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

Background Paper

Attached for the April 13 Development Committee meeting is a background paper issued as an addendum to the report prepared by the staff of the World Bank and the IMF entitled "Achieving the MDGs and Related Outcomes: A Framework for Monitoring Policies and Actions".

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Abbreviations and Acronyms

CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DATA	Data Accountability and Technical Assistance Project
DB	Doing Business Project
DHS	Demographic and Health Survey
EBRD	European Bank for Reconstruction and Development
EFA FTI	Education for All Fast Track Initiative
EU	European Union
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
GDF	Global Development Finance
GDP	Gross Domestic Product
GEP	Global Economic Prospects
GFATM	Global Fund to Fight HIV/AIDS, TB and Malaria
GFS	Government Finance Statistics
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
HIPC ET	HIPC Expenditure Tracking
ICA	Investment Climate Assessment
IEA	Institute of Economic Affairs
IF	Integrated Framework
IFI	International Financial Institutions
IFS	International Financial Statistics
ILO	International Labor Organization
IMF	International Monetary Fund
I-PRSP	Interim PRSP
JSA	Joint Staff Assessment
LICUS	Low-Income Countries Under Stress
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa's Development
NGO	Nongovernmental Organization
NPV	Net Present Value
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OED	Operations Evaluation Department
PARIS21	Partnership in Statistics for Development in the 21st Century
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
ROSCs	Reports on Observance of Standards and Codes
TB	Tuberculosis
TRI	Trade Restrictiveness Index
UN	United Nations
UNCTAD	UN Commission on Trade and Development
UNDP	UN Development Programme
UNEP	UN Environment Programme
UNESCO	UN Educational, Scientific, and Cultural Organization
UNICEF	UN Children's Fund
UNSD	UN Statistics Division
WBI	World Bank Institute
WBI GI	WBI Governance Indicators
WDI	World Development Indicators
WEO	World Economic Outlook
WHO	World Health Organization
WITS	World Integrated Trade Solution
WSS	Water supply and sanitation
WTO	World Trade Organization

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I. Introduction

1. This paper, prepared jointly by Bank and Fund staff, in cooperation with the staff of other agencies, provides background material for Ministers' discussion at the Spring 2003 Development Committee meeting on a framework for monitoring policies and actions for achieving the Millennium Development Goals (MDGs) and related outcomes.[1] It describes the conceptual framework underlying the proposed monitoring framework and, as an initial application of that framework, reviews a range of policy indicators and supporting data to develop an assessment of the current status of policies. For this initial exercise, which is a first step in a series of efforts relating to a complex subject, staff have focused on assembling and analyzing data from existing sources—from the Bank and the Fund but also partner sources. Over time, the strengthening of the data and further research on the development impact of specific policies should permit the monitoring reports to become increasingly specific and quantified in terms of their findings and recommendations.

II. Background and Framework

2. This chapter provides background and framework for the review of policies and actions presented in Chapter III. It begins with the MDGs, summarizing the consensus outlook for achieving them. It then turns to the conceptual framework used in the paper that links these development goals to the policies and actions of developing and developed countries.

A. MDGs: Progress and Prospects

3. In line with the heightened interest in the MDGs throughout the world, much work is under way to assess progress toward achieving them (see Annex A for details on the MDGs). Some of this work predates the actual adoption of the MDGs, but clearly work among researchers and national and international agencies has intensified with the adoption of the Millennium Declaration.[2] These reports all tell a similar story, in which the *global* target for eradicating extreme poverty—reducing the worldwide proportion of people living on less than one dollar a day by half between 1990 and 2015—is within reach if current trends continue, thanks largely to stronger economic growth.[3] These global trends, however, have been dominated by growth in China and India. Formidable

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[1] It serves as background to the document *Achieving the Millennium Development Goals and Related Outcomes: A Framework for Monitoring Policies and Actions* (DC2003-0003), March 26, 2003.

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

[3] See, for example, *Global Economic Prospects, 2003,* World Bank, and *Making Services Work for Poor People*, World Development Report, 2003, World Bank (forthcoming).

challenges must be met if this progress is to be extended throughout the developing world, and especially in Sub-Saharan Africa, where many countries will not meet the target unless the current pace of development is accelerated. Low-income countries under stress (LICUS), about half of which are in Africa, are especially at risk of falling far short. For the other MDGs, even greater efforts will be needed, as most of them will not be met at current trends even at the global level.

4. ***Economic Growth and the MDGs.*** The emerging evidence points very strongly to the fact that many low-income countries will have to accelerate their economic growth if they are to achieve the MDGs. In turn, achieving stronger growth will require actions and policies by both developing and developed countries as set out in subsequent chapters. Table 1 summarizes the projections for poverty, primary education, and child mortality for the year 2015, based on current growth trends and outlook. It shows that for all regions but Africa the poverty reduction target is achievable on current trends.[4] In Africa, the pace of growth will have to quicken substantially, on some estimates double from current trends, if the poverty goal is to be achieved. The goals of education, including reducing gender disparities in education, and health are particularly at risk. On the basis of current trends, the education target will not be achieved in some regions, and none of the regions will achieve the target for child mortality.

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

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

Source: *Global Economic Prospects*, World Bank, 2003; Devarajan, S., "Growth is not Enough," World Bank, 2001.
Note: "Growth alone" estimates are based on Global Economic Prospects base-case outlook. See the above sources for more details on these calculations, including the current level of these indicators and the absolute number of the poor corresponding to the indicated poverty rates. For example, in 1999, the latest year for which reasonably complete data on poverty are available, the poverty headcount index (based on $1 per day criterion) was 15.6 percent in East Asia and Pacific, 5.1 percent in Europe and Central Asia, 11.1 percent in Latin America and Caribbean, 2.2 percent in Middle East and North Africa, 36.6 percent in South Asia, and 49 percent in Sub-Saharan Africa.

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[4] While the income poverty MDG is defined in terms of proportion of people living on less than $1 per day, that definition underestimates the extent of poverty in regions where the true poverty line would be higher, e.g., in Europe and Central Asia. Numbers in Table 1, therefore, should be interpreted with that caveat in mind. Also, while a region as a whole may meet the target, all countries within that region may not. Finally, in some middle-income countries, especially large ones, while the national poverty rate may be relatively low, poverty may be much higher in parts of the country, e.g., Northeast of Brazil, Southern States in Mexico.

5. Economic growth has a significant effect on health and education outcomes, just as it does on income poverty. However, the magnitude of the effect on the former is typically smaller than on the latter.[5] Prospects for progress on the human development goals also depend importantly on the scale and effectiveness of development interventions specifically directed toward them. On health, HIV/AIDS and other communicable diseases continue to spread at alarming rates, further aggravating conditions affecting child and maternal mortality, and entailing serious economic and social consequences more broadly. Meanwhile, all regions are far from providing access to safe water, particularly to rural populations. The number of people with access to drinking water has to increase by about 250,000 people per day to meet the MDG for water supply. This is higher than the performance levels of the 1990s. It is lower than the levels of the 1980s, but many of those connections did not provide sustainable access to safe water. As for the sanitation target, providing access for more than 350,000 additional people per day will require a doubling of the efforts made in the past.

B. Conceptual Framework

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

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

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

7. As the quest for better development outcomes must begin with developing countries—and their policies, institutions, and governance—this section likewise begins there. It then turns to the policies and actions of developed countries. The conceptual framework linking these policies and actions to the development goals is summarized in Figure 1.

1. Developing Countries

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

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

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

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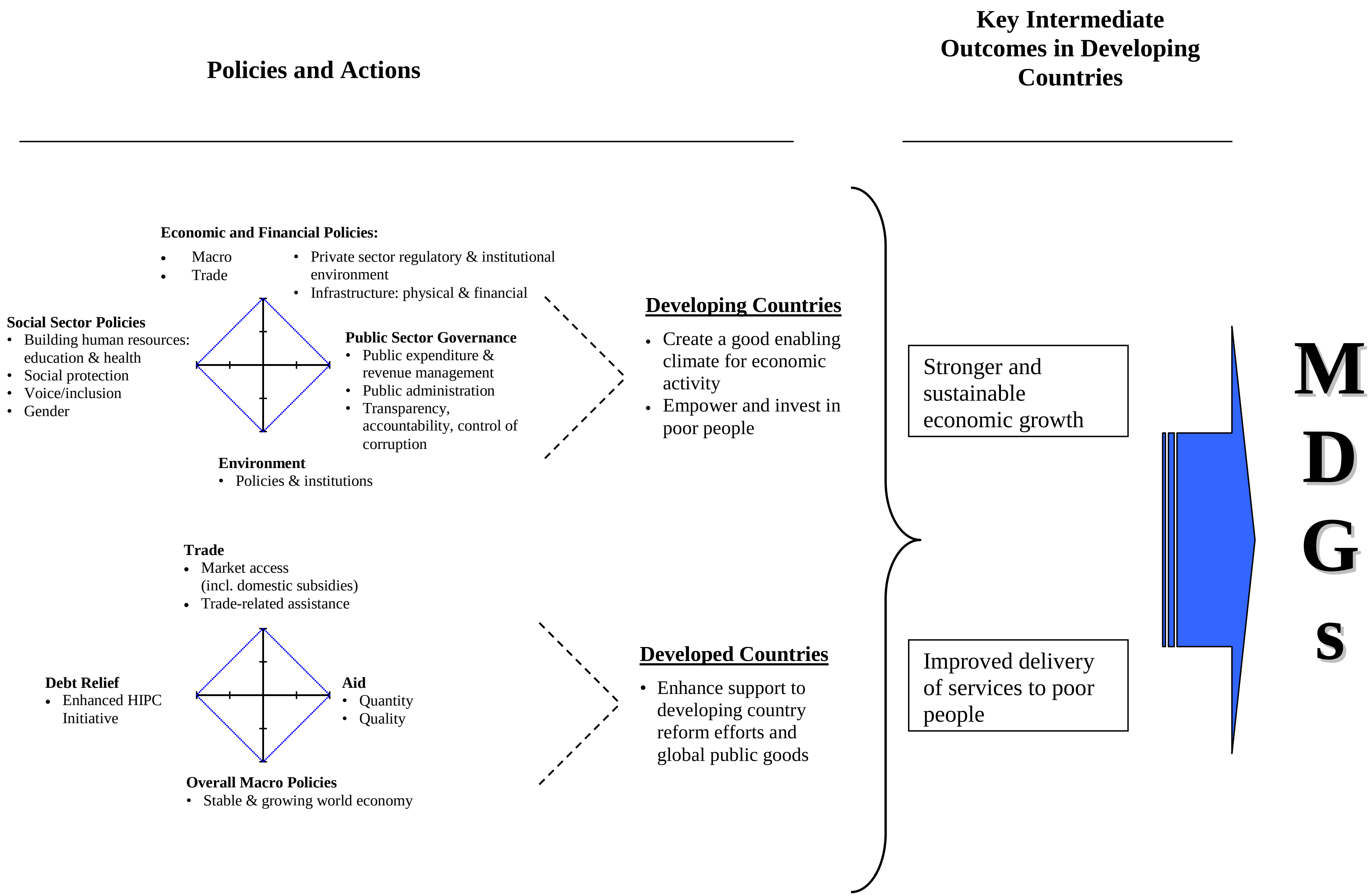
[7] Improvements in education and health are ends in themselves, but are also means to stronger economic growth by raising worker productivity. One study estimated that a 10 percent improvement in life expectancy at birth can raise the per capita income growth rate by 0.4 percentage point (see *Macroeconomics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

Figure 1. Framework Linking Policies and Actions with Development Outcomes



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

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

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

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

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

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

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

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

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

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

12. ***Policy Clusters.*** It is clear from the foregoing discussion that the attainment of the MDGs and related development outcomes will depend on progress in developing countries across a broad range of policies. The implied policy agenda can be classified into four policy clusters—economic and financial policies, public sector governance, social sector policies, and environmental policies—a breakdown that also permits the use of the Bank's Country Policy and Institutional Assessments (CPIAs) that rate individual country performance in key policy areas on the basis of staff assessments (see Annex B for more information on the CPIAs).

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

2. Developed Countries

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

15. ***Macroeconomic Policies.*** As developing countries become more integrated into the world economy, developments in these countries are increasingly affected by external influences, particularly economic conditions in the advanced countries. These influences

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

are channeled principally through the impact on trade and capital flows. Growth in developing countries cannot thrive if the world economy is not robust. It is estimated that a 1 percent reduction in output growth in G7 countries has on average been associated with a 0.4 percent reduction in developing country growth.[9] Advanced country macroeconomic policies that are supportive of a stable and growing world economy, therefore, make an important contribution to progress toward the desired development outcomes in developing countries.

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

17. ***Aid.*** Reaching the MDGs will require more and better donor assistance. On some estimates, additional official development assistance (ODA) on the order of $50 billion per year will be necessary, roughly double the ODA volume in recent years, coupled with continued improvements in the effectiveness with which aid is used.[11] The increase actually needed could turn out to be still greater. A major factor influencing whether aid is effective is of course the recipient country's own policies—hence the focus on developing-country actions, including sound macroeconomic management, structural reform, and improved institutions and governance.[12] Such policies not only enhance aid effectiveness, but also help alleviate macroeconomic instability that could result from a large influx of aid. Recent and ongoing reforms in many developing countries have

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

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

[11] See Ernesto Zedillo et al., *Report of the High-Level Panel for Financing for Development,"* UN, A/55/100, New York, 2001; Shantayanan Devarajan, Margaret Miller, and Eric Swanson, *Goals for Development: History, Prospects, and Costs*, Policy Research Working Paper 2819, World Bank, 2002; and *International Finance Facility*, DFID, HM Treasury, January 2003.

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

improved the setting for effective use of aid, and these reform efforts must be sustained. But aid effectiveness also depends importantly on the policies of donors. By focusing aid on countries with substantial concentrations of poverty and a strong commitment to reform, the effectiveness of aid can be considerably increased.[13] Experience also shows that local ownership and involvement contribute to the development effectiveness of aid. Also, as demonstrated in the work of the DAC Task Force on Donor Practices, and underscored at the High-Level Forum on Harmonization held in Rome in February 2003, better coordination among donors, better alignment of their support with national strategies, emphasis on capacity-building and results, and harmonization of operational procedures all matter greatly for aid efficiency and effectiveness.[14]

18. ***Debt Relief.*** For the highly indebted poor countries, supported by the enhanced HIPC Initiative, alleviation of their crippling debt burdens is essential to enable them to allocate more resources to social spending and other programs to reduce poverty and accelerate growth, underscoring the importance of continued progress on this initiative. If these countries are to avoid slipping back into unsustainable debt positions, they will have to continue to strengthen their policies to promote increased efficiency in resource use and stronger economic growth, and new external assistance will have to be provided on appropriately concessional terms. Stronger export growth is especially important for these countries, underscoring the need for better market access and improved trade-related infrastructure.[15]

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

20. Efforts to strengthen the international financial architecture through improved crisis prevention and resolution and avoidance of contagion between countries can

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

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

[15] A stronger focus on promotion of growth was a key finding of a recent OED review of the HIPC Initiative (see *The Heavily Indebted Poor Countries (HIPC) Debt Initiative: An OED Review*, CODE2002-0089, World Bank, December 30, 2002).

enhance international financial stability to the benefit of developed and developing countries alike. The IMF and other multilateral institutions are supporting these efforts at both country and international levels, including by encouraging and monitoring the adoption of appropriate standards and codes and by working to make debt restructurings more orderly and predictable.

III. Empirical Foundations

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

22. Key indicators for use in monitoring, and their respective data sources, are summarized in Table 2. These indicators should be regarded tentatively and cautiously at this stage, and subject to modification in future reports, as the current state of knowledge about the linkages between such indicators and the desired outcomes is limited and the quality of the data is imperfect. For this initial report, staff have focused on assembling and analyzing data from existing sources to see how this information might be adapted for the purposes of global monitoring. Going forward, a systematic effort will be needed to develop a fuller and more robust set of indicators and strengthen the underlying data.

A. Developing Countries

23. The four policy clusters identified in Chapter II—economic and financial policies, public sector governance, social sector policies, environmental policies—define a framework that can be used to assess developing countries' progress on policies and actions needed to attain the development goals. Developments in each of these policy clusters are reviewed in turn in the following sections.

1. Economic and Financial Policies

a. Macroeconomic Policies

24. Sound macroeconomic management is an essential foundation for sustained growth and, in turn, sustained poverty reduction. Analyses of international cross-section and time-series data suggest that high inflation, large budget deficits, and distorted

Table 2: Monitoring of Policies and Actions: Indicators and Data Sources

Policy Area	Indicators[1]	Sources[2]
Developing Countries		
Economic and Financial Policies		
Macroeconomic policies	Fiscal balance, debt, external position, real exchange rate, inflation, financial market indicators, GDP growth	WEO, Article IV reports, IFS, GEP, CPIA
Trade policy	Tariff and nontariff barriers, behind-the border constraints (e.g., customs, standards)	TRI, WITS, CPIA, IF studies, UNCTAD, WTO
Private sector regulatory and institutional environment	Time/cost of entry, exit and contract enforcement, market distortion and barriers to competition, property rights/rule of law, corporate governance, FDI receptivity	DB Project, ICAs, WBI GI, CPIA, DAC and UNCTAD FDI indicators, GDF
Financial sector management	Soundness of regulatory and institutional regime, access to finance	CPIA, FSAP, ROSCs, DB Project
Infrastructure policies	Access, affordability, expenditure, efficiency	WDI, ICAs, Infrastructure Indicators Project
Public Sector Governance		
Public expenditure and revenue management	Strategic prioritization and allocative efficiency, revenue mobilization, quality of budgetary management	CPIA, Fiscal ROSCs, HIPC ET
Quality of public administration	Civil service/institutional capacity, quality of public service provision	CPIA, WBI GI
Transparency, accountability, control of corruption	Quality of transparency and accountability mechanisms, prevalence of corruption	CPIA, WBI GI, HIPC ET, Fiscal ROSCs
Social Sector Policies		
Building human resources – education and health	Spending (level, composition), primary completion, births w/ skilled attendant, measles/DPT immunization, HIV prevalence in pregnant women, malaria/TB prevalence/prevention	WDI, CPIA, WHO, UNICEF, UNESCO, DHS, proposed DATA Project
Social protection	Adequacy of social safety nets (spending, effectiveness)	GFS, CPIA, WDI
Voice/inclusion	Stakeholder participation, monitoring of impact on the poor	CPIA, WBI GI
Gender	Gender disparities in education, labor force participation	WDI, CPIA, UNESCO, ILO
Environmental Policies		
Policies and institutions for environmental sustainability	Access to water and sanitation, deforestation, traditional fuel use, CO_2 emissions, urban pollution, environment policy regime	WDI, WHO, UNICEF, UNEP, UNSD, IEA, CPIA
Developed Countries		
Macroeconomic policies	Macroeconomic and growth outlook, implications for developing countries	WEO, GEP
Trade	Market access for developing country agricultural, textile and clothing exports, domestic subsidies, tariff peaks and escalation, trade-related ODA	TRI, WITS, OECD, UNCTAD, WTO, DAC
Aid	ODA levels, allocation, terms; quality of ODA, including strategic alignment with PRSPs, harmonization	DAC, IMF Art. IV reports, PRSP Progress Reports
Debt Relief	HIPC implementation status, relief committed, creditor participation	HIPC database, GDF
Global public goods/programs	Support to key global programs—EFA FTI, HIV/AIDS, Health, WSS, environment (GEF, Climate Change).	Respective program databases

1 For policies and related key intermediate outcomes (for MDGs and related targets, see Annex A). These indicators are preliminary and subject to modification in future reports.

2 This is an inventory of existing data sources and current or planned initiatives reviewed for this initial report (see the list of abbreviations for an explanation of the acronyms used in this table). Information drawn from these sources was supplemented by internal staff estimates based on data provided by national authorities. Going forward, additional sources will be included, e.g., CPIA-type country policy assessments done by other MDBs (subject to respective disclosure policies), and monitoring indicators developed by civil society. As noted in the paper, in several of the policy areas, a systematic effort will be needed to develop more robust and timely data for monitoring.

foreign exchange markets hurt growth by reducing both investment and the rate of increase in productivity. The effect of macroeconomic policies on poverty reduction works mainly through growth: good macroeconomic policies foster an economic climate conducive to growth, and growth is typically associated with lower poverty.[16] Key policy or related outcome indicators that capture the macroeconomic environment for stability and growth would include inflation, the fiscal balance, debt and debt service burden, external sector indicators (external balance, real exchange rate behavior, reserve coverage), and financial conditions (real interest rates, depth of financial intermediation, private sector access to credit). Regular monitoring based on these indicators, for which data availability is relatively good, could help inform an assessment of whether macroeconomic policies are conducive to growth and hence the attainment of the development goals. The challenge is to develop adequate benchmarks for assessing performance, which requires detailed modeling and analysis of the complex linkages between policies and the MDGs at both the global and country level.

25. To illustrate how the policy indicators might be monitored, IMF staff have compiled recent data for 75 low-income countries and 61 middle-income countries. Those data suggest that a significant number of countries need a broad strengthening of macroeconomic performance. In 2001, economic growth in a large number of low-income countries was below the levels they need to be on track to achieve the development goals. As many as 55 percent of the low-income countries (with a combined population of about 800 million) had per capita income growth of less than 2 percent, with nearly 30 percent (with a combined population of about 225 million) experiencing negative growth. However, weak *policies* provide only part of the explanation for shortfalls in performance. Over the past five years, many low-income countries have strengthened their macroeconomic policies, leading to lower inflation and reduced debt service costs, and yet median per capita GDP growth has fallen from 2.3 percent per year to 1.7 percent (Table 3). For a number of countries, including some with reasonable macroeconomic policy implementation, economic performance is constrained by a mixture of poor initial conditions, including excessive past accumulation of debt, weak structural policies and institutions, and adverse political (e.g., conflict) and external (e.g., terms of trade) circumstances. For middle-income countries, the picture is qualitatively similar.

26. The Bank's CPIAs also include an assessment of country macroeconomic policies. For 2001, these assessments rate macroeconomic management unsatisfactory in about 20 percent of the low-income countries and moderately unsatisfactory in another

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[16] Beyond the positive impact on growth, the implications of good macroeconomic policies for poverty are very difficult to assess on the basis of existing studies. For an analysis of the linkages between macroeconomic polices, growth, and poverty reduction, see S. Fischer, "Role of Macroeconomic Factors in Growth," *Journal of Monetary Economics*, Vol. 32, 1993; P. Cashin, P. Mauro, C. Pattillo, and R. Sahay, "Macroeconomic Policies and Poverty Reduction: Stylized Facts and an Overview of Research," IMF Working Paper WP/01/135, 2001; D. Ghura, C. Leite, and C. Tsangarides, "Is Growth Enough? Macroeconomic Policy and Poverty Reduction," IMF Working Paper WP/02/118, 2002; and D. Dollar and A. Kraay, "Growth is Good for the Poor," *Journal of Economic Growth* 7:195-225 (2002).

Table 3. Selected Indicators of Macroeconomic Policies and Performance
(median values)

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

Source: IMF WEO database
* Including grants.

about 20 percent (with higher percentages of about 25 percent in each of these rating categories in Sub-Saharan Africa). These data thus confirm the need for many countries to strengthen macroeconomic policies and performance.

27. In addition to the general challenge of implementing sound macroeconomic policies, emerging market countries have had to contend with the risk of financial crisis. Crises have been a common occurrence in emerging markets over the past two decades, and financial globalization has increased the vulnerability to changes in financing conditions in world capital markets. One recent study,[17] focusing on currency crises in 30 developing countries and 20 advanced economies over the period 1975-97, found that developing countries experienced an average of one crisis in each country every five years—roughly twice the average for advanced economies. The cumulative estimated loss from currency crises in developing countries averaged about 7½ percent of pre-crisis GDP. Losses of this magnitude make poverty alleviation far more difficult. Avoiding crises requires a broad range of improvements in policy implementation—in macroeconomic management and governance of financial and corporate sectors. For example, Mexico in 1994 faced both macroeconomic imbalances and serious problems in the domestic financial sector. In the Asian crisis of 1997-98, weaknesses in financial and corporate sectors were key sources of vulnerability. Of particular relevance to the emerging market countries are ongoing efforts to strengthen the international financial architecture through improved prevention and more orderly resolution of crises.

b. Trade Policy

28. ***Progress on Trade Policy Reform.*** There has been encouraging progress in developing countries on trade policy reform over the past decade. But reform efforts need to go much further. Average tariffs declined in all regions (on average by half) from the late 1980s to the late 1990s. Databases with a relatively good coverage of developing countries are available that can be used for periodic monitoring of trade policy, including the Trade Restrictiveness Index (TRI) developed at the IMF and the

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

World Bank's WITS database, that draw on UNCTAD's and WTO's trade data. TRI data for 2002 classify 14 percent of low-income countries as having restrictive trade regimes (down from 24 percent in 1999) and another 26 percent as having moderately restrictive trade regimes (down from 29 percent). The Bank's CPIAs, which use a somewhat broader definition of trade policy (including some aspects of customs and exchange administration), confirm this picture of progress but with a sizable unfinished reform agenda. The 2002 CPIA classifies trade policy as unsatisfactory or moderately unsatisfactory in 18 percent of the low-income countries, down from 25 percent in 1999. In Sub-Saharan Africa, where most of the low-income countries are located, the corresponding numbers were 32 percent in 1999 and 19 percent in 2002.

29. ***Behind-the-Border Agenda.*** The above indicators principally capture "border" protection—import tariff and non-tariff barriers. An area for improvement going forward would be to develop metrics for capturing the "behind-the-border" agenda—removal of barriers to trade posed by bottlenecks in customs, standards, trade-related infrastructure—progress on which is important for developing countries to take full advantage of the growth possibilities opened by trade liberalization.[18] Much of what is discussed in the next section on the enabling environment for private sector activity—regulatory reform supportive of a competitive environment, infrastructure development—forms part of this "behind-the-border" agenda. Also, the traditional "border" protection measures do not take into account protection resulting from domestic subsidies. In the future, for the least developed countries covered by the Integrated Framework for Trade-Related Technical Assistance, the trade diagnostic studies under way would provide an important source for more in-depth and comprehensive assessment of the trade-related policy agenda.

c. Private Sector Environment

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

31. Several initiatives are currently under way that will help provide better information for tracking progress in the policy and institutional environment for private sector activity. The Bank's Doing Business project is developing indicators relating to business entry, contract enforcement, property rights, access to credit, labor regulations, and bankruptcy regime. The country and indicator coverage under this project will be broadened over 2003-05.[19] The Bank has also initiated a series of detailed country Investment Climate Assessments based on firm surveys. This again is being conducted in

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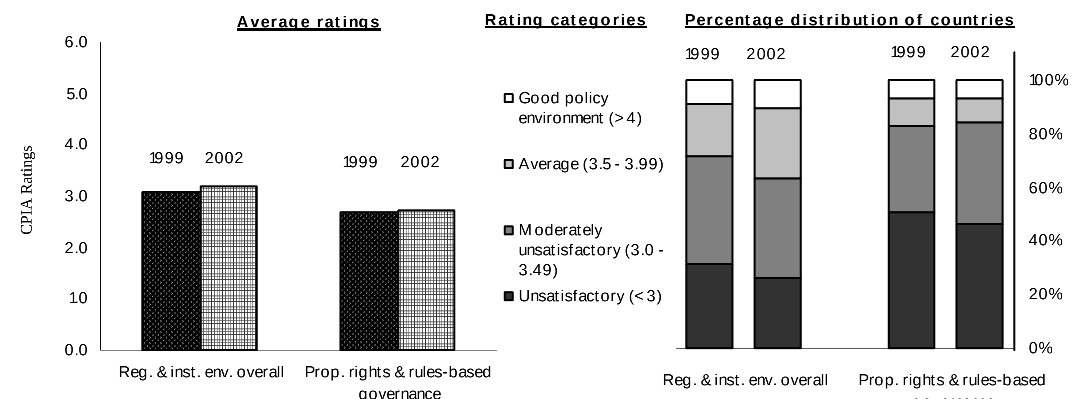
[18] For example, it has been found that it takes half as long to move goods through the port of Shanghai (9 days) as it does through Karachi (18 days)—based on firm-level surveys conducted for World Bank's country investment climate assessments.

[19] See *Doing Business in 2003: Understanding Regulations*, the World Bank, Washington, DC (forthcoming). See also http://rru.worldbank.org/.

a phased manner and will over time provide detailed information at the individual country level on the quality of the investment climate.[20] The CPIAs include criteria relating to private investment environment. Various aspects of the business environment are also covered in indices and ratings developed by commercial sources.

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

Figure 2: Regulatory and Institutional Environment for Private Sector Activity Needs Improvement
(Low-income countries)



Source: World Bank CPIA database

33. ***Infrastructure.*** Weaknesses in the policy environment are compounded by inadequate development of supportive infrastructure, physical and financial. The deficiencies are greatest in Sub-Saharan Africa and South Asia, home to a majority of the

[20] See www.worldbank.org/privatesector/ic/ for more details on these assessments.

world's poor. In 2000, electrification rates in these regions were 23 percent and 41 percent, respectively, compared with rates above 85 percent in all other regions of the developing world. Even in urban areas, the electrification rate was 51 percent in Sub-Saharan Africa. In rural areas, it was only 8 percent. Besides being important to the enabling environment for private investment and hence economic growth,[21] availability of basic infrastructure directly influences the attainment of the MDGs—for example, electricity to serve schools and health clinics and roads to access them, and improved water and sanitation systems to prevent disease.[22] Efforts are under way in the Bank, though at an early stage, to develop more comprehensive policy and outcome indicators for key infrastructure supporting private activity, building on data available from partner agencies.

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

35. ***Environment for Private Capital Flows.*** Besides influencing domestic investment, the private sector regulatory and institutional environment also determines the attractiveness of a country to foreign investment. For many developing countries, reliance on FDI is more appropriate than reliance on debt finance, as FDI tends to be more stable and involves greater risk sharing and longer-term commitment by the foreign investor. Moreover, FDI brings with it additional benefits in the form of transfer of skills

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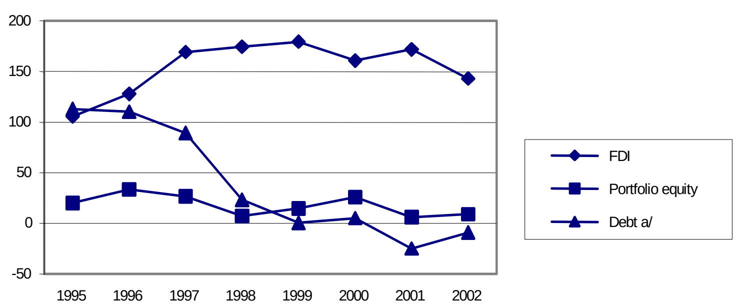
[21] While the efficacy of infrastructure investment varies across projects and countries, research shows that these capital outlays can be highly productive. One study finds, for example, that an increase in investment in transport and communications of 1 percent of GDP is associated, on average, with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

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

and technology. FDI is especially important for low-income countries, which generally have extremely limited access to bond financing and portfolio equity flows. Even access to bank credit depends heavily on guarantees by developed countries' export credit agencies and on loans to multinationals with subsidiaries in low-income countries.

36. As a result of substantial liberalization implemented in the 1990s, most developing countries today do not impose prohibitive direct barriers to FDI, so that their attractiveness to FDI is influenced more by the broader regulatory and governance environment in their economies. Over the past decade, improvements in the investment climates of some Sub-Saharan African countries—for example, Ghana, Mali, Mozambique, and Uganda—have encouraged notable increases in FDI flows. Given the importance of FDI as a potentially important source of financing for low-income countries, and the sensitivity of FDI to the recipient country's investment climate, it would be useful to include as part of the monitoring framework some indicators directly related to FDI, such as the FDI performance and potential indicators developed by UNCTAD. The DAC's statistics on FDI flows to developing countries are another source of information that can be used for monitoring purposes.

Figure 3: Net Private Capital Flows to Developing Countries
(US$ billions)



a/ Includes short term debt
Source: World Bank Debtor Reporting System; UNCTAD World Investment Report

37. The past few years have seen a dramatic shift in developing countries' external finance. Private debt flows collapsed in the late 1990s, and have been near zero or negative in net terms since 1999. This reflects investors' concerns over high debt levels in some major countries, the string of emerging market crises since 1997, and reduced appetite for risk with the global economic slowdown. The decline in debt flows is also due to reduced demand from a few countries, particularly in East Asia. In both 2001 and 2002, net private debt flows to developing countries were negative. FDI has been more resilient, although flows have declined somewhat in the past few years. Overall, net private capital flows to developing countries dropped to an estimated $143 billion in 2002, a relatively small decline from the level of $153 billion in 2001 but sharply lower than the peak of $285 billion in 1997 (Figure 3). The decline in net private flows in 2002 was concentrated in the Latin American region.

2. Public Sector Governance

38. Public sector governance has been another major area of weakness, indeed the weakest compared to the other broad policy clusters. Research shows that weak

governance is not only inimical to improved economic performance generally,[23] but it also results in the poor receiving a smaller share of the benefits from public spending, higher poverty and income equality, and less favorable outcomes for social indicators.[24] The review of the indicators and related data below serves to focus attention on public sector governance as a priority area of reform, and it highlights in particular the need to improve transparency and accountability and reduce corruption.

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

40. ***Overall Quality of Governance.*** The Bank's CPIAs include evaluations of countries' public sector governance, covering public expenditure and revenue management, quality of public administration, and transparency, accountability, and control of corruption in the public sector. The CPIA ratings for public sector governance show this to be a much weaker area of performance than economic and social sector policies. Close to 80 percent of low-income countries were rated unsatisfactory or moderately unsatisfactory for this policy cluster in 2002. Within the policy cluster, the ratings were lowest for transparency, accountability, and control of corruption (Figure 4). The ratings were low across the regions, but with somewhat better results for Latin America and South Asia. In the future, ROSCs, which include an evaluation of fiscal transparency, will provide supporting evidence on institutional weaknesses in this area.[25]

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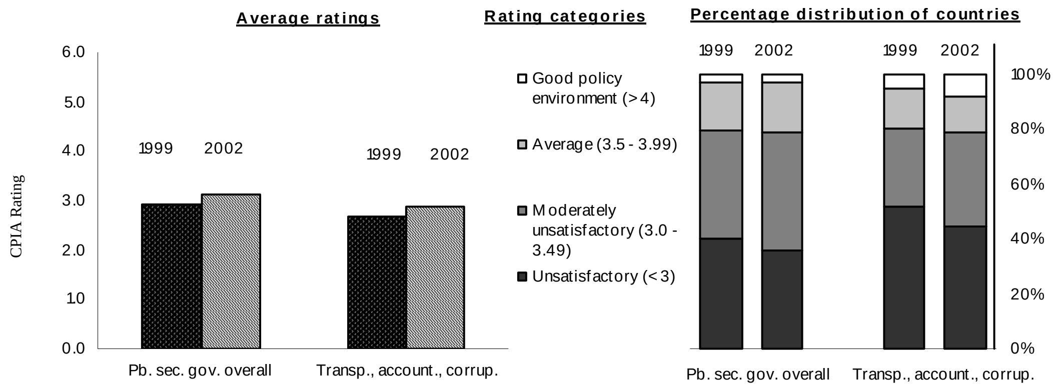
[23] A number of recent studies have found that the quality of governance and institutions is a key factor explaining cross-country differences in per capita income levels and growth. See, for example, D. Rodrik, A. Subramanian, and F. Trebbi, "Institutions Rule: The Primacy of Institutions over Integration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

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

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

Figure 4: Performance in Public Sector Governance is Particularly Weak, Though Improving
(Low-income countries)



Source: World Bank CPIA Database

41. Governance reforms are now a key element of the policy agenda in many developing countries. In Africa, for example, improved governance is at the core of the New Partnership for Africa's Development (NEPAD) initiative.[26] Control of corruption has also been high on the policy agenda in the Europe and Central Asia Region. These efforts are beginning to be reflected in an improvement in governance indicators. This is the case with the indicators for transition countries developed and monitored by the EBRD.[27] The CPIA indicators also show a modest trend toward improvement between 1999 and 2002. Relatedly, a gradual trend toward increased accountability of government is indicated by available indices of political and civil liberties. Governance is a politically complex area of reform and sustained progress will require careful nurturing of reform ownership and a focus on capacity-building in key public institutions. In low-income countries under stress (LICUS), the establishment and strengthening of institutions of governance is an especially critical priority.

42. ***HIPC Expenditure Tracking.*** In the context of the HIPC initiative, a set of indicators has been developed to track poverty-reducing public spending. These indicators, with their specific focus on government capacity to mange priority public spending, provide a useful complement to the broad indicators of the quality of governance reviewed above. The first assessment undertaken for 24 HIPCs concluded that the public financial system needed substantial upgrading in 15 countries and some upgrading in another 9 countries. Also, as many as 88 percent of the countries had inactive or ineffective audit arrangements, and 83 percent did not have a medium-term perspective integrated into their budget formulation process. On the positive side, in two-thirds of the countries it was possible to establish a broad mapping of budget data to the

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[26] For more information on NEPAD, see http://www.nepad.org.

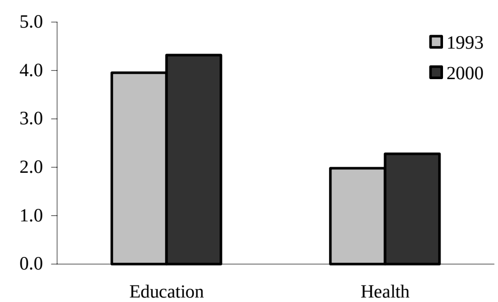
[27] See *Transition Report 2002,* EBRD. The report presents a set of "transition indicators" updated annually by the EBRD, as well as results of the latest Business Environment and Enterprise Performance Survey (BEEPS) conducted jointly with the World Bank.

poverty-reducing spending categories defined in PRSPs or I-PRSPs.[28] Moreover, more than half (15) of the 24 countries had conducted public expenditure tracking surveys to monitor whether budget allocations actually reached the intended service providers. Further steps are being taken to update and refine these assessments.

3. Social Sector Policies

43. Improved public expenditure management and governance are especially key to the effective delivery of social services—education, health, social protection. As much of social service delivery takes place at the sub-national level, appropriate decentralization arrangements and enhancement of the capacity of sub-national institutions warrant special emphasis. The attainment of the MDGs will require both the allocation of increased public resources to these services and increased effectiveness and efficiency in the delivery of these services to the poor. The framework for monitoring progress on policies and actions needs to capture both of these dimensions. In addition to the tracking of progress on public expenditure management and governance, as outlined above, this suggests the need for a set of monitoring indicators spanning trends in public spending on these services, both level and allocation, and key intermediate outcomes that signal progress on actual delivery, such as primary completion rates and measles and DPT immunization rates. While data are currently available on some of the main indicators, gathered by WHO and UNICEF as well as the Bank and the Fund, fuller monitoring of progress in these sectors would require substantial additional effort to improve the quality and coverage of social data.

Figure 5: Human Development Expenditure is Rising but Remains Low
(Public spending as % of GDP)



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

44. ***Public Spending Levels.*** Public spending on education and health rose modestly in low-income countries in the past decade (measured as a percentage of total government spending and GDP). In the latest year for which comparable data are available (2000 in most cases), public spending on education in these countries was 4.3 percent of GDP and 14.8 percent of total government spending. Public spending on health was lower, at 2.3 percent of GDP and 7.6 percent of total government spending.[29] From 1993 to 2000, public spending on education rose on average by 0.4 percent of GDP and 1.7 percent of total government spending and on health by 0.3 percent of GDP and 1.2 percent of total government spending (Figure 5). Not all regions shared in the increase,

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

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

with both education and health spending falling in the transition countries. Analysis at the country level suggests that further increases in spending on these sectors—along with spending on other high priority sectors such as infrastructure and water and sanitation—are likely to be necessary to meet the MDGs.[30] To that end, the allocation of public spending will need to shift further toward these sectors, accompanied by measures to enhance the efficiency and effectiveness of spending, especially improvements in governance and institutional capacities, as higher spending alone will not deliver the desired social outcomes.[31]

45. ***Public Spending Allocation.*** Available data indicate that public spending on these sectors still disproportionately benefits higher-income groups. Public spending on primary education is more pro-poor than spending on tertiary education, and, in health, spending on basic health care, such as immunization, has a larger impact on the poor than other types of health spending. Yet, the allocation of public spending is often not sufficiently oriented toward these pro-poor expenditures. Benefit incidence analysis of public education and health spending in a sample of countries in Africa in 1999 showed that the benefit accruing to the richest quintile of the population was a multiple of that accruing to the poorest quintile.[32] Effective service delivery in these sectors also requires adequate allocation to non-salary inputs—textbooks, medicines. Accordingly, in addition to tracking trends in total spending in these sectors, it is important to develop data to monitor key allocations, such as expenditure by level of schooling, type of health service, and salary versus non-salary costs.

46. ***Intermediate Outcomes.*** With respect to some key intermediate outcome indicators, latest available data for primary completion rates indicate that Africa and the Middle East substantially lag behind other regions (rates of 48 and 57 percent, respectively, compared to a low-income country average of 69 percent and an average of 92 percent in East Asia and Pacific). Primary completion rates for females were particularly low in the Middle East (38 percent). Measles immunization in low-income countries shows a steady upward trend, though the pace of progress that picked up in the

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

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

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

mid-1990s subsequently declined. The immunization coverage rate of one-year olds in these countries currently averages about 60 percent.

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

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

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

50. At present, in low-income countries, the gender gap is on average 11 percentage points at the primary education level and 19 percentage points at the secondary level. The gap is widest in several Asian countries, including India, and in Africa and the Middle East. The MDG of eliminating gender disparity in primary and secondary education by 2005 is unlikely to be met, but significant progress can still be achieved within this tight time frame through strong and concerted action on the part of the countries and their development partners. Gender concerns need to be fully integrated into policymaking, both to improve women's access to key services, such as education, and to promote their fuller participation in the growth process more broadly.

4. Environmental Policies

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

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

53. As an illustration of how these indicators might be used in monitoring, data on access to improved sanitation facilities show that, despite progress globally in this area, access rates remain extremely low in some regions. In low-income countries, only 45 percent of the population have access to improved sanitation, despite this rate having risen by 9 percentage points during the 1990s (average access rate in upper middle-income countries is more than 80 percent). The access rate is lowest in South Asia, at 38 percent, even though it improved by 12 percentage points during the past decade. Given these low rates, and the importance of adequate sanitation to the population's health, especially the poor who cannot afford alternative private means, the implied priority to this sector is clear. Other environmental outcome indicators, such as the deforestation rate and adjusted net saving rate, show that low-income countries typically have higher rates of natural resource depletion than middle- and high-income countries. For example, the average annual deforestation rate in low-income countries during 1990-2000 was an estimated 0.8 percent compared to a world average of 0.2 percent.

B. Developed Countries

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

1. Macroeconomic and Growth Outlook

55. This section draws on two existing vehicles: the IMF's *World Economic Outlook*, which conducts regular reviews of developments in the global economy; and the World

Bank's *Global Economic Prospects*, which focuses on analysis of the implications of these developments for developing countries.

56. The sharp slowdown in developed country growth from late 2000 through late 2001 had a significant negative impact on the developing world, although the impact varied widely according to countries' specific circumstances. Since then, a global recovery has been under way, albeit at a moderate pace, aided by generally accommodative policies in developed countries (Table 4). This, in turn, has had positive effects on developing countries: trade flows have picked up; commodity prices have risen, although they remain low by historical standards (and for poor countries the benefits of higher non-fuel commodity prices are being partly offset by higher oil prices); and there has been some recovery in the information technology sector, particularly benefiting countries in East Asia, although it is as yet unclear how well this will be sustained. Beyond these effects, rising global growth and relatively low global long-term interest rates should also have benefited developing countries through the finance channel, although in some cases the impact was offset by country-specific difficulties and—at times in 2002—heightened global risk aversion. With the important exception of Latin America, net private capital flows in most regions are estimated to have increased modestly in 2002, and regional yield spreads are generally lower than their average in 2001. Looking forward, subject to important geopolitical and other risks, the global recovery should begin to reassert itself in the second half of 2003, with positive effects on prospects for developing countries.

Table 4. Key Elements of Global Economic Environment Affecting Developing Countries
(Annual percentage change except where otherwise indicated)

	1999	2000	2001	2002 Est.
Real GDP, advanced economies	3.4	3.8	0.9	1.7
Real GDP, G-7	2.7	3.4	1.2	1.3
LIBOR, 6 months (US$, %)	5.5	6.6	3.7	1.9
CPI inflation, advanced economies	1.4	2.3	2.2	1.5
World trade volume	5.5	12.7	-0.1	2.7
Non-fuel commodity prices	-7.0	1.8	-5.4	3.9
Private net capital flows to developing countries (US$ billion)[a]	194.7	191.8	152.8	143.3

Source: IMF WEO database; World Bank GDF database
[a]Net inflows (liability side) from external private sources, including FDI, portfolio equity, and debt flows.

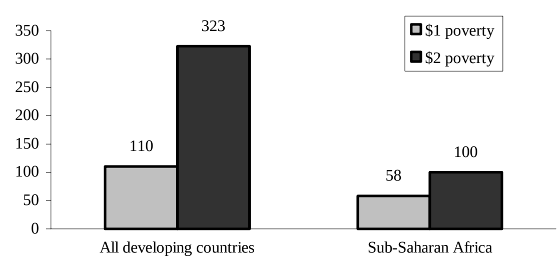
2. Trade

57. Increased access to the markets of developed countries is critically important to enable developing countries to reap the benefits of reforms they are undertaking. Indicators exist that can be used to monitor progress in this area, but will need to be supplemented with additional information. The IMF's Trade Restrictiveness Index (TRI) can assist with cross-country comparisons of trade policies in developed as well as developing countries, though the index does not presently capture the protection implied by subsidies. Information obtained from this index can be supplemented with information on tariff peaks and tariff escalation, which can be derived from WTO and UNCTAD databases. Access for agricultural exports is particularly important for developing countries and the OECD has developed indicators of developed country trade policies on agriculture that can be used for monitoring. Similarly, it would be useful to

have metrics for improved market access in other areas of particular importance to developing countries, notably textiles and apparel. Analytic reports prepared on these and other key aspects of the trading system, by WTO and others, can serve as an additional source of information.

58. ***Market Access.*** The OECD reports a high-degree of protection in agriculture. In 2001, total support to agriculture in OECD countries amounted to $311 billion or 1.3 percent of GDP, with producer support estimated at almost one-third of total farm receipts. Prices received by farmers were on average 31 percent above world prices. The absolute amount of producer support (not all of which is equally trade distorting) was largest by far in the EU, followed by the US and Japan, and as a share of farm receipts support levels in Iceland, Japan, Korea, Norway, and Switzerland were the highest.[33] A large share of support is directed at temperate zone agriculture (grains, oilseeds, dairy), but support for products of interest to tropical suppliers is often particularly high as a share of producer receipts (sugar, rice, cotton, tobacco). A large number of developing countries—both low- and middle-income—are affected by these subsidies. On protection of manufactures, data show that the average tariff levied by developed countries on developing country exports is four times as high as that on exports originating in other developed countries. The problem is compounded by escalating tariffs on processed goods exports from developing countries. The use of anti-dumping actions and standards as instruments of protection acts as an additional barrier.

Figure 6: Trade Liberalization Can Be a Powerful Force for Poverty Reduction
(Reduction in number of poor, in millions, compared to baseline in 2015)



Source: Global Economic Prospects, World Bank, 2002

59. Removal of these and other barriers to trade can yield major benefits for developing countries, and for consumers in developed countries themselves. According to World Bank analysis, stronger growth associated with a full liberalization of trade in goods could lift an additional 320 million people in developing countries out of poverty (based on the $2 per day criterion) by 2015, reducing poverty by about 14 percent of what it otherwise might be. Extreme poverty (those living on less than $1 per day) could decline by 110 million, of which more than half would be in Africa (Figure 6). Income gains from liberalization of trade in services would be additional, and could potentially be even larger.

60. ***Doha and Related Agenda.*** Restrictions on imports that are of particular export interest to developing countries remain high. In the context of the Doha Development Agenda, WTO members are committed to negotiations aimed at substantially improving market access for agricultural and industrial products, in particular for developing countries. However, a successful conclusion to the round from a development

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[33] See *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2002,* OECD, Paris, 2002.

perspective is not at all assured, in particular in view of the strong resistance in many countries to proposals for deep reductions in agricultural protection. Developments such as the 2002 US Farm Act and the uncertain prospects for internal reforms to the Common Agricultural Policy of the EU cloud the outlook for progress. Liberalization of trade in agriculture (where the major industrial countries have a lead role to play in driving progress) is especially important as it is estimated to account for as much as 70 percent of the potential income gains that could flow from a global liberalization of trade in goods. The Doha negotiations also cover the liberalization of trade in services, another area of substantial and increasing export interest to developing countries, and issues relating to intellectual property rights and movement of workers (worker remittances are now the second-largest source, behind FDI, of private external funding for developing countries).[34]

61. At Monterrey, developed countries pledged to ensure greater coherence between their trade policies and development assistance. Separately, several developed countries have offered the poorest countries duty- and quota-free access to world markets that would greatly benefit these countries at little cost to the rest of the world.[35] The recent market-opening initiatives of the EU[36] and other countries including Australia, Canada, New Zealand, Norway, and Switzerland represent important steps in this regard. Trade-related technical assistance to the least developed countries has been stepped up, through the Integrated Framework for Trade-Related Technical Assistance.[37] In order for these countries to benefit from preferential access schemes and better Doha-negotiated access to markets, they will need support in strengthening related institutions, such as for product standards and trade facilitation.

3. Aid

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

63. ***Quantity and Terms of Aid.*** There has been a trend decline in ODA flows in the past decade. In 2001, net ODA from DAC countries was $52.3 billion, compared with an average of $54.1 billion over 1998-2000. This amounted to 0.22 percent of donors' GNI,

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[34] *Global Development Finance 2003,* World Bank (forthcoming).

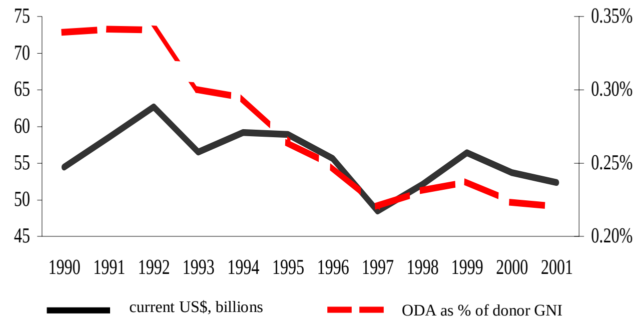
[35] In order to ensure that duty/quota-free access schemes actually benefit recipients, one area for action is to adopt liberal rules of origin. Recent research has shown that this is a key factor underlying a strong supply response to duty/quota-free access initiatives.

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

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

unchanged from 2000, down from the 0.23 percent average over 1998-2000, and well below the 1990-91 average of 0.33 (Figure 7).[38] A large part of the ODA is provided in kind in the form of technical assistance (consultants, scholarships), related administrative costs, emergency and disaster relief, and equipment for specific projects. Interest charges on ODA loans amount to around $3 billion per year.

Figure 7: The Declining Trend in ODA Must Be Reversed
(Net ODA from DAC donors)



Source: DAC, OECD

64. At the time of the Monterrey conference, most donors made individual or collective announcements of significant increases in ODA, including Canada, the individual countries of the EU, Norway, Switzerland, and the US (through the Millennium Challenge Account).[39] If fulfilled, the new commitments made so far would raise ODA by about $16 billion by 2006, or from the current 0.22 percent of donors' GNI to 0.26 percent. This is promising, but still well short of the $50 billion or more in additional assistance that is estimated to be needed as part of the global partnership to achieve the MDGs.

65. In addition to the indications of higher aid commitments, the intent to improve the distribution of aid by directing more to poorer countries and those engaged in credible reform efforts is encouraging. In 2001, low-income countries received 64 percent of total DAC bilateral ODA that is allocable by country, of which roughly half was received by the least developed countries; middle-income countries received 36 percent.[40] Looking regionally, Sub-Saharan Africa received 29 percent of the total. Efforts to better target aid need to take into account the special needs of the conflict-affected and LICUS countries, including ensuring that the peace process and reconstruction are supported through timely transition from emergency aid to development assistance, avoiding the hiatus often seen in the transition. With respect to the terms of aid, the share of tied or partially tied aid in DAC bilateral ODA has declined from an average of 35 percent in the

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

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

40 About 20 percent of DAC bilateral ODA cannot be attributed to specific countries.

early 1990s to around 20 percent today.[41] Since January 2002, most aid to the least developed countries has been untied.

66. ***Quality of Aid.*** Improving the management and effectiveness of aid has been the focus of much work in the DAC and in individual donor countries in recent years. And subject to a few exceptions, there is now broad agreement on what constitutes good practice in the management of donor programs. The High-Level Forum on Harmonization held in Rome in February 2003 recognized that "donors' practices do not always fit well with national development priorities and systems" and that "the totality and wide variety of donor requirements and processes for preparing, delivering, and monitoring development assistance are generating unproductive transaction costs for, and drawing down the limited capacity of, partner countries."[42] The critical areas for action, as identified at the Forum, are (a) better allocation of aid across countries to maximize its impact; (b) closer strategic alignment with the PRSP within country programs and stronger coordination among donors; (c) simplification and harmonization of operational reporting and other procedures, while improving fiduciary oversight; and (d) effective results orientation. Individual donor countries are moving forward with specific elements of the consensus. What is needed now is consistent implementation of these efforts and concerted monitoring of them to ensure learning and cross-fertilization as set out in the Rome Declaration on Harmonization, including the commitment "to track and, as necessary, refine lead indicators of progress on harmonization such as those described in the DAC/OECD Good Practice Papers."

4. Debt Relief

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

68. ***Experience to Date.*** Twenty-six countries have so far reached the decision point under the enhanced HIPC Initiative, including 8 which have reached their completion points. As of end-November 2002, HIPC debt relief committed to these 26 countries, together with debt relief under the traditional mechanism and additional bilateral debt forgiveness over and beyond the HIPC Initiative, represented a reduction in the outstanding debt of about $40 billion in NPV terms at the time of decision point. By consequence, the stock of debt of these countries will fall from around $62 billion to $22

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[41] These figures exclude technical assistance and administrative costs and ODA from the US which does not report a breakdown of its ODA between tied and untied components.

[42] See *Rome Declaration on Harmonization*, at http://www1.worldbank.org/harmonization/romehlf/ .

billion, and their average annual debt service is expected to be about one-third lower during 2001-2005 than in 1998-99. These substantial savings in debt service payments are expected to allow more resources to be allocated to social spending and other programs supportive of pro-poor growth. Indeed, the average ratio of social expenditure to GDP increased from 6 percent in 1999 to 9 percent in 2002 and is expected to rise further over 2003-05. An estimated $27.3 billion of HIPC relief (2002 NPV terms) has already been committed to the 26 countries reaching the decision point, corresponding to about 70 percent of the estimated total cost of HIPC relief ($39.2 billion).

5. Global Programs

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

70. Another key area of global collective action, and one closely related to the attainment of the health goals, is the development of water and sanitation systems to provide access to millions who are currently deprived of these essential services. With an estimated 1.3 billion people in developing countries to be provided access to safe water and 1.8 billion people to be provided access to adequate sanitation in order to meet the development goals, the implied need for substantial donor support for financing the needed investment and building institutional capacities is clear. Progress has been made at recent international summits toward developing a coordinated framework of country action and donor support, and the agenda for action has been further informed by the recent report of the Camdessus Panel on Financing Water Infrastructure. The key challenge going forward, and the main theme of the third World Water Forum held in Kyoto in March 2003, is implementation.[43]

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[43] For more details on the global programs for HIV/AIDS, health, education, and water and sanitation, see the companion paper prepared for the Spring 2003 Development Committee meeting: *Progress Report and Critical Next Steps in Scaling Up*: *Education for All, Health, HIV/AIDS, Water and Sanitation—Synthesis Paper and Case Studies* (DC2003-0004), March 27, 2003.

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

IV. IMPLICATIONS

72. This chapter draws out the implications of the conceptual framework and empirical evidence presented in the preceding chapters for priorities for action. It summarizes the implied policy priorities for developing and developed countries. It also identifies priorities for further work to improve data and policy metrics. Finally, it looks at the implications for the Bank and the Fund in the work going forward.

A. Policy Priorities

73. A clear message from the foregoing review is that the international community will need to *scale up* its development efforts and their impact if the MDGs and related development goals are to be achieved.

1. Developing Countries

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

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

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

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

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

75. For the middle-income countries, policy performance indicators are on average higher than for the low-income countries, but the relativities remain broadly the same, with governance also the weakest area. Since these countries are typically more integrated with international capital markets, strengthening policies to foster sustainable growth and reduce the incidence and severity of financial crises—that can sharply reverse hard-won gains in reducing poverty—is a particular priority. Avoiding crises and sustaining growth requires continued attention to improving macroeconomic policies, governance, and the soundness of the financial and corporate sectors. Ongoing efforts to strengthen the international financial architecture that would help improve crisis prevention and facilitate their orderly resolution are of particular significance to this group of countries.

2. Developed Countries

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

- Increased market access for developing country exports can give a major boost to growth and poverty reduction in these countries. Priority areas for action are removal of tariff and non-tariff barriers, including domestic subsidies, to exports of major interest to developing countries—agricultural products, textiles and apparel—and reform of tariff escalation that hurts developing country exports of processed goods and manufactures more generally. The opportunity provided by the Doha Development Agenda must be seized to make major progress in these priority areas, as well as to extend trade liberalization by developing countries themselves. Also, in order for developing countries to take full advantage of improved market access, they will need stronger support in dealing with the "behind-the-border" agenda—strengthening of institutions for standards and trade facilitation, upgrading of trade-related infrastructure.

- At current ODA levels, there is a large gap between the development ambitions of the international community and the resources provided. The indications of increased ODA from a number of donors in follow-up to the Monterrey conference are encouraging, but much more will be needed to meet the resource requirements of the MDGs and adequately respond to developing countries' efforts to improve their policies and capacities for effective utilization of aid. Concerted donor efforts are also needed to increase the quality of aid, through improved aid allocation across countries, closer strategic alignment with national development priorities within country programs, and harmonization and simplification of operational procedures while improving fiduciary oversight, building on the important work that has been done by the DAC Task Force on Donor

Practices and endorsed in Rome by the High-Level Forum on Harmonization. The PRSP process provides an appropriate framework for identifying effective channels for official assistance and for donor coordination as well as for strengthening the growth and poverty reduction efforts in recipient countries that also will contribute to improved aid effectiveness. The aid effort should include adequate support to debt relief for the heavily indebted poor countries, and to critical global programs—on HIV/AIDS, education, and water.

B. Priorities for Measuring and Monitoring Work

77. The preparation of this paper has recognized that the monitoring work will need to be phased in over time, in part reflecting gaps in existing data sets. The immediate task has involved inventorying and analyzing existing reporting vehicles and considering possible extensions and upgrades over the medium term. But, going forward, it will be essential to invest more systematically in robust, timely, and transparent data and develop more precise indicators of policies, actions and outcomes—both for developing countries and for developed countries, as set out below. It will also be useful to reflect the broader monitoring effort of civil society (Box 1).

Box 1. Monitoring by Civil Society

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

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

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

1. Developing Country Issues

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

79. ***Metrics for Policies.*** There are a number of initiatives for assessing country policies, but few are both transparent and quantified. Nor, taken as a group, do they add up to what is needed for systematic global monitoring. The monitoring of policies can be improved in two directions: making fuller use of existing country-specific policy assessments; and improving the quality and timeliness of data on cross-country indicators of key policies. The Bank's CPIAs could be used more effectively for global monitoring as well as for strengthening the policy dialogue with clients and related development partnerships if they were more publicly available, supported by investment in upgrades to ensure robustness and consistent quality. In line with the IDA13 Agreement, Bank Management is preparing to report at the IDA13 Mid-Term Review on the readiness of the system for public disclosure and the timing of public disclosure of individual IDA-eligible country ratings.[44] Other, complementary possibilities are: (i) use of the IMF's Article IV reports to assess whether a country's macroeconomic policies are consistent with the growth requirements for reaching the development goals;[45] (ii) inclusion in the Joint Staff Assessments (JSAs) of PRSPs and of their annual progress reports of an assessment relating to the consistency of the totality of a country's policies for poverty reduction with the development goals, supported by encouragement to countries to give more emphasis to MDG achievement in their annual progress reports; and (iii) use of the country policy ratings of the other MDBs, such as the EBRD's Transition Indicators. Given the cross-cutting significance of improved public sector governance, this is an area where development and broad discussion of robust and objective indicators would have a particularly high payoff.

80. ***Social Sector Data.*** With respect to developing country data, the major gaps in the data for the social sectors are well known. They have been clearly documented in UN and Bank publications,[46] and addressing them is especially important for countries that are most at risk of not meeting the MDGs. These problems reflect low country capacity, lack of incentives for data collection and reporting, and fragmentation in the international data system. To help address the underlying problems in a systematic way, staff are working with colleagues in UN and bilateral agencies on a DATA (Data Accountability and Technical Assistance) Proposal, building on existing statistical systems in the Bank and Fund and other international agencies and working with the Partnership in Statistics for Development in the 21st Century (PARIS21), which brings together donor and recipient governments, international agencies, and NGOs to coordinate support for statistical capacity building. Under the DATA Proposal, participating agencies (including client countries) would seek to agree on a clear architecture, accountabilities,

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[44] Pending the completion of this work and further discussions and decisions about possible disclosure of actual ratings, relative CPIA ratings for countries eligible for IDA financing, classified by quintile, are publicly available. See *Allocating IDA Funds Based on Performance: Fourth Annual Report on* IDA's *Country Assessment and Allocation Process* (IDA/SecM2003-0130), March 26, 2002, and http://siteresources.worldbank.org/IDA/Resources/PBAAR4.pdf. See also *World Bank Disclosure Policy Review* (R2001-0146), July 27, 2001, and *World Bank Policy on Disclosure of Information* (SecM2002-0311), June 10, 2002.

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

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

and timeframe for reporting and quality standards for the key indicators, and to support it with a time-bound, coordinated and country-owned system of household surveys. The architecture would include graduated reporting expectations for countries at different income levels coupled with donor support for training/capacity building for meeting any new reporting needs in a timely manner. The proposal would be designed to better empower the agencies with lead responsibility for the particular indicators to get the job done, even as it gets the development community (including client countries and IDA) closer to having the key data needed to monitor progress in real time with real numbers.

2. Developed Country Issues

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

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

83. ***Aid.*** The discussion of linkages between aid and the MDGs provides a basis to extend and deepen available indicators for monitoring official aid to developing countries—both quantity and quality. Quantitative ODA flows are already monitored based on data maintained by DAC. These data could be complemented by more current information drawn from IMF Article IV staff reports of donor countries, DAC Peer Reviews, and staff reports for recipient countries. Development of aid quality measures could be part of the follow-up on the DAC Task Force on Donor Practices, especially in light of the Rome Declaration on Harmonization and the commitments made there to track indicators of progress. Relatedly, the DAC Secretariat is planning to work on possible norms and benchmarks, in collaboration with the DAC Working Party on Aid Evaluation. Such indicators and measures could in turn be included in the global monitoring platform and reflected in future monitoring reports to the Development Committee, along with the findings of the synthesis report the Secretariat plans to prepare on the Peer Reviews conducted in 2001-2003.[47]

C. International Financial Institutions

84. The analysis also has implications for the work of the Bank and the Fund, both for their growing number of joint activities and for their individual responsibilities. Together, the Bank and Fund have been working with low-income countries to strengthen the PRSP process, including by helping these countries to focus their PRSPs more clearly on strategies for achieving the MDGs and related outcomes. For the emerging market

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

countries, they have been working together with other IFIs on a range of initiatives both to help these countries strengthen their financial systems through technical assistance and the joint Bank-Fund Financial Sector Assessment Program, and to facilitate risk assessments by participants in financial markets, including by fostering the adoption of internationally recognized standards and codes. Also important from the perspective of the current exercise are ongoing Bank and Fund efforts to increase their own transparency and effectiveness. Both institutions have embarked on major efforts to this end in recent years, with new disclosure policies, greater attention to self- and independent evaluation, and open dialogue with critics.

1. World Bank

85. The Bank-specific areas for follow-up build on the efforts of the past few years to improve the strategic focus, quality, and results of the Bank's own operations, advice, and research.[48] Reflecting the broader evolution of the development paradigm, the country has replaced the project as the "unit of account" in the Bank's work. With that shift, the Country Assistance Strategy (CAS) has become the Bank's core country programming tool and "business strategy," summarizing its support for the PRSP in the case of low-income countries and the national strategy in the case of middle-income countries and positioning that support in the context of the Bank's comparative advantage vis-à-vis partners.

86. Complementary efforts have been made to modernize and upgrade the Bank's lending instruments and analytic work in support of country development. These efforts have included a particular emphasis on helping countries strengthen their fiduciary systems for financial management and procurement, which can also provide a basis for more effective country management of donor-supported programs and projects. In turn, this places a premium on the Bank's work with partners on the harmonization and simplification agenda, which is geared to lowering the transactions costs of development assistance and raising its effectiveness.

87. These considerations affect how the priority areas for country action identified in this report—the enabling environment for private sector development, infrastructure, public sector governance and related capacity-building, and country-based and global programs in HIV/AIDS, health, education, and water and sanitation—map into Bank-supported country programs and projects. As noted above, the particular translation at the country level is through the CAS process, which takes account of the country diagnosis, need, and support from others. Hence, there is not necessarily a one-to-one correspondence between the overall importance of an issue and the magnitude of Bank financial and other support. Nor will the operational design for a particular program be one size fits all. Rather, it will depend on country circumstances, including the quality of

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[48] For the perspective of the independent Operations Evaluation Department on these efforts, see *2002 Annual Review of Development Effectiveness (ARDE), Achieving Development Outcomes: The Millennium Challenge* (Report no. 25159, World Bank, Operations Evaluation Department, December 20, 2002). See also *Annual Report on Portfolio Performance (ARPP)*, (Fiscal Year 2002, Quality Assurance Group, World Bank, December 12, 2002).

country policies and financial management and procurement systems, which are key components of public sector governance, as discussed above. In some cases, support will be through policy-based lending; in some cases through investment lending; and in yet other cases through technical assistance, capacity building, and/or advisory services.

88. In line with the approach of this paper, the Bank is also working to strengthen the measurement of policies, actions and outcomes needed to achieve the MDGs. Building on earlier reforms directed at improving the quality and strategic focus of its own operations, the Bank embarked last year on a major effort to increase its results focus;[49] this effort has an important measurement dimension, which also will find reflection in the IDA Results Measurement System.[50] In related work, and as noted above, efforts are under way to increase the transparency of the CPIA and its application, with a view to ensuring its robustness for the policy dialogue and for global monitoring. Also, several projects are in train to develop more precise and timely metrics for policies in key areas; these include, the Doing Business Project for indicators of policies affecting private investment climate and work on the development of more robust indicators of governance. Finally, the Bank has a major program under way to support statistical capacity building in developing countries, and is working with PARIS21 and other partners on a time-bound action plan to improve the availability and ownership of primary social sector data, especially for the countries most at risk of not meeting the MDGs.

89. Supporting and complementing these efforts, the Bank's research program is focusing on the determinants of the MDGs and related development goals. Specific topics include the constraints to and impact of growth in different country circumstances, the role of investment climate and governance, trade (including the cost to developing countries of protection in developed countries), the development effectiveness of aid, and improved delivery of public services to poor people. In collaboration with the UN's Millennium Project, the Bank also is conducting research on the policy determinants of the different MDGs, their multisectoral nature, and their relative elasticities and weights with respect to the development goals. Over time, the results of this research should permit a sharper delineation of policy priorities and tradeoffs, thereby improving the quality of the advice the Bank can provide to both low- and middle-income countries.

2. IMF

90. The Fund also is country-focused, supporting low-income as well as emerging market countries through technical assistance, policy advice, and financial support. The challenge it faces in helping low-income countries achieve their development goals is to ensure that its support is consistent with the country's own development strategy as expressed in the PRSP and that sound macroeconomic policies underpin that strategy. Such sound policies support the objectives of the PRSP by fostering macroeconomic stability, including by avoiding the need for sudden policy change, and by lowering

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

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

inflation which hurts the poor. The Fund is considering a number of issues and options for better aligning the content and process of the Poverty Reduction and Growth Facility (PRGF) and the PRSP. In this context, the Fund, together with the Bank, is also trying to help countries improve the alignment between the PRSP and the annual budget cycle. More generally, the Fund is examining how its assistance to low-income countries should evolve over the medium term, taking into account, *inter alia,* the important role of the PRSP process in furthering progress toward achieving the MDGs.

91. The Fund is also aiming to focus more heavily on its core areas of competence. The Fund has recently adopted new conditionality guidelines that will promote national ownership through more flexible processes of interaction and that should result in clearer and more focused conditions. Of particular importance to the emerging market countries, the Fund is strengthening surveillance at both country and multilateral levels to give earlier warning of potential crises and allow the provision of appropriate policy advice; refining its financial facilities and access policies to meet the needs of members more effectively and with greater clarity; and working to make sovereign debt restructurings more orderly and predictable.

92. The Fund emphasizes the importance of providing technical assistance to its member countries, particularly for capacity building in HIPCs, post-conflict countries, and countries participating in the PRSP process. Fund TA is focused on the institution's core macroeconomic and financial areas of responsibility—including public finance and administration, financial sector development, and development of sound statistical systems. In the framework of the efforts to improve statistical capacity in low-income countries, the Fund chairs the Statistical Capacity Building Indicators task team which coordinates arrangements to identify indicators on statistical capacity building as part of the PARIS21 initiative. The Fund's General Data Dissemination System also guides countries in the provision to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic data.

93. In Fund research, particular attention is being given to key macroeconomic issues, such as the design of macroeconomic policies for growth and poverty reduction, macroeconomic consequences of large aid flows, and fiscal and external debt sustainability, that were identified in the recent Bank-Fund review of the PRSP approach and the Fund's review of its PRGF. The Fund also has an extensive research program analyzing the sources of and remedies for economic and financial crises in emerging market countries.

Millennium Development Goals (MDGs)

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

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

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

COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)

1. The World Bank's CPIA is done annually for all its borrowing countries. The number of criteria, currently twenty, and grouped into four policy clusters,[51] reflect a balance between ensuring that all key factors that affect growth and poverty reduction are captured, without overly burdening the evaluation process. Ratings for each of the criteria reflect a variety of indicators, observations, and judgments. They focus on the quality of each country's *current* policies and institutions. Improvements during the course of the year are reflected in the subsequent year's performance ratings.

Country Policy and Institutional Assessment Criteria

A. Economic and Financial Policies

Macroeconomic management

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

Trade policy

- Trade policy and foreign exchange regime

Private sector regulatory and institutional environment

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

Financial sector management

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

B. Public Sector Governance

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

C. Social Sector Policies

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

D. Environmental Policies

- Policies and institutions for environmental sustainability

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

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[51] The distribution of the twenty criteria into the four policy clusters used for the purposes of analysis in this report is slightly different from that used in the regular CPIA exercise. For more information on the CPIA, see http://siteresources.worldbank.org/IDA/Resources/CPIA2002.pdf.