas emissions, bio-diversity, fisheries. Aid to developing countries to support improved environmental practices, both bilaterally and through multilateral vehicles, has declined after a short-lived increase following the 1992 Rio Convention. Not all advanced countries have shown weak resolve in addressing the environmental challenges; as the indicators presented in the report show, there are good global citizens such as Sweden and Switzerland. Looking ahead, priorities include stronger and more concerted action on greenhouse gas emissions and increasing aid to developing countries in support of environmental sustainability, including through the Global Environment Facility.

(v) Improving Policy Coherence for Development

59. Cutting across the policy areas is the need to improve the overall coherence of policies in rich countries in terms of their development impact. All too often, there are contradictions in policies, with support to development provided in one area defeated by actions in others. There are both collective and individual country examples: $58 billion in ODA by the OECD countries is undermined by five times as much protection to domestic agricultural producers; advocacy of and support for private sector development and export diversification in developing countries are blunted by systematic escalation of tariffs on higher-value imports from those countries; Norway’s stellar performance as an aid donor coexists with the most restrictive agricultural trade policy regime among the OECD countries; a similar contradiction between aid and trade policies applies to the European Union; and the African Growth and Opportunity Act (AGOA) of the United States was undercut by its 2002 Farm Bill and its higher protection against imports from low-income and least developed countries than from the rest of the world.

60. ***Institutionalizing policy coherence.*** The realization that development policy extends well beyond aid and specific trade preferences is leading to welcome indications that the developed countries are willing to look broadly at the policy areas that affect development—trade, aid, foreign investment and other capital flows, migration, knowledge and technology transfer, environment—and to put in place institutional arrangements that would help ensure coherence. A noteworthy development in this context is the passing into law of an “integrated global development policy” in Sweden in January 2004 that calls for the country’s aid, trade, agriculture, environment, migration, security, and other policies to be aligned with the objective of reducing poverty and promoting sustainable development. Another notable development has been the issuance by Denmark of the first in a planned series of reports on how it is contributing to the goal of establishing a global partnership for development (MDG 8). Preparation of similar reports is being considered by some other OECD members, including, for example, Belgium,

Canada, Finland, Germany, the Netherlands, Norway, and Sweden. Two related ongoing initiatives at the OECD are a "Horizontal Project" on policy coherence for development that looks at the impact on developing countries of a broad range of developed country policies, and increased attention in DAC peer reviews to issues of policy coherence. Work on these issues is also being undertaken by private think tanks and civil society—among them the Center for Global Development and the World Economic Forum. These encouraging efforts would prove very valuable if they were instrumental in bringing about a more systematic attention to issues of development impact and coherence in rich country policymaking.

VI. PRIORITIES FOR ACTION — INTERNATIONAL FINANCIAL INSTITUTIONS

61. How are the IFIs contributing to the achievement of the MDGs and related outcomes? The Global Monitoring Report assesses the IFI contribution along four dimensions—country programs, global programs, partnership, and results. Applying the framework across the IFIs suggests that there has been progress in recent years, especially since Monterrey. But the evidence is inconclusive on the critical questions of comparative performance and whether the whole of the IFI contribution is larger (or smaller) than the sum of the individual IFI contributions. Going forward, greater availability and comparability of evaluation data will facilitate monitoring, and in turn improve the quality of reporting to the taxpaying public in all countries. The joint work program on results endorsed by the MDBs in February 2004 at the Marrakech Roundtable on Managing for Development Results should provide a key vehicle for progress. Future assessments of IFI role will also benefit from greater use of external evaluations.

62. ***Individual IFIs.*** Within each of the institutions, the evidence points to enhanced attention to client focus and country ownership, transparency, results, and accountabilities, although naturally the degree of progress varies across institutions and areas. Highlights include: the strong start of the IMF's Independent Evaluation Office—whose creation means that all the IFIs now have independent evaluation offices reporting directly to their Executive Boards—and its reviews of prolonged use of Fund resources, the Fund's role in capital-account crises, and fiscal adjustment in Fund-supported programs; the World Bank's commitment to the results agenda and its focus on actions and implementation in countries, with partners and within the Bank; and the Regional Development Banks' respective commitments to enhanced operational quality, development effectiveness, and results, as demonstrated recently in Marrakech. But there is clearly no room for complacency. The recent progress needs to continue and be deepened.

- ***IMF.*** For the Fund, the priority is to continue to refine its role in assisting low-income countries, in several ways: by adapting its instruments of financial and technical support to enable its low-income members to catalyze other donor assistance, deal with post-conflict situations, respond to exogenous shocks, absorb the cost of adjustment to multilateral trade liberalization, and establish institutions that will enable them to gain access to private financing. The Fund's work agenda also aims at strengthening the design of Fund-supported economic programs in low-income countries, while enhancing alignment with the PRSP. A third element of the Fund's ongoing work, together with the World Bank, is to develop an effective and flexible framework for assessing debt sustainability in low-income countries.
- ***World Bank.*** The Bank's country support priorities are to continue to work with countries and partner agencies to deepen the PRSP process as a basis for the design of its assistance strategies in low-income countries; to adapt approaches and instruments to the evolving needs of middle-income countries; and to complete the major agenda the Bank has set out on results, harmonization, and simplification. Supporting and complementing the deepening of country-led approaches in the Bank's assistance strategies is the strengthening of its analytic, knowledge, and advocacy work. A priority for Bank-

supported global and sectoral programs is the implementation of an effective framework for appraisal, monitoring, and evaluation that is every bit as strong as the framework for country programs.

- ***Regional Development Banks.*** The other MDBs also have large agendas before them—in their country programs and their support for regional public goods. All need to complete their ongoing reforms associated with the results agenda, as they set out at the Marrakech Roundtable. In addition, like the World Bank, greater efforts are needed on the overall governance and accountability framework for their regional and sectoral programs.

63. ***Systemic coherence.*** Looking across the IFIs, the evidence also points to progress collectively—both institutionally and in day-to-day work at the country level. Bank-Fund collaboration and coordination among the MDBs are smoother and more productive than five years ago. In tandem with the increase in partnership and coordination, there also is a healthy movement toward greater specialization in line with institutional comparative advantage. This reverses the trend of the early 1990s when overlaps in IFIs' and other agencies' capacities increased, as the consensus on the comprehensiveness of the development paradigm was beginning to grow. But the "gains from trade" between and among IFIs have not all been harvested yet. Opportunities include increased selectivity of agency programs in line with comparative advantage, harmonization of agency practices around national poverty reduction strategies and systems, and joint evaluations of their support.

64. Progress is needed also in the ongoing work relating to IFI governance. Strengthening the voice and participation of developing countries at the IFIs is part of the Monterrey compact.

VII. Priorities for Strengthening the Monitoring Exercise

65. Fully developing the potential of the global monitoring exercise will require a strong focus on specific challenges at the country, agency, and global levels for meeting the priorities set out above. That will in turn require continuing work to strengthen the statistical and analytic foundations of the exercise and to deepen collaboration with partner agencies. Three areas for further work are particularly important:

- ***Data.*** Timely statistics on the desired development outcomes and good metrics for the key policy drivers are critical for effective monitoring. At present, there are major gaps in data, especially with respect to human development and infrastructure services and outcomes in developing countries. The World Bank and its partner agencies in the UN system, working together and in consultation with client countries, have developed a time-bound and costed action plan to strengthen a broad range of data in developing countries and build their statistical capacities. Presented and agreed at the Marrakech Roundtable, the plan will need timely and coordinated donor support for its objectives to be realized.
- ***Research.*** There is need for more research to strengthen the analytic underpinnings of the monitoring framework, especially the links between policies and outcomes. While there is a broad consensus on the main policy and institutional determinants of growth, poverty reduction, and the other MDGs, less is known about the precise transmission mechanisms and the relative weights of the various determinants and interrelationships among them. Collaborative research is under way at the Bank, the IMF, and the UN Millennium Project to better model and quantify some of these relationships, especially through in-depth work at the country level. More research is also needed on critical issues such as aid effectiveness and on development of more robust metrics for key policy areas such as governance and for the impact on developing countries of rich country policies.

- ***Partnership.*** In these and other areas, collaboration developed with partner agencies—other MDBs, UN, WTO, OECD, EC—in the preparation of the first Global Monitoring Report will be deepened further, building on respective agency mandates and comparative advantage and ensuring that the approach to monitoring is coherent across agencies. This could include broadening the framework for reflecting the contribution of the multilateral agencies, currently focused on the IFIs, to encompass other agencies as well, even as efforts are made to strengthen the evaluation of IFI contribution, including through better harmonizing the self- and independent-evaluation criteria used by the IFIs. Collaboration will also be expanded with the civil society, which has become increasingly involved in monitoring activities.