

Overview: Building Momentum toward the Millennium Development Goals

The Millennium Development Goals (MDGs) and the Monterrey Consensus have created a powerful global compact for development.¹ But the continued credibility of this compact hinges on fostering momentum in its implementation. With the five-year stocktaking of implementation of the Millennium Declaration focusing increased global attention on development, 2005 is a crucial year to build momentum.

Without tangible action to accelerate progress, the MDGs will be seriously jeopardized. At stake are prospects not only for hundreds of millions of people to escape poverty, disease, and illiteracy, but also for long-term global security and peace—objectives that are intimately linked to development. Behind cold data on the MDGs are real people, and lack of progress on the goals has immediate and tragic consequences. Every week in the developing world, 200,000 children under five die of disease and 10,000 women die giving birth. In Sub-Saharan Africa alone, 2 million people will die of AIDS this year. Moreover, 115 million children in developing countries are not in school. The need to scale up and speed up action is thus urgent, and the opportunities presented by the year 2005 must be seized.

The MDGs set clear targets for dramatically reducing poverty and related human

deprivations and for promoting sustainable development. The Monterrey Consensus created a framework of mutual accountability between developing and developed countries in the quest for these goals, calling on developing countries to improve their policies and governance and developed countries to open their markets and provide more and better aid. With consensus reached on the MDGs and on responsibilities for action, the focus of development efforts shifted to implementation. As this report shows, both groups of countries have made progress on needed policies and actions. But progress has been uneven and slower than envisaged. The pace must pick up if the vision of the Millennium Declaration is to be realized—hence the title of this report.

This report should be read in the context of the broader review of progress on the development agenda in 2005, which includes several other major reports—the UN Secretary-General's report, the UN Millennium Project report, and the Commission for Africa report.² All these reports complement one another in assessing, from their respective vantage points, progress toward the MDGs and related goals and in identifying priorities for the agenda ahead. They all share the common objective of expediting and broadening progress toward these goals.

Daunting Challenges— and Grounds for Hope

Globally, prospects are promising for halving income poverty between 1990 and 2015—the first MDG. China and India, the two countries with the highest numbers of poor people, have achieved strong, sustained growth and made major, rapid progress in reducing poverty. Due largely to their efforts, East Asia has already achieved the poverty MDG, and South Asia is on target. Most other developing regions are also making steady progress and are expected to achieve the goal or come close—though some countries will fall short in every region, and others will continue to have large pockets of poverty even while meeting the goal at the national level. In Sub-Saharan Africa the momentum has been much slower, and most countries are at risk of falling far short. Indeed, between 1990 and 2001 the incidence of poverty rose in Sub-Saharan Africa. Almost half of the region's population lives on less than \$1 a day.

Across regions, the risks of falling short are far greater for the human development MDGs. Prospects are gravest in health. On current trends, most regions will fall short—some seriously—of the health and related goals, including reduced child and maternal mortality and increased access to sanitation. The number of people with HIV/AIDS continues to grow. Prospects are brighter in education, but in three of the six developing regions the pace of progress is too slow to attain the goal of universal primary school completion. Although significant progress has been made in all regions in reducing gender disparities in education, again half of the regions will not achieve the goal of gender equality in primary and secondary education by 2005. Prospects for achieving gender equality in tertiary education by 2015 are even less encouraging. Sub-Saharan Africa is off track on all these goals.

Against this backdrop, and with just 10 years until 2015, achieving several of the MDGs seems daunting. Indeed, it is a huge challenge. But rapid progress is possible. The

success of better-performing regions and countries provides reason for hope for others. A particularly striking example is Vietnam, a low-income country that reduced poverty from 51 percent in 1990 to 14 percent in 2002. And even in many lagging countries, including in Sub-Saharan Africa, progress is being made and the ground is being laid for better performance. This progress needs to be furthered and quickened, within the framework of the enhanced partnership for global development envisaged at Monterrey.

Building Momentum: A Five-Point Agenda

How to generate momentum and broaden progress? Developing countries must take the lead in articulating and implementing strategies that aim higher, to rise above current trends and substantially accelerate progress. That will require improving policies and governance to achieve stronger economic growth and scaling up human development and key related services. Developed countries must also bolster their efforts and live up to the commitments they made at Monterrey. Providing more and better aid is an important part of such efforts. But a big push in aid is not the sole answer. International development policy needs to move beyond aid and aim for a set of actions that cohere into a broader big push—including, importantly, trade policy reform but also other policies that affect development, such as those involving private capital flows, knowledge and technology transfer, security, and the environment.

Based on its analysis, the report proposes a five-point agenda for accelerating progress toward the MDGs (box 1.1). Within its global coverage, the report has a special focus on Sub-Saharan Africa—the region that is furthest from the development goals and faces the toughest challenges in accelerating progress.³ But much of the analysis of Sub-Saharan countries is relevant for similar countries in other regions. For example, Sub-Saharan Africa contains the largest number of least developed countries (LDCs) and

BOX 1.1 A five-point agenda for accelerating progress toward the MDGs*Anchor efforts to achieve the MDGs in country-led development strategies*

- Operationalize the MDGs in country-owned and -led poverty reduction strategies, linked to medium-term fiscal frameworks. Donors should use these strategies as the basis for aligning and harmonizing assistance.

Improve the environment for stronger, private sector-led economic growth

- Strengthen fiscal management, with a focus on the structure of public spending.
- Improve the enabling climate for private activity by removing regulatory and institutional constraints and strengthening economic infrastructure.
- Improve governance by upgrading public sector management and combating corruption.

Scale up human development services

- Rapidly increase the supply of skilled service providers (health workers, teachers).
- Provide increased, flexible, and predictable financing for these recurrent cost-intensive services.
- Manage the service delivery chain to ensure that money produces results.

Dismantle barriers to trade

- Achieve an ambitious outcome to the Doha Round that fully realizes its development promise, including in particular a major reform of agricultural trade policies in high-income countries, completing the round no later than 2006.
- Augment assistance to poor countries to address behind-the-border constraints to their trade capacity, including through investments in critical trade-related infrastructure.

Substantially increase the level and effectiveness of aid

- Double official development assistance over the next five years to support the MDGs, particularly in low-income countries and Sub-Saharan Africa, aligning the pace of the increase with recipients' absorptive capacity.
- Improve the quality of aid, with faster progress on alignment and harmonization, and delivery modalities that increase aid flexibility and predictability.
- Reach closure in 2005 on current proposals for additional debt relief. Any additional debt relief should not cut into the provision of needed new financing—nor undermine the financial viability of international financial institutions.

low-income countries under stress (LICUS). But other regions also contain countries in these groups, with similar characteristics and challenges. For example, East Asia, though better known for its major emerging market economies, contains 6 of the 25 LICUS.

Anchoring Efforts in Country-Led Development Strategies

An overarching theme of this report is the centrality of country-based development strategies in pursuing the MDGs. Country-owned and -led poverty reduction strategies

(PRs) should provide the framework for operationalizing the MDGs at the country level in low-income countries. (Equivalent national development strategies should perform this role in middle-income countries.) Framed against a long-term development vision, PRs should define medium-term targets, tailored to country circumstances, for progress toward the MDGs and related development outcomes. They should also articulate a clear national plan and priorities for achieving those targets, including policy reforms, institutional strengthening, and investments. The development program set

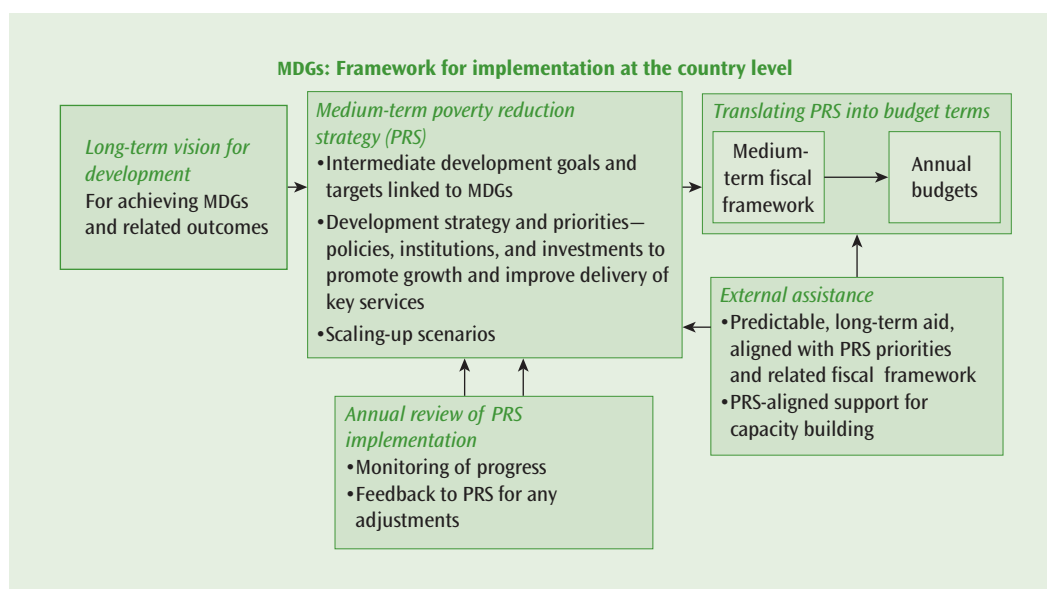
out in a PRS should be linked to a medium-term fiscal framework and annual budgets to align budget allocations with program priorities. Donors should use this framework of nationally articulated priorities—and their budget implications—to align and harmonize their assistance. In this way the PRS process can bring coherence both to the setting and implementation of national priorities for achieving the MDGs and to donor support for the country. It can also, through annual reviews of PRS implementation, provide a mechanism for monitoring progress on the development program in an integrated manner and for adjusting it as needed (figure 1.1).

To perform this central strategic and operational role effectively, PRSs need strengthening in many countries. Overall, there has been good progress in extending and deepening the PRS process in developing countries. At present, 47 countries are implementing PRSs, and another 12 have prepared interim PRSs. Of these, 33 are Sub-Saharan countries. Countries are increasingly reflecting the MDGs more centrally in their PRSs. The PRS process is also being deepened along various

dimensions, including its transparency and inclusiveness, articulation of the growth agenda, attention to institutional capacity building (such as public expenditure management), and incorporation of poverty and social impact analysis. But progress on these dimensions varies across countries.

Going forward, an area requiring particular attention is strengthening the links between PRSs and fiscal frameworks, which in most countries will require further development of medium-term expenditure frameworks. This is key both for enhancing the operational effectiveness of PRSs for national authorities in setting and implementing development priorities and for donors in better aligning their support with country priorities. In most low-income countries, achieving the MDGs will require a major scaling up of development efforts. Countries should use the PRS framework to assess alternative scenarios that can help them map out how to scale up, drawing implications for intensified domestic policy reform, mobilization of additional external assistance, and enhancement of absorptive capacity.

FIGURE 1.1 Country focus and leadership are key to coherent and effective implementation of the MDG agenda



Spurring and Sustaining Economic Growth

PRs and other national development strategies must define clear programs for promoting stronger and sustained economic growth, and governments must firmly commit to those programs. Growth is central to achieving the MDGs and related development outcomes. It reduces poverty directly and expands resources and capacities for achieving the nonincome MDGs. In recent years developing countries have achieved an encouraging pickup in economic growth, thanks to continuing progress on improving policies and governance. In 2004 GDP growth in developing countries averaged 6.7 percent—the highest level in three decades.

Sub-Saharan Africa also appears to be turning the corner. Twelve countries in the region—such as Ghana, Mali, Mozambique, Tanzania, and Uganda—are experiencing growth accelerations of the type more commonly associated with other regions, with annual GDP growth averaging more than 5.5 percent since the mid-1990s. Many African countries face region-specific handicaps, including unfavorable geography, vulnerability to shocks, and widespread disease. Still, as in other regions, policies and institutions matter in achieving higher growth. Differences in policies and institutions largely explain the differences in growth and poverty reduction between other regions and Sub-Saharan Africa and among countries in Sub-Saharan Africa. Sound policies also position countries better to deal with economic shocks.

The recent strengthening of growth is only the beginning of what Sub-Saharan Africa needs to achieve and sustain necessary improvements in income levels. Historically, it has been far more difficult for countries to sustain growth than to initiate it. To achieve the income poverty MDG, Sub-Saharan Africa would have to achieve average annual GDP growth of around 7 percent over the next decade—almost twice the current rate. Though this is a big challenge, past achievements by countries in other regions and some

Sub-Saharan countries show that rapid progress is possible if there is sufficient commitment to reform and support from development partners.

Specific priorities and sequencing of actions to promote growth necessarily vary by country. Across developing countries there is considerable diversity in economic circumstances. Sub-Saharan Africa alone contains middle-income countries and least developed countries, large countries and small island economies, resource-rich countries (including oil exporters) and resource-poor countries, coastal countries and landlocked countries, and countries experiencing conflict and other forms of severe stress. Thus the specifics of the policy agenda for growth at the country level must be defined as part of individual country development strategies. Looking across countries, this report's analysis finds that three broad areas require particular attention.

DEEPENING PROGRESS ON MACROECONOMIC MANAGEMENT

Macroeconomic management has improved in all regions, yet progress has been uneven and remains fragile in many countries. The main area requiring attention is fiscal management, particularly the structure and quality of public spending—to create more fiscal space for priority expenditures while ensuring fiscal sustainability. Better public expenditure management would allow allocations to growth-promoting and poverty-reducing spending to rise in a way consistent with sustainable fiscal and debt positions. The scope for such improvements in spending remains considerable in many countries. Sound fiscal management and macroeconomic stability are also important underpinnings of an environment conducive to growth in private investment.

IMPROVING THE ENABLING CLIMATE FOR PRIVATE SECTOR ACTIVITY

A vigorous private sector drives economic growth, but government plays a vital role in creating a climate where entrepreneurship can

flourish. An improved business environment not only delivers higher and more productive private investment, it also expands the private sector by establishing a level playing field—encouraging small businesses (often the most dynamic business segment), inducing a shift from the informal to the formal economy, and better engaging the energies of women. A better business environment is also essential to attracting more foreign investment. Action is needed on two fronts:

- *Improving the regulatory and institutional environment for private activity*, with a focus on simplifying regulations for starting a business, securing property rights, and strengthening contract enforcement and the rule of law. Access to finance also needs to be improved, but fundamentally depends on the same regulatory and institutional underpinnings. Sub-Saharan Africa considerably lags other regions on these dimensions. Countries should use the improved diagnostics and metrics of the private business environment now available—such as the World Bank’s Doing Business Indicators and Investment Climate Surveys—to guide action and monitor progress. Further reductions in trade barriers (discussed below) are also needed to improve the climate for private investment and growth.
- *Substantially increasing investment in physical infrastructure*, promoting private participation, and reversing the decline in public investment that persisted for much of the past decade—recognizing that the bulk of the increase in infrastructure investment, especially in Sub-Saharan Africa, will have to come from the public sector. Gaps in infrastructure are especially severe in Sub-Saharan Africa, reflecting low past investment as well as the large needs implied by the region’s challenging geography—such as for transportation linking distant rural areas to markets (key to boosting agriculture, which accounts for the bulk of employment in most countries) and regional infrastructure linking landlocked countries to interna-

tional trade. Infrastructure spending (investment plus operation and maintenance) will need to rise in all regions to support stronger growth and service delivery consistent with MDG targets. But such spending will need to double in Sub-Saharan Africa, from about 4.7 percent of GDP in recent years to 9.2 percent over the next decade—implying annual infrastructure spending of about \$20 billion and a need for about \$10 billion a year in additional external financing. The increase in spending will need to be managed well to ensure effectiveness and quality, with the pace of the increase depending on institutional capacity and macroeconomic conditions in the countries concerned.

STRENGTHENING PUBLIC SECTOR GOVERNANCE

Improving governance—upgrading public sector management, controlling corruption—overarches this agenda, because it is crucial to both the private sector’s business environment and the public sector’s development interventions. Although governance is getting better in most countries, reforms need to be accelerated in many. Sub-Saharan Africa has seen encouraging progress on political representation, reflecting a trend toward broader participatory processes that enable citizens to influence policymaking and hold leaders accountable. There has been less progress on public sector management and institutional effectiveness. But the improvements in political institutions could create the momentum needed to strengthen institutions of economic governance. The African Peer Review Mechanism, recently introduced by the African Union’s New Partnership for Africa’s Development (NEPAD), focuses on improving governance and could provide impetus. Informed by the peer reviews, countries should develop capacity building strategies, with NEPAD providing a forum to share best practices, reinforce peer pressure, and advocate for external support. External partners should support the strengthening of this promising African-led reform framework. Developed countries can also help curb corruption by demanding high standards

from their companies active in developing countries, including by giving high-level political endorsement to the Extractive Industries Transparency Initiative.

The context for economic growth in Sub-Saharan Africa also appears to be improving in terms of the region's peace and security outlook, with some decline in the incidence of conflicts. Still, preventing, managing, and recovering from conflicts remain major challenges in the region.

Long-term growth prospects also depend on ensuring environmental sustainability. An important element of the agenda is enhancing access to reliable, affordable, and clean energy options. So is checking environmental degradation to mitigate the threat of increased climatic volatility. Environmental sustainability is an MDG in its own right, but it has strong links to the achievement of many other goals.

Scaling Up Service Delivery

The human development MDGs require a major scaling up of education and health services—including primary education, basic health care and control of diseases such as HIV/AIDS, and women's access to education and health care—and of water and sanitation infrastructure, which is closely linked to health outcomes. The shortfalls are most serious, and the need to scale up most urgent, in Sub-Saharan Africa.

As with the growth agenda, priorities for action in scaling up human development services must be determined in the context of country-owned development strategies. The appropriateness of individual interventions, be they “quick wins” or longer-term efforts, needs to be evaluated in these country-specific frameworks. The analysis in this report finds that most countries face three critical challenges in scaling up service delivery.

INCREASING THE SUPPLY OF SKILLED SERVICE PROVIDERS

Expanding education and health services on the scale needed to achieve the MDGs will require major increases in the supply of teachers, doc-

tors, nurses, and community health workers—especially in Sub-Saharan Africa. Estimates suggest that the region will need to as much as triple its health workforce by 2015, adding 1 million workers. The impact of AIDS on the workforce is exacerbating the capacity problem in countries such as Malawi, Tanzania, and Zambia. Human resource shortages will likely be a binding constraint on service expansion, especially in health, unless countries adapt policies and increase provider productivity. Strategies that are proving effective include:

- Pragmatic adjustments to recruitment and training standards, to increase production of community teachers and health workers.
- Careful deployment and management of service providers, to avoid underutilization.
- Maximum use of nonsalary incentives to make public sector positions attractive, especially in rural areas.
- Selective salary adjustments for the highest-skilled workers (such as doctors) in the public sector, to restrain migration.
- Cost-effective investments in medical, nursing, and teacher training capacity, to complement the shorter-term strategies above.

Donors have an important role to play in addressing the health worker crisis. Developed countries that benefit from African-trained medical personnel can help finance expanded training facilities in home countries and assist those countries in recouping medical students' loans.

MOBILIZING FLEXIBLE AND PREDICTABLE FINANCING

Developing countries have increased budget allocations to education and health, but many need to go further to achieve the MDGs. For education, 20 percent of the recurrent budget is the benchmark under the Education for All Fast Track Initiative (FTI)—while Sub-Saharan countries average 15 percent. For health, in 2000 African governments set a target of 15 percent of the recurrent budget, well above their current average of 8 percent.

But allocating more from countries' own fiscal resources will not be enough: A substantial increase in external financing is required. Achieving the universal primary education MDG in low-income countries will require at least \$3 billion a year in additional external financing. Much more is needed to meet the health goals—at least \$25 billion a year. Equally important are deep changes in the nature of donor support. A significant share of bilateral assistance falls outside national planning and budgeting processes. Transaction costs severely strain countries' limited administrative capacity. Aid flows are often volatile. And there is often a disconnect between the types of expenditures that countries need to finance to scale up education and health services—recurrent, local, largely personnel costs—and what bilateral donors provide—in-kind financing, technical assistance. Roughly two-thirds of aid for education is extended as technical assistance.

Flexible and predictable financing is especially important for these recurrent cost-intensive services. Priorities for improving the delivery of financing for these services include:

- *Making aid flexible.* All aid should support priorities identified in PRSs and endorsed sector plans. In countries that meet public expenditure management thresholds, more aid should be provided as budget support.
- *Creating a stable funding framework for the Fast Track Initiative.* To strengthen the FTI, partners should make monitorable, public, long-term commitments to annual increases in funding for primary education. The target should be a significant increase from each partner's 2005 base, which the FTI Secretariat should monitor. Annual funding commitments should help fill agreed financing gaps for endorsed countries where partners have a presence or interest; any residual should be allocated to the FTI's Education Program Development Fund or Catalytic Fund.
- *Aligning global health initiatives with national policies and priorities.* Additional external resources are needed to prevent

and treat childhood diseases, reduce maternal mortality, expand HIV/AIDS treatment, and make progress against malaria and tuberculosis. Increases in donor funding must be long-term and aligned with country priorities. The international health community urgently needs to look at all options for ensuring that global programs organized around specific health interventions do not undermine the coherence of country health strategies, the balanced allocation of resources, and the strengthening of health systems. While preserving the mandates these programs have for mobilizing resources, raising awareness, monitoring results, and financing global public goods with respect to individual diseases, these functions must be better coordinated at the global level and better aligned at the country level with government-led sector plans, with harmonized procurement, disbursement, and reporting procedures. The High Level Forum for the Health MDGs, established in 2003, offers a platform for this collaborative rethinking of the global health architecture and the development of common principles and standards of good practice for engaging global health partnerships at the country level.

IMPROVING MANAGEMENT OF THE SERVICE DELIVERY CHAIN

Sound expenditure management and a focus on development results are crucial to effective service delivery. The realization of increased aid, especially in the form of flexible budget support, also depends on them. Sound expenditure management requires systems for budget formulation, allocation, and reporting that meet threshold standards of integrity and efficiency. In a number of countries in greatest need of external support for recurrent costs, these systems are too weak to give donors confidence that resources can be tracked and used well. Donors are giving high priority to building capacity in this area, but progress depends crucially on domestic commitment to reform.

A focus on development results requires the capacity to gather and analyze real-time data on MDG progress. Countries need to be able to track the primary completion rate and use regular household surveys and sentinel monitoring to generate data on child and maternal mortality and major communicable diseases. Since these indicators improve relatively slowly, intermediate indicators of progress are also important—as are measures of system efficiency, such as those for education developed by the FTI. A similar framework is being developed by the Health Metrics Network, a donor consortium in health. Progress also requires a better evidence base for policy, built on rigorous impact evaluation of key programs.

Ultimately, strengthening service delivery and ensuring that services reach poor people require action to improve the core accountability relationships identified in the *World Development Report 2004*: responsiveness of governments to citizen demands through the political process; responsiveness of service providers to clients; and effectiveness of government agencies in turning resources into results.⁴ Weaknesses in these accountability relationships can be the deepest threat to effective service delivery. But countries are making progress. Sector management can be helped by clear funding norms, competency-based recruitment, results focus, attention to cost-effective standards, and strategies to make effective use of the private sector. Above all, governments can strengthen the voice of clients at the point of service delivery—through the power of information, direct involvement in school and health facility monitoring and management, and the use of conditional cash transfers.

Realizing the Development Promise of Trade

THE DOHA DEVELOPMENT AGENDA

Improving market access for developing countries would provide a major boost to economic growth and progress toward the MDGs. Multilateral, reciprocal, nondiscriminatory trade

liberalization offers the best means for realizing the development promise of trade. A timely, pro-development outcome to the Doha Round is therefore crucial. Based on developments to date, there is a significant risk that a limited, “business as usual” outcome may emerge. Not only would such an outcome greatly reduce the potential of trade to help achieve the MDGs, it could imply a further erosion of the multilateral trading system.

The 2001 Doha ministerial declaration put development at the center of the trade reform agenda. The international community must raise the level of its ambition with respect to the Doha Round and aim for an outcome equal to that vision. High-income countries must lead by example. Efforts should focus on a major reduction in market access barriers—particularly a transformation of agricultural trade policy in high-income countries. Taking into account both tariff and nontariff measures, trade policy in high-income countries is more than seven times as restrictive in agriculture as in manufacturing. Ambitious reference points would be helpful in guiding the negotiations, including:

- *Agriculture*: reducing all agricultural tariffs to no more than 10 percent, eliminating agricultural export subsidies, and fully decoupling domestic agricultural subsidies and rural support from production.
- *Manufacturing*: eliminating tariffs on manufactured products.
- *Services*: committing to free cross-border trade in services delivered over telecommunications networks, complemented by actions to liberalize the temporary migration of service providers.

For these actions to assist in attaining the MDGs, they should be completed by 2015, with major progress achieved by 2010.

Significant trade policy commitments by developing countries are an essential, and equally urgent, part of the agenda to realize the potential of trade for development, including tapping the considerable scope for expanded trade among them. Trade

restrictions are generally much higher in developing than developed countries, and are highest on average in Sub-Saharan Africa, South Asia, and the Middle East and North Africa.

An ambitious Doha Round would yield large gains for the world as a whole and for developing countries. Most estimates place the gains from such an outcome at more than \$250 billion a year by 2015, with 33–40 percent accruing to developing countries—more than their 20 percent share of world GDP. This would imply a boost to the GDP of low-income countries of about 2 percent and that of Sub-Saharan Africa of 1.3 percent; corresponding estimates for a low-ambition, business-as-usual Doha outcome are 0.3 percent and 0.1 percent, respectively. More than three-fifths of the estimated global gains are related to reform of agricultural trade. The estimates of gains are from merchandise trade reform only, and capture mainly static gains. Significant liberalization of services could increase the gains considerably—by a multiple on some estimates.

AID FOR TRADE

Complementing an ambitious Doha outcome, aid for trade should be scaled up substantially. For many low-income countries, fully capturing the opportunities arising from improved market access, as well as their own trade reforms, requires addressing the behind-the-border constraints on their trade capacity. This applies particularly to the least developed countries, most of which are in Africa, for whom lack of trade capacity and competitiveness is the binding constraint. The agenda includes improving trade logistics and facilitation, strengthening critical trade-related infrastructure (such as transport), and further reforming policies that create anti-export bias.

A host of diagnostic trade integration studies undertaken for least developed countries under the Integrated Framework for Trade-Related Technical Assistance have identified areas where aid can be used to build trade capacity. The Integrated Framework, a collaborative venture among multilateral agencies,

bilateral donors, and governments of least developed countries, offers a mechanism to identify priorities and allocate additional assistance to trade-related investments and support for policy reforms. Resources provided to the Integrated Framework to date have been able to support only small-scale technical assistance. But the framework offers a ready-made vehicle for boosting aid for trade, supported by increased integration of the trade capacity building agenda by countries in their PRSs.

TARIFF PREFERENCES

Recent policy in OECD countries has emphasized tariff preferences for small, poor countries—mainly the least developed countries and Sub-Saharan countries. While actions to make existing tariff preferences more effective—for example, through adoption of common, liberal rules of origin—would be beneficial in the short run, in the long run the focus should shift toward alternative forms of trade assistance that generate greater benefits for recipients and are less trade-distorting. Tariff preferences have been of limited value to many African countries and have negative effects on the functioning of the global trade system. Alternative measures include stepped-up financial assistance to strengthen trade capacity and help countries deal with the adjustment costs of trade policy reform, including preference erosion and revenue losses. They also include action by major importers to minimize the incidence of nontariff measures (quotas, licensing requirements, health- and safety-related product standards) on exports from poor countries. Regardless of their intent, regulatory product standards applied at the border have a major restrictive impact on trade and affect poor countries disproportionately. Reducing their incidence on these countries, including by assisting in building their capacity to meet the regulatory requirements, would have a high payoff.

REGIONAL INTEGRATION

Regional trade agreements can also help leverage trade for development—provided they do not detract from the pursuit of an

ambitious Doha outcome. Full realization of the development contributions of both North-South and South-South regional integration arrangements requires that developing country members of these arrangements implement significant liberalization on a nondiscriminatory basis, in addition to granting preferential access to partner countries. Because a number of Sub-Saharan countries still rely on import duties for a significant portion of government receipts, revenue concerns and the ability to put in place alternative revenue sources are factors in determining the appropriate speed of liberalization. Agreements that the European Union and the United States are negotiating with developing countries can do much good if designed in a way that puts development considerations at the center.

Increasing Aid and Its Effectiveness

SCALING UP OFFICIAL DEVELOPMENT ASSISTANCE

Developing countries must make stronger efforts to mobilize more domestic resources to accelerate progress toward the MDGs—moving more vigorously to spur economic growth, strengthening revenue administration, and improving the efficiency of spending. They must also build on reforms that enhance their ability to attract private nondebt capital inflows, especially foreign direct investment. Moreover, in many countries worker remittances are becoming an increasingly important source of private external finance.

Still, for most low-income countries official development assistance (ODA) remains a major source of external finance—and for poor and least developed countries it remains the predominant source. In Sub-Saharan Africa, home to most of these countries, official flows account for about two-thirds of capital inflows. Even with stronger efforts to mobilize more domestic resources and attract more private capital inflows, these countries will need a substantial increase in ODA to improve their prospects for achieving the MDGs. In middle-income countries aid plays

a much smaller but still important role, by catalyzing reforms, supporting efforts to tackle concentrations of poverty, and helping to counter negative shocks.

Donors are beginning to respond to the need to increase aid, following up on their Monterrey commitments. Aid volumes have been recovering since 2001, following a decade of almost continuous decline. Between 2001 and 2003 net ODA increased by 12 percent in real terms. This is encouraging, but aid remains well short of what poor countries need and can use effectively. At least a doubling of ODA is needed within the next five years to build sufficient momentum in progress toward the MDGs. Further increases will likely be needed beyond that period up to 2015. The need for more ODA is especially great in Sub-Saharan Africa—and analysis suggests that, provided countries continued and strengthened policy and institutional reforms, the region could effectively use a doubling of aid over a five-year timeframe.

To signal that needed resources will be forthcoming, 2005 is an opportune time for donors to raise their initial post-Monterrey commitments and extend them over a longer horizon—2010 or beyond. Only half of Development Assistance Committee (DAC) donors have announced aid commitments beyond 2006. The others should do so in 2005.

While aid volumes are rising, it is important to ensure that development aid to poor countries to support their efforts to achieve the MDGs is not crowded out by donors' strategic and security objectives. Large amounts of aid have recently been committed to geopolitically important countries. A better balance in aid is needed, focusing more on poverty reduction. Reducing poverty and the hopelessness that comes with human deprivation is perhaps the most effective way of promoting long-term peace and security. And it costs less: doubling ODA would amount to less than one-tenth of what high-income countries devote to military spending. It is also eminently affordable, representing only about 0.2 percent of high-income countries' gross national income (GNI).

ALIGNING AID WITH ABSORPTIVE CAPACITY

Both how aid is allocated across countries and how increases are sequenced within countries must be aligned with recipients' absorptive capacity. Country readiness to use significant increases in external assistance varies considerably. Which countries should be "fast tracked" depends on the robustness and strength of ownership of development programs articulated in their PRSs and on progress in governance and institutional capacity to implement them, and should be approached on a country by country basis through the normal dialogue between donors and recipients.

A number of low-income countries, including several in Sub-Saharan Africa, have demonstrated the capacity to effectively manage a scaling up of development efforts supported by external assistance. Examples include Tanzania's scaling up of primary education, Indonesia's rapid development of rural infrastructure in its *kecamatan*s, Uganda's accelerated expansion of poor people's access to primary health care and of programs to combat HIV/AIDS, Mozambique's transformation of its growth performance by harnessing significant aid flows in support of stepped-up domestic reforms and investments, and Vietnam's rapid reduction of poverty and of the incidence of scourges such as malaria. Recent detailed work on absorptive capacity in Ethiopia, carried out by the World Bank in cooperation with the government, shows the feasibility of substantial increases in aid in support of the MDGs being used effectively—but also underscores the importance of appropriate sequencing of aid to minimize costs and ensure desired development results. There are also many countries where absorptive capacity is weak and increases in aid need to be more measured. Absorptive capacity is neither static nor exogenous to aid; aid can be instrumental in expediting the buildup of capacity.

TAILORING AID TO THE NEEDS OF LICUS

Support for capacity building is particularly important for LICUS. Appropriately timed and

directed aid can be effective in these situations. Key elements of effective support are appropriate sequencing of aid within a long-term engagement (rather than a stop-go or quick-in, quick-out approach) and use of instruments and delivery mechanisms responsive to specific local conditions while supporting the longer-term buildup of national institutional capacity. Well-timed aid can also be quite productive following adverse exogenous shocks, helping to limit the diversion of development resources into short-run relief efforts.

RAISING AID QUALITY

Increasing the quality of aid is just as important as increasing its quantity. As noted above in relation to the financing of human development services, aid is often fragmented and volatile, aligned more with donor agendas and preferences than country priorities, and entails high transaction costs. These issues are receiving more attention and progress is being made, but it has been slow and uneven. The outcome and follow-up to the Second High Level Forum on Aid Effectiveness, held in Paris in March 2005, must lead to a significant step-up in progress. Key areas for attention are achieving closer strategic and operational alignment with country-owned and -led strategies (PRSs or other national development strategies), improving the predictability of aid (including making longer-term commitments when recipient performance warrants it), and strengthening the focus on development results. The Paris Declaration on Aid Effectiveness, which aims for improvements in these and other areas, must be implemented firmly and expeditiously. A notable outcome of the Paris Forum was the adoption of a set of indicators of aid quality that should help with closer monitoring of progress and reinforcement of donor and recipient responsibilities.

DEBT RELIEF

For heavily indebted poor countries (HIPC)s, debt relief is important for increasing the fiscal space for much-needed increases in spending to promote growth and reduce poverty

and for relieving the debt overhang. Continued and effective implementation of the HIPC Initiative remains key. The Executive Boards of the IMF and the World Bank have endorsed key elements of a debt sustainability framework for low-income countries that would support these countries in their efforts to achieve the MDGs without creating future debt problems and keep countries that have received debt relief under the HIPC Initiative on a sustainable path. With respect to recent proposals for additional debt relief, efforts should be made to reach closure in 2005. Any additional debt relief should not cut into the provision of needed new financing, which for these countries should be primarily in the form of grants. Nor should it undermine the financial viability of international financial institutions. Recent steps to increase the share of grants in concessional financing from the International Development Association (IDA) and other multilateral development banks and to link the mix of grants and loans to recipients' debt sustainability represent notable improvements in the framework for assisting poor countries.

INNOVATIVE FINANCING MODALITIES

The year 2005 should also see progress on ongoing work assessing the merits and feasibility of innovative modalities for mobilizing resources to fund the needed increases in aid and ensure their timely availability, including the proposed International Finance Facility and global taxes related to important international externalities, such as carbon emissions. Blending arrangements, which combine flows with different financial terms and characteristics to increase concessional-ity or gain leverage, also offer possibilities to augment resources for the MDG agenda, including in middle-income countries with large pockets of poverty, and to finance global and regional public goods. Finally, the impressive scale of private contributions in response to the recent Asian tsunami, and major private contributions to causes such as combating HIV/AIDS, point to the importance of exploring ways to enhance the role

and effectiveness of voluntary contributions in supporting development.

Strengthening and Sharpening Support from International Financial Institutions

How are international financial institutions (IFIs)—multilateral development banks (MDBs) and the International Monetary Fund—contributing to implementation of the above agenda, by supporting country development, drawing on sectoral, regional, and global programs and research, strengthening partnerships, and managing for development results? The report finds that there has been progress in each of these areas, but there is a need to do more and pick up the pace.

Low-Income Countries

Recent replenishment negotiations for the African Development Fund (AfDF), Asian Development Fund (AsDF), and IDA endorsed a common framework for the use of PRSs that reflect the MDGs, grants, debt sustainability, and disclosure of country policy and institutional assessments. They also supported piloting of results-based country strategies, adoption of results measurement systems, and special programs for low-income countries under stress. Given that these replenishments cover some 95 percent of MDB programs in low-income countries, they have established a concrete platform for accelerating implementation of these initiatives and harmonizing them across the banks. Support for countries in the event of exogenous shocks is also being strengthened. Reflecting independent evaluations, the World Bank and the IMF need to support stronger country leadership of the PRS process while deepening the dialogue with countries on the policy agenda. Clearer ownership of the PRS by countries, with the Bank and the IMF reflecting their views in Joint Staff Advisory Notes and related process, would also help clarify the accountabilities of Bank and IMF staff.

Middle-Income Countries

For middle-income countries there has also been a trend toward harmonization across the MDBs, albeit slower, reflecting the evolving and varying needs of these countries. Middle-income countries have been vocal in calling for reductions in the costs of doing business with the banks, especially when those costs arise in the context of replenishment exercises for concessional funds that they cannot access. Competitive pressures among the banks have led to the transmission of innovations in one—such as liberalization of expenditure eligibility categories for investment lending or increased reliance on country systems—to the others in fairly rapid succession.

Knowledge and Capacity Building

Research by IFIs has helped to articulate the global development agenda, making notable contributions on trade and aid, among other areas. These institutions have also contributed much to building trade capacity and enhancing countries' fiduciary and fiscal systems for the absorption of aid. But they need to do more—including systematically keeping track of where capacity gaps are, as a basis for guiding donor actions—if developing countries are to fully exploit the opportunities emerging from the dismantling of trade barriers and increasing the scale and effectiveness of aid proposed above.

Partnerships

The MDBs are partnering more effectively with clients, with each other, and with other donors. This progress is largely due to the developments cited above with respect to the replenishments of the banks' concessional windows and their greater reliance on country systems to process their funding. Relative to civil society, disclosure remains a major issue, because despite improvements many critics feel that IFIs have not met a standard of accountability commensurate with their power and influence in a number of areas.

World Bank–IMF relations have continued to mature, based on comparative advantage and a mandate-driven division of labor highlighted by ongoing collaboration on PRSs, debt sustainability analysis and its application to concessional and grant financing, and further streamlining of structural conditionality.

Managing for Development Results

During 2004 important milestones were achieved in building results-based systems in the MDBs. These include the completion of the first cycle of the IDA13 results measurement system, the adoption of the IDA14 and AfDF X results measurement systems, the completion of results-based country strategy pilots by the Asian Development Bank and the World Bank (and their commitment, along with the African Development Bank's, to conduct further pilots in 2005), the Inter-American Development Bank's adoption of a Medium-Term Action Plan for Development Effectiveness, the new independence of the Asian Development Bank's evaluation department, the launch of the draft *Results Sourcebook* prepared jointly by these institutions and bilateral donors, and the major PRS evaluations carried out in cooperation by the World Bank's Operations Evaluation Department (OED) and the IMF's Independent Evaluation Office (IEO). The IMF is considering how to conceptualize and operationalize the results agenda within its institutional framework, drawing on recommendations from various reports of the IEO.

Priorities for Action

How can IFIs strengthen and sharpen their support? This report suggests five priorities for action and monitoring progress:

- Support the deepening of the PRS framework in low-income countries, and the operationalization of the MDGs and alignment of IFI assistance within that framework. Support for building institutional capacity is especially important for low-income countries under stress.

- Continue to adapt approaches and instruments to better respond to the evolving and varying needs of middle-income countries, including further streamlining of conditionality and investment lending.
- Ensure that the implications of dismantling trade barriers and increasing the scale and effectiveness of aid are adequately reflected in support for country capacity building, so that emerging opportunities can be fully utilized. International financial institutions should sharpen the strategic focus and improve the effectiveness of their support for global and regional public goods.
- Strengthen partnerships and harmonize further by improving transparency, reducing red tape and enhancing the flexibility of assistance (through simplification and use of sectorwide approaches), and promoting the development and use of country systems—for procurement, financial management, and environmental assessment.
- Strengthen the focus on results and accountability by supporting country efforts to manage for development results (strengthening public sector management and development statistics) and furthering progress within IFIs on enhancing the results orientation of their

country strategies and programs and quality assurance processes. In addition, a common framework should be adopted for self-evaluation of MDB performance and results measurement, and adapted to IMF operations as much as possible.

Notes

1. The MDGs flowed from the Millennium Declaration adopted by 189 countries at the United Nations Millennium Summit, held in New York in 2000. The Monterrey Consensus emerged from the UN Conference on Financing for Development, held in Monterrey, Mexico, in 2002.

2. UN (2005); UNMP (2005); Commission for Africa (2005).

3. The *Global Monitoring Report 2004*, prepared for the Spring 2004 Development Committee meeting and published in June of that year, provided a comprehensive assessment of the policy agenda for achieving the MDGs and related development outcomes, spanning the responsibilities, as reflected in the Monterrey Consensus, of all the key actors—developing countries, developed countries, and international financial institutions. Building on that analysis, this report has a more selective focus on key areas of the policy agenda but provides a more in-depth assessment of those areas.

4. World Bank (2003).