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On the
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**ACHIEVING THE MDGs AND RELATED OUTCOMES:
A FRAMEWORK FOR MONITORING
POLICIES AND ACTIONS**

Attached for the April 13, 2003, meeting of the Development Committee is a joint paper entitled "Achieving the MDGs and Related Outcomes: a Framework for Monitoring Policies and Actions" prepared by the staff of the World Bank and the International Monetary Fund, which will be considered under Item I of the Provisional Agenda.

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ABBREVIATIONS AND ACRONYMS

| | | | |
|--------|--|---------|---|
| CAS | Country Assistance Strategy | NEPAD | New Partnership for Africa's Development |
| CPIA | Country Policy and Institutional Assessment | ODA | Official Development Assistance |
| DAC | Development Assistance Committee | OECD | Organization for Economic Co-operation and Development |
| DC | Development Committee | | |
| EBRD | European Bank for Reconstruction and Development | PARIS21 | Partnership in Statistics for Development in the 21 st Century |
| ECOSOC | Economic and Social Council (UN) | PRGF | Poverty Reduction and Growth Facility |
| GDP | Gross Domestic Product | PRSP | Poverty Reduction Strategy Paper |
| HIPC | Heavily Indebted Poor Country | RDB | Regional Development Bank |
| IDA | International Development Association | UN | United Nations |
| IMF | International Monetary Fund | UNCTAD | UN Commission on Trade and Development |
| IMFC | International Monetary and Financial Committee | UNDP | UN Development Programme |
| LICUS | Low-Income Countries Under Stress | WDR | World Development Report |
| MDG | Millennium Development Goal | WTO | World Trade Organization |

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

EXECUTIVE SUMMARY AND ISSUES FOR DISCUSSION

i. The Millennium Development Goals (MDGs) have proved an effective vehicle for rallying public support for development and poverty reduction. But despite important areas of progress, the risks of not attaining the MDGs are considerable, and major remedial efforts are needed. Though individual countries in all regions are at risk, the projected MDG gaps are largest in Sub-Saharan Africa where, based on current trends, most countries will fall short of the poverty reduction goal, even as the global target for halving the proportion of people living in extreme poverty may be met. For the other goals, especially for health and education, the risks are more pervasive across regions, although for the most part the gaps in Sub-Saharan Africa are also the largest.

ii. Against this background, this paper addresses a number of issues relevant to the strategy for achieving the MDGs and related development outcomes. It—and the companion background paper on which it draws—has been prepared jointly by Bank and Fund staff, in cooperation with the staff of partner agencies, as an initial response to the Development Committee's request for proposals for monitoring the underlying policies and actions.¹ It summarizes the emerging consensus on global prospects for achieving the MDGs. It sets out a conceptual framework for the monitoring of the essential policies and actions by developing and developed countries and assesses the status of their implementation. Finally, it proposes regular reporting to the Development Committee on global monitoring.

iii. Based on the discussion in the paper, three sets of strategic issues are proposed for Ministerial consideration at the April 13 Development Committee meeting:²

- First, to accelerate progress on the MDGs and related goals, the paper emphasizes an agenda focused on the attainment of stronger economic growth complemented by actions to enhance the capabilities of poor people to participate in growth. For developing countries, it highlights three key areas for attention: strengthening the rule of law and infrastructure to improve the environment for private sector activity; improving the quality of governance and strengthening capacity in the public sector; and increasing the effectiveness of the delivery of human development and related services to poor people. For developed countries, the paper emphasizes two priority areas for action: increased market access for

¹ Preparation of the paper has been led by staff of the World Bank. The cooperation and support from staff of the African Development Bank, Asian Development Bank, Development Assistance Committee of the OECD, European Bank for Reconstruction and Development, Inter-American Development Bank, United Nations, and World Trade Organization are gratefully acknowledged.

² These issues complement the ones proposed in *Progress Report and Critical Next Steps in Scaling Up: Education for All, Health, HIV/AIDS, Water and Sanitation*, which is on the agenda for Development Committee discussion at the same time as this paper.

developing country exports, including the reduction of domestic subsidies in agriculture, and more and better aid, including adequate support for global programs on education, HIV/AIDS, and water, and implementation of harmonized and related good-practice approaches to development assistance. The paper also highlights the importance of the efforts under way in the Bank and Fund to improve their own effectiveness and transparency in supporting country development. *Do Ministers agree with this assessment and the highlighted priorities for action?*

- Second, as requested at the last Development Committee meeting, a monitoring and reporting framework is being developed for tracking implementation and follow-through on the agreed strategies and policies. Though a number of the issues in the monitoring system are technical and will be the subject of further discussion by Executive Directors, three critical issues warrant Ministerial consideration. First, the proposed framework is grounded in the concept of institutional comparative advantage, with the individual international agencies leading the monitoring work in the specific areas of their respective mandates and expertise and supporting and complementing the monitoring work of partner agencies. Second, the paper calls for systemic investments in the concepts and data for measuring the relevant policies of developing and developed countries and in the transparency and robustness of the methodology for assessing them. Third, the paper argues for a prioritized, time-bound, and costed action plan for international support for statistical capacity building, especially for those countries most at risk of not achieving the MDGs. *Do Ministers agree with the proposed approach to monitoring, and support the indicated priorities for strengthening the framework and the underlying data over time?*
- Third, there will be a number of opportunities in coming months to press ahead with the commitments made at Doha, Monterrey, and Johannesburg, and also to follow up on Rome, Kyoto, and other international fora. These opportunities must be pursued aggressively by both developing and developed countries if the agreed goals are to be met. Assessing progress on these commitments and the related strategies and policies in a timely and transparent manner will be essential for the credibility of the international community. *Do Ministers agree that such an assessment should be central to the agenda of the Development Committee in late September? Also looking beyond September, do Ministers agree that it will be useful for future meetings of the Committee to have an annually updated report on global monitoring supplemented by interim reports on selected issues—using the framework as it is developed and improved over time—as a vehicle for providing continuity and focus across the Committee’s deliberations and for reinforcing accountabilities among developing and developed countries for the essential policies and actions for achieving the MDGs and related outcomes?*

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. 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 is also 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 regular 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 paper has been prepared jointly by Bank and Fund staff, in cooperation with the staff of other agencies, as an initial response to the Development Committee's request. In summary, staff propose to commence regular reporting on the implementation of the main policies and actions by developing and developed countries for achieving the MDGs, as a vehicle for providing continuity across the Committee's deliberations and for reinforcing accountabilities. The reporting would draw on an

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

information platform that would also permit systematic and transparent monitoring by the international community between Development Committee meetings. Underpinning the exercise is a conceptual framework for development effectiveness that is both grounded in the lessons of experience and the findings of research, and widely accepted. Though still early days—and much work will be needed to fully develop its potential for anchoring Development Committee discussions—the framework does provide a basis for a meaningful discussion of where the gaps are largest and where the need for remedial policies and actions is greatest. Over time, with further work on the links between policies and outcomes, progressive strengthening of the data, and guidance from Ministers and Executive Directors, reports to the Committee would become increasingly specific and quantified in terms of their findings and recommendations.

4. ***Structure of the Paper.*** The paper is organized as follows. Section II provides institutional background in terms of the existing architecture for global monitoring by international agencies. Section III summarizes the proposed monitoring and reporting framework, as well as priorities for extending and deepening current monitoring efforts. Section IV sets out the priorities for action by developing and developed countries and the Bank and the Fund emerging from the initial application of the proposed framework. A background paper sets out the analysis in more detail, and 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*—provides a complementary analysis of issues in specific areas.

II. INSTITUTIONAL MANDATES AND COMPARATIVE ADVANTAGE

5. In shaping the proposals for global monitoring, staff have focused on how the exercise could best contribute to ongoing efforts to enhance the effectiveness of the Development Committee, consistent with its mandate (Box 1), and at the same time add value to existing international efforts to achieve and monitor the MDGs. To this end, staff have worked within the agreed international architecture for monitoring to ensure

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.

the mandate consistency and systemic cost effectiveness of their proposals. They have focused on designing a monitoring framework that is broad enough to cover the key drivers of the MDGs and related development outcomes and at the same time avoids

duplicating existing monitoring efforts and mandates of others by working in partnership and on the basis of institutional comparative advantage.

6. ***Consultations with Partner Agencies.*** In preparing this report, staff have consulted with colleagues in partner agencies involved in relevant global monitoring activities, including the United Nations (UN), Regional Development Banks (RDBs), World Trade Organization (WTO), and Development Assistance Committee (DAC) of the OECD, and invited comments from them on earlier versions of this paper and the companion background paper.² Going forward, such consultations will continue on an ongoing basis. The respective monitoring mandates—including of the Bank and the Fund—are summarized in the following paragraphs, which illustrate the complementarities among agencies and provide a basis for the partnership-based monitoring platform discussed in Chapter III.

A. United Nations

7. Within the international system, the monitoring of the MDG targets and indicators, and progress towards achieving them, is being led by the UN, complemented by a major program of research and advocacy. These efforts involve monitoring at the global level through an annual report by the Secretary General³ and at the country level through country MDG Reports, sponsored by the UN Country Teams, which also involve participation by World Bank staff and consultations with IMF staff. Complementing these efforts, the Millennium Project is a 3-year research project—to which the Bank and the Fund are also contributing—designed to identify approaches for achieving the MDGs. The Millennium Campaign is aimed at enhancing public support for the MDGs and fostering country ownership. In related developments, a new Financing for Development Office has been established in the UN Department of Economic and Social Affairs, to serve as a focal point within the UN for overall follow-up to Monterrey. This Office is also managing the preparation for the High-Level Meeting of ECOSOC with the Bank, Fund, and WTO on April 14, 2003 which is focusing on increased coherence, coordination, and cooperation for the implementation of the Monterrey Consensus. Developments at the UN will continue to be supported and taken into account as the global monitoring exercise proceeds, building on the strong working relations among staff across the institutions.

B. International Financial Institutions

8. The Bank's and Fund's monitoring roles derive from their respective mandates to engage in the policy dialogue with Members and their respective reporting requirements and accountabilities to their Executive Boards. In the context of monitoring progress toward the MDGs, these roles are keyed to country policies and actions, complementing

² See also *Coherence, Coordination and Cooperation among Multilateral Organizations* (SecM2003-0112), March 19, 2003.

³ See *Implementation of the United Nations Millennium Declaration*, Report of the Secretary-General, United Nations, July 31, 2002.

the monitoring role of the UN, focused on MDG outcomes. The Bank carries out its policy monitoring function in the context of its economic and sector work, lending, and Country Assistance Strategies (CASs), and has a particular policy monitoring function across IDA-eligible countries, using the Country Policy and Institutional Assessment (CPIA) to assess country policies and institutions as an input into its performance-based IDA allocation system.⁴ The CPIA has many synergies with the Bank's overall work on the policy dialogue, including in the context of the work done jointly with the IMF in supporting country development through the PRSP process and other activities. 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. **Regional Development Banks.** Similar to the World Bank, the regional development banks have important monitoring functions that both serve the needs of their client countries for benchmarking and feedback in the context of the policy dialogue, and also meet their reporting requirements to their respective Executive Boards. In addition, the African Development Bank, Asian Development Bank, and Inter-American Development Bank have processes that are broadly similar to IDA's for assessing country policies and institutions as a basis for allocating their concessional resources across eligible countries. With its particular mandate and focus on transition and private sector development, the European Bank for Reconstruction and Development (EBRD) has developed transition indicators to assess countries' progress in terms of policies and institutions with respect to corporate governance, infrastructure reform, and competition policy.⁵ To the extent consistent with the governing disclosure policies, the policy assessments of the Regional Development Banks will be used in the global monitoring exercise going forward, thereby injecting an important regional perspective into the analysis.

C. World Trade Organization

10. The WTO administers trade agreements, provides a forum for trade negotiations and dispute resolution, 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 to the exercise in monitoring progress on the Doha Development Agenda.

⁴ See *Allocating IDA Funds Based on Performance: Fourth Annual Report on IDA's Country Assessment and Allocation Process* (IDA/SecM2003-0130), March 26, 2003.

⁵ These indicators are published in EBRD's annual transition report. See, for example, *Transition Report 2002*, EBRD.

D. Development Assistance Committee

11. Also critical for global monitoring is the work of the DAC, which monitors aid flows, aid quality, and donor practices including through the Peer Review System. In addition, DAC monitors some aspects of the composition of aid that are highly relevant to assessments of development effectiveness. DAC Peer Reviews monitor Members' development cooperation policies and programs and assess their effectiveness—inputs, outputs, and results—against the goals and policies agreed in the DAC, as well as nationally established objectives. The strong partnership between Bank and Fund staff and DAC Secretariat staff provides a solid foundation for the further work ahead on global monitoring.

III. PROPOSED FRAMEWORK FOR GLOBAL MONITORING

12. Building on the complementarities of the ongoing monitoring efforts of the Bank, Fund, and partner agencies described above, the proposed framework for global monitoring has two main elements—regular reporting to the Development Committee and open and transparent monitoring via the information platform on which the reporting to the Committee would be based. Subject to the discussion of the proposed approach by the Committee, staff would move to implement and improve the framework over time. The implementation plan would also include further development of the monitoring platform, and the data populating it, with the coverage both extended to reflect more fully relevant monitoring efforts of others—such as the Regional Development Banks and civil society—and deepened to allow for greater specificity in the conclusions to be drawn from the exercise.

A. Regular Reporting to the Development Committee

13. Central to the framework is regular reporting on the implementation by developing countries, developed countries, and international financial institutions of the policies and actions needed to achieve the MDGs and related development outcomes, per the request of the Development Committee. As in the present formulation, a brief report to Ministers would summarize the findings and highlight issues for discussion, while a companion background paper would set out the underlying facts and analysis. The report would subsume the standard note to the Committee on the transfer of resources.⁶ It would be prepared by Bank and Fund staff in cooperation with the staff of partner agencies.

14. *Continuing Focus on Implementation.* Such an approach could 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

⁶ See, for example, *Recent Trends in the Transfer of Resources to Developing Countries* (DC2002-0015), August 27, 2002.

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 and highlighting specific issues for more in-depth treatment in possible follow-on reports.

B. Systematic and Transparent Monitoring

15. Underpinning the reporting would be an information platform, designed to facilitate open and transparent monitoring by the broader international community between Development Committee meetings. Once operative, the platform would allow developing and developed countries to benchmark their own policies, actions, and outcomes vis-à-vis comparators. It also would allow the development community at large to assess country efforts and the performance of the development system more broadly. To the extent possible—subject to institutional disclosure policies—the information on the platform would be country specific, also permitting inferences to be drawn with respect to regional and other country groupings for the regular reporting to the Development Committee.

16. *Conceptual Framework and Partnership-based Monitoring.* The conceptual framework underpinning the global monitoring exercise is shown in the Annex. It depicts the results chain for the MDGs and related outcomes—running from the inputs of policies and actions of developing and developed countries to the intermediate outcomes of growth and delivery of social and related services to poor people in developing countries, to the final outcomes, the MDGs themselves. It also has implications for the interagency organization of the global monitoring effort discussed above, as the international community needs to track progress at different points along the chain, with the individual agencies (the UN, the Bank and the Fund, the Regional Development Banks, the WTO, and the DAC) leading the monitoring work in the specific areas of their respective mandates and comparative advantage and supporting and complementing the monitoring work of partner agencies. Finally, it has been reflected in the choice of indicators for monitoring, drawing on data sources managed by the Bank and the Fund as well as partner organizations, and in the design of the prototype monitoring platform on the Development Gateway, with electronic links to partner and related sources.

C. Priorities for Measurement Upgrades

17. In preparing this interim report, the immediate task has involved inventorying and analyzing existing monitoring and reporting vehicles and considering possible extensions and upgrades over the medium term. Going forward, it will be essential to invest more systematically in some of these areas, as set out below—especially in robust, timely, and transparent indicators of policies and actions, where existing metrics are not well developed either for developing countries or for developed countries. As a complementary step—also spelled out below—more concerted focus by the international community will be needed to support the collection of primary statistics on human

development and the associated statistical capacity building, especially in those countries most at risk of not meeting the MDGs.

- *Metrics for Policies and Actions of Developing Countries.* For the most part, the material on developing country policies and actions assembled for this report is country specific, although much of it is either not in a form that lends itself to cross-country analysis or not publicly available. This keeps the summary assessment provided below (and in the background report) at a higher level of aggregation than desired. To help introduce greater specificity, the IMF's Article IV reports and the Joint Staff Assessments of PRSPs and their implementation could provide a more focused and explicit assessment of the consistency of a country's macroeconomic policies and poverty reduction strategy with the country's development goals. In addition, the movement towards CPIA disclosure in the context of IDA13 should be helpful in injecting greater specificity into the monitoring and reporting on low-income countries.⁷ But such movement will need to be buttressed by further work on the transparent application of the CPIA methodology, evaluation process, and documentation to ensure its robustness for global monitoring. Also, given the importance attached to the quality of governance, the development of robust and objective metrics—and consensus around them—warrants special emphasis in the work ahead. Such efforts should contribute to increased transparency in the policy dialogue on the underlying issues covered by the CPIA and movement towards greater harmonization of CPIA-type assessments across development agencies.
- *Metrics for Policies and Actions of Developed Countries.* With respect to developed countries, the metrics for monitoring the implementation of the trade agenda require further development, including consolidation 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 of participants to track and, as necessary, refine indicators of progress on harmonization.⁸ Relatedly, the DAC Secretariat is embarking on work on possible norms and benchmarks, and also plans to prepare a synthesis report on policy coherence based on the donor Peer Reviews carried out in 2001-2003. The indicators emerging from these initiatives could provide a basis for measuring and monitoring the critical qualitative aspects of aid delivery and in turn for assessing progress over time. But the underlying work needs to be accelerated.
- *Availability of Primary Statistics.* The MDGs have helped to focus international attention on measurement issues with respect to key target indicators as well as the underlying primary data where significant gaps remain. These data gaps are especially worrying in the countries most at risk of not meeting the MDGs,

⁷ See *Additions to IDA Resources: Thirteenth Replenishment: Supporting Poverty Reduction Strategies* (IDA/SecM2002-0488), September 17, 2002.

⁸ See *Rome Declaration on Harmonization*, at <http://www1.worldbank.org/harmonization/romehlf/>.

reflecting low country capacity, lack of incentives for reporting, and fragmentation in the international data system. Building on the PARIS21 initiative, an interagency task team is examining coordination among international organizations involved in the collection of social data and the associated needs for improving national statistical processes.⁹ A roundtable conference is being planned for June 2003 to develop a time-bound and costed action plan for addressing the underlying constraints, grounded in country-owned data processes (including regular household surveys) and statistical systems. Such processes and systems are crucial for countries to manage their own efforts to fight poverty and to achieve the MDGs and related development outcomes.

IV. PRIORITIES FOR ACTION

18. Staff have used the proposed monitoring framework to undertake a preliminary assessment of developing and developed country policies and actions for achieving the MDGs. The assessment starts with the outlook for the MDGs set out in recent UN reports, Bank work in the context of this year's WDR on Making Services Work for Poor People, Global Economic Prospects, and the World Development Indicators, and Fund work in the context of the World Economic Outlook. According to this body of work, most regions will achieve or come close to the goal of halving income poverty by 2015, based on current growth prospects, but Africa will fall far short. There, most countries would need to almost double their GDP growth rates to achieve the poverty reduction MDG. The human development MDGs are even more at risk—and not just in Africa. On current trends, none of the regions will achieve the MDG for child mortality and most will fall far short. Faster growth than currently forecast will be necessary; but in isolation it will not be sufficient. While growth has a significant effect on health and education outcomes, the magnitude of the effect is typically smaller than on income poverty. To achieve the goals, complementary policies and actions targeted directly at improving the delivery of key services to poor people will also be needed.

19. *Monterrey Consensus.* 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 after that important meeting, where are we in delivering on the agenda? What light does the preliminary work on global monitoring shed on the record of implementation and the priorities going forward?

⁹ See <http://www.paris21.org>.

A. Developing Countries

20. 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.

21. *Low-Income Countries.* Looking across low-income 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, poverty reduction, and other development goals. 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, 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 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 for countries 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). There is, however, a trend toward improvement, reflected clearly, for example, in EBRD’s indicators for the low-income transition countries, as countries move more forcefully to deal with this agenda as part of their reform efforts. In Africa, while the average rating for the region remains low, some countries have made more progress in improving their investment climates, and this has been reflected also in their success in attracting significantly larger foreign direct investment.
- 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. The HIPC expenditure-tracking indicators and the World Bank Institute’s corruption index tell a similar story. On the positive side, 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). 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.

- Human development efforts need to be scaled up, including both higher public spending on education and health (currently it is 6.5 percent of GDP on average in low-income countries) and more effective service delivery to poor people. This calls for a more pro-poor allocation of spending, capacity-building and higher quality of governance, attention to intersectoral linkages (for example, the 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 companion document *Progress Report and Critical Next Steps in Scaling up*.

22. ***Middle-Income Countries.*** 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 into 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 7.5 percent of pre-crisis levels), sharply eroding hard-won gains on poverty reduction in many cases. Avoiding crises and sustaining growth requires continued attention to improving macroeconomic policies, governance, and the soundness of the financial and corporate sectors.

B. Developed Countries

23. The review of policies and actions 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, trade and aid are the priority areas. These are in addition to the broad conduct of macroeconomic policies in a way that is conducive to the stability and growth of the world economy and 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 Agenda must be seized to make major progress in these priority areas.

- As recognized in Monterrey, reaching the MDGs will require more and better aid. At current ODA levels, around \$50 billion annually (which includes 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 around \$16 billion by 2006, but are well short of the \$50 billion or more that estimates suggest would be 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.

C. International Financial Institutions

24. The international financial institutions have important roles to play in the above—both as facilitators and as development actors in their own right. For the World Bank and the regional development banks, the focus is on the policy dialogue and support for national development and/or 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 priorities going forward relate to Bank and Fund support for low-income countries, their work on the prevention and resolution of crises in middle-income countries, their efforts to improve their own effectiveness through enhanced transparency and monitoring and evaluation, and their support for policy-focused research, as set out below.

- The assessment points to the importance of recent Bank and Fund efforts to upgrade their lending, analytic, and capacity-building work in support of country development. Especially important are the Bank's efforts to increase its results focus—grounded in its CASs, building in turn on PRSPs (for low-income countries), other national strategies (for middle-income countries), and sector strategies—and its corporate focus 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.

- The analysis also points to the critical importance of the work that is 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 the international architecture by stepping up surveillance so as to give better and more timely warnings of potential crises and by working to make debt restructurings more orderly and predictable.
- Essential for the credibility of the current exercise, ongoing efforts by the Bank and the Fund to increase their own transparency and effectiveness must continue. 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 results, 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 feature of the global monitoring framework.
- Finally, further research is essential. Recent Bank and Fund efforts have focused on understanding better the interrelationships between macroeconomic and structural factors in growth and poverty reduction; the particular contribution of the investment climate and governance; trade (including the cost to developing countries of protection in developed countries); the macroeconomic and development implications of aid; and the key ingredients for improving the delivery of essential services to poor people. For the future, there is need for further work to decompose the relative importance of the various policy and institutional determinants of poverty reduction and the other MDGs and related outcomes, as a basis for improving the quality of the advice provided to developing countries by the Bank and the Fund.

Framework Linking Policies and Actions with Development Outcomes

Policies and Actions

Key Intermediate Outcomes in Developing Countries

