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GLOBAL MONITORING REPORT 2006

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Millennium Development Goals: Strengthening Mutual Accountability, Aid, Trade, and Governance

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Foreword

This third annual Global Monitoring Report (GMR) on progress toward the Millennium Development Goals (MDGs) comes with only 10 years remaining to achieve them. It reports good and bad news.

Growth continues to be favorable and has helped cut global poverty, in some cases dramatically. Many countries have stayed the course with sound economic policies, which are delivering results, including some countries in Sub-Saharan Africa. The volume of trade has grown worldwide, and private capital flows to developing countries continue to rise. Evidence is also emerging from some countries of rapid and tangible progress in improving primary education completion, raising immunization coverage, and lowering child mortality.

The bad news is that many countries are off track to meet the human development MDGs. The gains, impressive on a global scale, are unevenly distributed. For every success story of rapid growth and job creation in emerging East and South Asian cities, there are disturbing examples of increased poverty in much of Sub-Saharan Africa, and among large groups of people in many other parts of the world. In too many countries, infrastructure is crumbling. Urgently needed investment to modernize water, sanitation, and transportation facilities has proven unavailable, and families struggle without access to clean water, or roads that would open access to schools, health care, and markets. In many cases, the governance of countries does not inspire the confidence of investors including, most importantly, citizens of those same countries.

This must change if we are to achieve the MDGs. The principle of mutual accountability—of donors, the international financial institutions, and recipient governments for the quality of external support and for improved performance—is central to accelerating performance.

This GMR persuasively argues that governance is one of the central challenges facing developing countries and the global development community. Governance has gained widespread currency, but its often vague definition has limited its utility as an organizing concept for development, which is what it needs to be. This report offers a framework that defines the parameters of what governance is, and gives us tools—drawn from various indexes—to assess its quality, across different countries, sectors, and actors.

The GMR recognizes that there is no single, unique way to effectively improve governance to reduce poverty, and acknowledges that each country's path must be of its own choosing. But national customs cannot be a smokescreen to defend practices that rob the poor of better opportunities, and undermine

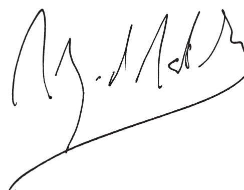
a society's chance to develop. With this in mind, the GMR provides a governance framework for monitoring and draws lessons from diverse international experience. It presents performance benchmarks on, among others, sound financial management, public procurement, settlement of legal disputes, and openness and transparency so as to ensure governments' accountability to taxpayers and citizens and to check corruption.

The GMR's framework for governance is the first step in establishing a more comprehensive system for monitoring governance. More investment is needed in actionable indicators that can help to track progress, generate greater accountability, and build demand for good governance. They can also help underpin long-term dialogue between countries and development partners, which should develop realistic goals and sequencing of governance reforms.

As developing countries tackle the challenge of governance, the GMR also reminds us that the rich countries must meet their commitments on aid, debt relief, and trade. To enhance aid effectiveness, aid transfers need to be more predictable, less fragmented, more closely aligned with needs, and targeted to where the aid can be productively used. This includes better targeting to countries that are tackling the MDGs, and bringing greater flexibility to aid, so that it can cover recurrent costs, such as teachers' or health workers' salaries, as well as governance reforms to improve service delivery. The promise of increased aid will be realized only if it is used with sufficient rigor and imagination to deliver improved results.

The GMR reports progress in shifting the emphasis of international financial institutions, including the World Bank and the International Monetary Fund, toward results management—managing for *outcomes* rather than managing *inputs* to the production process. But more work must be done by all development partners to establish a longer-term vision, deliver more resources, and increase support for capacity strengthening in developing countries. With a decade left to achieve the MDGs, there is no time to lose.

Paul Wolfowitz
President
World Bank



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Managing Director
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Abbreviations and Acronyms

AAA	Analytical and Advisory Activities
ADB	Asian Development Bank
AfDB	African Development Bank
AfDF	African Development Fund
AMC	advance market commitment
AML	anti-money-laundering
APRM	African Peer Review Mechanism
AsDF	Asian Development Fund
BEEPS	Business Environment and Enterprise Performance Surveys
BIS	Baseline Indicator Set
CAE	Country Assistance Evaluation
CAFTA	Central American Free Trade Agreement
CAS	country assistance strategy
CDD	community-driven development
CDI	Commitment to Development Index
CFT	Combating Financing of Terrorism
CG/RT	consultative group and roundtable
COMPAS	Common Performance Assessment System
CPIA	Country Policy and Institutional Assessment
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CS	civil service
CSO	civil society organization
CSR	civil service reform
DAC	Development Assistance Committee (OECD)
DB	Doing Business (surveys)
DFID	U.K. Department for International Development
DIME	Development Impact Evaluation
DRF	Debt Reduction Facility
EAC	East African Community
EAP	East Asia and Pacific
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EFA FTI	Education for All Fast-Track Initiative
EFTA	European Free Trade Association
EITI	Extractive Industries Transparency Initiative
ESF	Exogenous Shocks Facility
EU	European Union
FATF	Financial Action Task Force
FDI	foreign direct investment
FMIS	financial management information systems
G-8	Group of Eight
GAFTA	Greater Arab Free Trade Area
GAVI	Global Alliance for Vaccines and Immunization
GMR	Global Monitoring Report
GNI	gross national income
GII	Global Integrity Index
GRECO	Group of States Against Corruption
HIPC	heavily indebted poor country/countries
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICS	Investment Climate Surveys
IDA	International Development Association

IDA 14	14th replenishment of IDA resources
IEG	Independent Evaluation Group
IEO	Independent Evaluation Office
IFC	International Finance Corporation
IFFIm	International Finance Facility for Immunization
IFI	international financial institution
IMF	International Monetary Fund
ISR	Implementation Status and Results
ITN	insecticide-treated bed net
ITU	International Telecommunications Union
JMP	WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation
KDP	Kecamatan Development Program
KK	Kaufmann-Kraay
KKZ	Kaufmann, Kraay, and Zoido-Lobaton
LAC	Latin America and the Caribbean
LDC	least developed country
LIC	low-income country
MAPS	Marrakech Action Plan for Statistics
MDB	multilateral development bank
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MENA	Middle East and North Africa
MfDR	Managing for Development Results
MIC	middle-income country
MKSS	Movement for the Rights of Peasants and Workers
MTEF	medium-term expenditure framework
NEPAD	New Partnership for Africa's Development
NGO	nongovernmental organization
NPV	net present value
NTM	nontariff measure
NURC	National Unity and Reconciliation Commission
OAS	Organization of American States
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
OII	Office of Institutional Integrity
OTRI	overall trade restrictiveness index
OVE	Office of Evaluation and Oversight
PBA	performance-based allocation
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
PWYP	Publish What You Pay
QAG	Quality Assurance Group
ROSC	Report on Observance of Standards and Codes
RTA	regional trade agreement
SA	South Asia
SDR	special drawing right
SPA	Strategic Partnership with Africa
SPSP	small-scale private service provider
SSA	Sub-Saharan Africa
SWAP	sectorwide program
TC	technical cooperation
TFP	total firm productivity
TI	Transparency International
TPID	IMF Trade Policy Information Database
UNDP	United Nations Development Programme
UNITA	National Union for Total Independence of Angola
WDR	World Development Report
WHO	World Health Organization
WP-EFF	Working Party on Aid Effectiveness
WTO	World Trade Organization

Executive Summary

One decade remains to meet the Millennium Development Goals (MDGs) that the international community set out in 2000. In 2005 the international community reaffirmed its commitment to mutual accountability for achieving results and focused on scaling up resources. In the Paris Declaration, donors furthered commitments to raising aid effectiveness through better harmonization and alignment, and the G-8 Gleneagles Summit brought new aid and debt relief commitments. Developing countries, in turn, reaffirmed their commitment to strengthening governance and pursuing strong development strategies.

Yet the world is still far from achieving the MDGs. Many countries—particularly in Africa and South Asia—are off track. Examples abound of slow or failing efforts: inadequate resources and weak governance contribute to over 10 million children dying annually of readily preventable diseases; only three-fifths of urban and one-quarter of rural low-income households in low-income countries have access to improved sanitation facilities; aid is too often poorly directed; and international financial institutions still emphasize loans and reports rather than development outcomes. In sum, much greater effort is needed to implement the vision of global action and mutual accountability for results that was forged at the Monterrey Summit in 2002.

This Global Monitoring Report (GMR) reviews the efforts under way to strengthen mutual accountability. Greater resource flows to developing countries must go hand in hand with measures to make aid work more effectively. One key element is improving governance, both in developing countries and globally, to strengthen accountability for resource use and for development outcomes. Measuring and monitoring governance, in support of greater accountability and better MDG outcomes, is the primary focus of this report. Monitoring governance can help to clarify options for scaling up assistance and can support broader efforts to strengthen transparency and accountability, both nationally and globally.

Key Actions to Strengthen Mutual Accountability

The report highlights six key actions to accelerate progress toward the MDGs and strengthen mutual accountability.

Favorable growth has helped reduce poverty, but more even and accelerated progress requires strengthening of infrastructure and national investment climates.

Growth of both middle- and lower-income developing countries has accelerated since 2000, helping to secure further progress in reducing poverty. Aggregate income growth between 2000 and 2005 suggests a significant drop in poverty, by perhaps as much as 10 percent. But progress has been uneven, most of it taking place in East and South Asia. A few countries in Africa have had some success in poverty reduction, but most countries in that continent, and some in Latin America, have seen poverty stagnate or worsen.

Accelerating poverty reduction will require greater emphasis on improving the domestic growth environment. Aid-recipient countries, with the help of development partners, need to improve the investment climate and channel more resources to increasing household and business access to basic infrastructure. These are closely related, since access to infrastructure is a critical element of the investment climate, and both contribute to growth, employment, and productivity. Investment climate surveys show that poor countries place the greatest burden on entrepreneurs and have reformed business regulations the least—Africa had the lowest reform intensity in 2004. Moreover, for both the rural and urban poor in many low-income countries, the gap in access to basic infrastructure is widening.

Recent progress in human development outcomes points to the need for more flexible aid, better coordination, and improved governance.

Many countries, particularly in Africa and South Asia, are off track to reach the human development MDGs. Over 10 million children under the age of five die each year from treatable causes. Most of these deaths could be prevented by simple, known, and low-cost treatments. Only 34 of 143 developing countries are believed to be on track toward halving the number of underweight children.

Yet tangible evidence is emerging in some countries of significant progress in human development outcomes since the late 1990s. Surveys reveal that in many countries the poor are more than proportionately sharing in this progress. The factors behind these successes need to be better understood, but evidence points to improving policies and to the importance of higher quality, more predictable, and better coordinated aid to help finance teacher and health care worker salaries and other recurrent costs. Sustaining these trends will require continued support for the aid harmonization and alignment agenda embodied in the Paris Declaration of 2005, and governance reforms to strengthen the quality of services and accountability of service providers.

Major aid and debt relief commitments were made in 2005, but better aid and vigilant monitoring are needed to guard against risks to their effective implementation. Trade reform needs new life.

The year 2005 has been a watershed for scaling up aid commitments and deepening debt relief to low-income countries. Over US$50 billion was pledged in new commitments by 2010, including a doubling of aid to Africa. The new multilateral debt relief initiative will eliminate about $50 billion of debt, reducing debt service by around $1 billion annually.

But these commitments risk remaining unfulfilled. Aid commitments may fall victim to donor-country efforts to cut deficits. Debt relief is intended to be additional but may be counted toward fulfilling aid targets. Moreover, even if aid commitments are met, donors may not fulfill pledges to lift the quality of aid. Recent history suggests this will be an uphill struggle—aid remains poorly coordinated, unpredictable, largely locked into "special purpose grants," and often targeted to countries and purposes that are not priorities for the MDGs. Finally, debt relief raises the risk of future unsustainable borrowing from commercial banks. Donors, the World Bank and the International Monetary Fund, and most important, recipient countries need to monitor carefully aid flows and application of the enhanced debt sustainability framework to reduce these risks.

Following the modest progress with multilateral trade liberalization at the sixth ministerial meeting in Hong Kong (China), all

countries must provide new impetus to rescue the Doha "development round." Hope is pinned on new negotiating modalities for agriculture and industrial products, and comprehensive draft schedules for liberalization to be negotiated by end-July 2006. Developing countries' own liberalization also matters, and could account for half their potential gains from trade reform. Many poor countries are unlikely to gain from liberalization in the short run, particularly in Africa, and new aid-for-trade pledges have been made to assist those that will be hurt. While crucial, aid for trade should not be viewed as a substitute for trade liberalization.

The focus of the international financial institutions (IFIs) must shift from managing inputs to achieving real results on the ground, but this poses major challenges to both the IFIs and developing countries.

International financial institutions have, in the past, largely focused on inputs and processes rather than on development outcomes. Moving to a results management agenda will require a shift in institutional practices—which has only just begun with the new efforts to develop a common performance measurement system (COMPAS) and integrating Management for Development Results into multilateral development banks' practices. Moving the agenda forward requires making a long-term management commitment to shifting institutional culture, deepening efforts to systematically and transparently monitor performance indicators and to define the set of instruments (rules, incentives, practices) to link behavior to performance outcomes. Developing countries need to build statistical capacity to measure performance and put in place the elements of results management systems; IFIs and donors must scale up their support for these efforts.

Governance should be regularly monitored to help track progress, generate greater accountability, and build demand for further progress.

Governance is an important factor underpinning development effectiveness and progress toward the MDGs. Corruption is a symptom of governance systems failure. The multidimensionality of governance makes precise monitoring difficult. The GMR lays out a framework that identifies governance indicators for tracking progress, improving transparency and accountability, and generating greater demand for good governance outcomes. It proposes a core list of 14 monitoring indicators, including both broad measures of governance, as well as more specific, actionable indicators. While both have their uses, the GMR argues for greater investment in specific, actionable indicators. These include the PEFA (public expenditure and financial accountability) indicators used to track public financial management, procurement indicators, and business climate indicators.

There is no unique path to good governance. Some countries may be strong in one dimension (such as bureaucratic capability) but weak in others (such as checks and balances). Engagement by the development community should reinforce positive momentum where it exists, push systematically for improved transparency, and at the same time enter into dialogue on long-term support for lagging areas. Monitoring can help to track progress across different dimensions, as well as assess the long-term sustainability of governance systems overall. Where governance is weaker, engagement is much more difficult and incremental steps are appropriate, focusing initially on efforts to increase transparency and to strengthen local service delivery.

The international community must support efforts to strengthen governance systems through ratification and support for global checks and balances.

Good governance is not just the responsibility of developing countries. All countries must take responsibility for strengthening global checks and balances and implementing strong anticorruption standards. Since the early 1990s, a framework of global checks and balances has emerged, centered around programs for international law enforcement (anti-money laundering, antibribery conventions),

anticorruption treaties (for example, the United Nations Convention Against Corruption), and international transparency initiatives (such as the Extractive Industries Transparency Initiative). These systems are still nascent but have made a promising start.

Donors and the IFIs should assist by providing technical assistance and funding to support countries' participation. They can also encourage the participation of middle-income countries, which loom ever larger in commercial dealings with poor countries. More generally, donors need to strengthen their own anticorruption controls (including through the debarment and cross-debarment of suppliers engaging in bribery and corruption), increase transparency, and provide aid in ways that encourage good governance rather than fragmenting and depleting already weak country systems.

Millennium Development Goals (MDGs)
Goals and Targets from the Millennium Declaration

GOAL 1	**ERADICATE EXTREME POVERTY AND HUNGER**
TARGET 1	Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day
TARGET 2	Halve, between 1990 and 2015, the proportion of people who suffer from hunger
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
GOAL 3	**PROMOTE GENDER EQUALITY AND EMPOWER WOMEN**
TARGET 4	Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015
GOAL 4	**REDUCE CHILD MORTALITY**
TARGET 5	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
GOAL 5	**IMPROVE MATERNAL HEALTH**
TARGET 6	Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
GOAL 6	**COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES**
TARGET 7	Have halted by 2015 and begun to reverse the spread of HIV/AIDS
TARGET 8	Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
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
TARGET 10	Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation
TARGET 11	Have achieved a significant improvement by 2020 in the lives of at least 100 million slum dwellers
GOAL 8	**DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT**
TARGET 12	Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system (including a commitment to good governance, development, and poverty reduction, nationally and internationally)
TARGET 13	Address the special needs of the least developed countries (including tariff- and quota-free access for exports of the least developed countries; enhanced debt relief for heavily indebted poor countries and cancellation of official bilateral debt; and more generous official development assistance for countries committed to reducing poverty)
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 22nd special session of the General Assembly)
TARGET 15	Deal comprehensively with the debt problems of developing countries through national and international measures to make debt sustainable in the long term
TARGET 16	In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
TARGET 17	In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
TARGET 18	In cooperation with the private sector, make available the benefits of new technologies, especially information and communication

Note: The Millennium Development Goals and targets come from the Millennium Declaration signed by 189 countries, including 147 heads of state, in September 2000. The goals and targets are related and should be seen as a whole. They represent a partnership of 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."

Source: United Nations. 2000 (September 18). *Millennium Declaration.* A/RES/55/2. New York.

United Nations. 2001 (September 6). *Road Map towards the Implementation of the United Nations Millennium Declaration.* Report of the Secretary General. New York.

Overview: Strengthening Mutual Accountability—Aid, Trade, and Governance

It has been five years since the Millennium Declaration was signed by 189 countries, and one decade remains to achieve the Millennium Development Goals (MDGs). Several events and publications in 2005 marked this milestone: the Paris High Level Forum in March, the UN World Summit in September, the World Trade Organization meetings in December, and several major reports on how to advance the MDG agenda.

The year brought forth new commitments of resources and actions, and a reaffirmation of the principle of **mutual accountability.** World attention is focused on how to scale up resource flows to developing countries—and how to make certain that aid is used effectively toward reaching the MDGs. These two issues cannot be separated. Scaling up is about changing the way in which development business is done. Donors and the international financial institutions must increase aid flows, improve aid quality, and better align their support with country strategies and systems. Donors also need to open up their markets to the developing world. Developing countries, for their part, must commit to sound development strategies and stronger systems of governance to ensure that resources will be effectively used. These commitments are the essence of mutual accountability.

This report examines key developments in 2005 and monitors progress toward meeting the main MDG targets. As with past Global Monitoring Reports (GMRs), it reviews international efforts to support the Millennium Declaration, including new commitments by donor governments to augment aid flows and commitments by the international financial institutions (IFIs) to improve their effectiveness.

One element widely recognized as essential to the success of the mutual accountability framework is **governance.** Measuring and monitoring governance pose major challenges, yet, with interpretive caution, they are feasible. Part II of the report provides a platform for including governance in the ongoing MDG monitoring of mutual accountability. It shows how such monitoring can track progress across both broad and specific (actionable) indicators of governance. Monitoring can also help to clarify options for scaling-up assistance and can support broader efforts to strengthen transparency and accountability, both nationally and globally.

Part I: Monitoring Progress

Reducing Income Poverty

The favorable global growth environment that has helped sustain poverty reduction in recent years continued in 2005. Growth per capita for both low- and middle-income countries averaged just under 5 percent in 2005, well

BOX 1 Global Monitoring Report 2006: six key messages

Reducing poverty. Growth continues to be favorable, and progress with poverty reduction is accelerating globally. But progress is too slow in improving the business climate (including access to infrastructure) in many poor countries.

Meeting human development goals. Many countries are off track to meet the human development MDGs. But tangible evidence is emerging that there has been significant progress in some countries. Critical to expanding this progress is increasing the ability of aid to cover recurrent costs (such as the salaries of teachers or health service providers) and governance reforms to improve service delivery.

Meeting commitments on aid, debt relief, and trade. In 2005 there were major new commitments for increased aid and debt relief to low-income countries. The risk is that they may not materialize, or that debt relief may simply substitute for aid. Aid transfers need greater predictability, less fragmentation, better alignment with needs, and targeting to where aid can be productively used. Multilateral trade negotiations need to be accelerated.

Strengthening results management. There is progress in shifting the emphasis of IFIs and country programs toward results management—managing for *outcomes* rather than managing inputs to the production process. However, this shift requires a long-term vision, more resources, and support for capacity strengthening in partner countries.

Monitoring governance. Governance should be monitored regularly. To complement existing aggregate indicators, additional effort is needed to monitor specific, actionable indicators, such as quality of public financial management, procurement practices, and checks and balances. This monitoring can help to track progress, generate greater accountability, and build demand for good governance. It can also help underpin long-term dialog between countries and development partners to develop realistic goals and sequencing of governance reforms.

Good governance is everyone's responsibility. IFIs and donors should support the emerging global framework for good governance, encourage country participation, strengthen their own anticorruption controls, and provide assistance in ways that strengthen transparency and country systems.

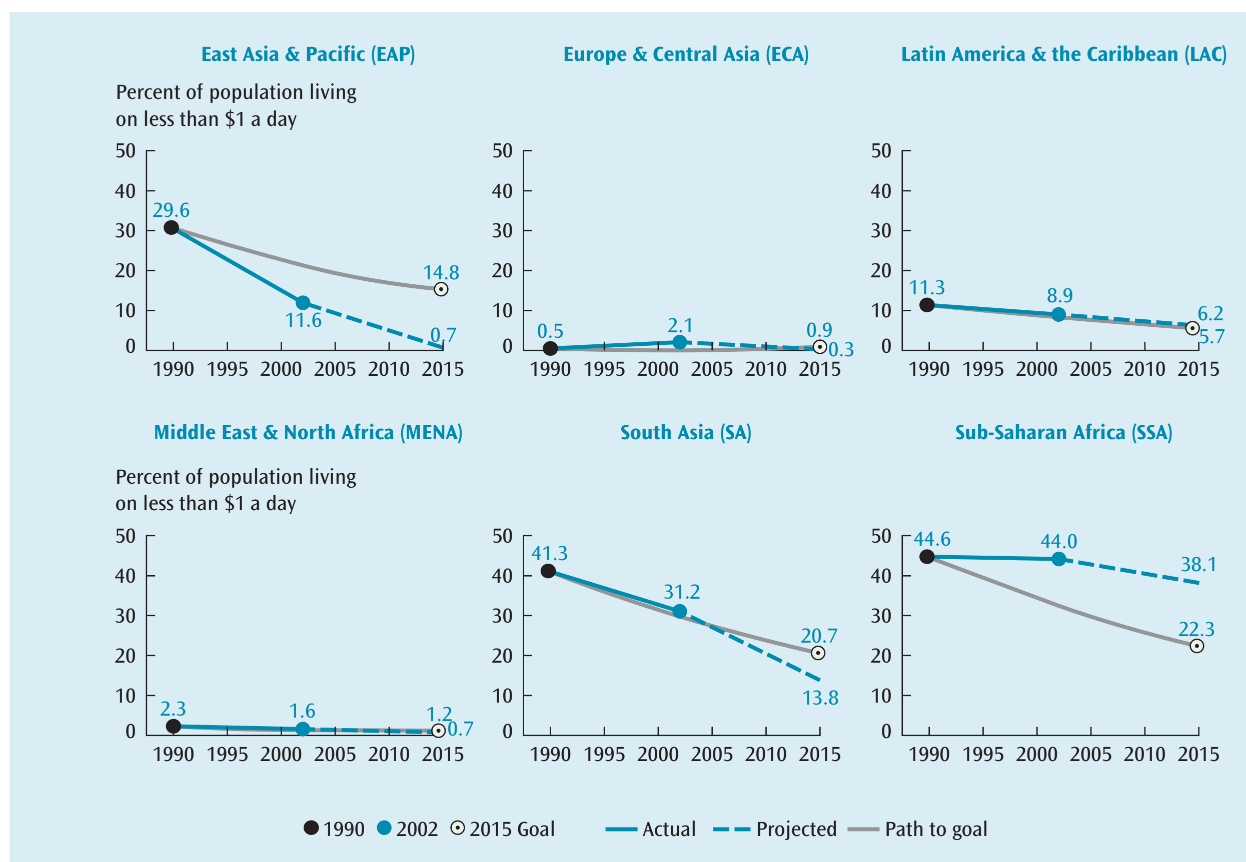
above historic rates, as buoyant trade, low interest rates, and strong growth in Organisation for Economic Co-operation and Development (OECD) countries helped sustain performance. More rapid growth is likely to have reduced poverty between 2000 and 2005 significantly—simple projections based on aggregate income growth suggest by as much as 10 percent, or over 100 million people.

Contributing to this growth is the improvement in macroeconomic policy management. For low-income countries, macroeconomic indicators are now significantly better than in the 1990s. Middle-income countries, with higher (and less volatile) growth than low-income countries, have become more resilient to economic shocks. Deficits have fallen, more flexible exchange rate regimes are in place, and financial sectors are sounder. But room for improvement remains.

The strong expansion in trade volumes and higher commodity prices provide additional evidence of the favorable growth environment. World exports grew by 14 percent in 2005. Oil exporters reported the fastest growth, buoyed by the surge in energy prices. Both China and countries in Sub-Saharan Africa enjoyed a healthy 25 percent increase.

However, while strong overall growth has helped reduce poverty, the gains remain uneven. All regions have, to varying degrees, shared in the recent favorable growth, but there are major differences in regional performance in reducing poverty (figure 1), and in individual country performance. Much of the improvement occurred in East and South

FIGURE 1 Poverty headcount by region, 1990–2002, and forecasts to 2015



Source: World Bank staff estimates.

Asia, and in Eastern Europe and Central Asia, as stronger growth resumed after the Asian financial crisis, and the transition economies adjusted to market systems. In Latin America, growth is up over the past two years, but it is still too low to make strong inroads into poverty reduction. African growth has also improved, outpacing its historical average, by accelerating to more than 2 percent per capita in 2005—but on current trends, few African countries will reach the MDG income-poverty target. However, several countries within Africa have performed well over the last decade, due to a combination of better policies, enhanced trade performance, and foreign aid. This demonstrates the potential for more rapid progress.

Near-term prospects for growth and income-poverty reduction appear fairly good—low-income countries are projected to continue to rebound from their contraction of the early 1990s (growing by nearly 4.5 percent per capita in 2005), and middle- income countries are projected to grow by 4.6 percent per capita. But the global environment also poses risks. High oil prices threaten to slow growth in low-income, oil-importing countries, particularly if non-oil commodity prices weaken; stronger terms of trade helped offset oil import costs in 2005. Other continuing risks include abrupt adjustment in global current account imbalances, further increases in global interest rates, and the failure of the Doha Round trade talks. Of added concern is the potential impact of

avian influenza on global commerce. Singly or in combination, these factors could undermine recent gains in poverty reduction.

Strengthening poverty reduction will require greater emphasis on the domestic growth environment through improving the investment climate, strengthening access to infrastructure, and enhancing opportunities for the poor. The quality of the investment climate contributes strongly to growth, employment, and productivity, all of which are important for sustainable poverty reduction. Tools for monitoring the investment climate—Investment Climate Surveys and Doing Business Indicators—show that poor countries place the highest burdens on entrepreneurs, and on reform business regulations the least. Africa had the lowest reform intensity in 2004, and Eastern Europe and Central Asia had the highest.

Basic infrastructure services—transport, electricity, water, sanitation, telephones—are key both to a strong investment climate and to sustained progress in human development outcomes. Half a billion people gained access to electricity between 1995 and 2004. Telephone subscribers quintupled in the 1990s and are believed to have tripled since. But while East Asia and the Middle East have shown marked improvement, other regions are losing ground for most infrastructure services on a per capita basis. For the rural population, and for the poor in both rural and urban areas, access gaps are large and reinforce their vulnerability. More resources and greater innovation in service delivery and easy-to-maintain technologies are needed.

Finally, increasing access and opportunities for poor and vulnerable groups is complementary with improving growth performance. Equality of opportunity is at the heart of the MDG agenda, particularly access to public services and opportunities for human development—the focus of *World Development Report 2006*.

Meeting the Human Development Goals

Regional progress toward the human development MDGs remains a cause for concern. All regions are off track on at least some of the goals, and the two regions lagging most seriously behind—South Asia and Sub-Saharan Africa—are off track on all of the goals. Children's nutrition is worsening in many parts of Africa; a majority of countries are not making sufficient progress to reduce child mortality and maternal mortality; and HIV/AIDS continues to spread across the world. In many countries much more needs to be done to reach the poor.

However, the latest data also provide some encouraging signs of progress:

- The number of countries that have achieved or are on track to achieving universal primary completion (MDG 2) has increased significantly since 2000, and the pace of progress has also increased. Even faster rates of progress are observed in countries that have joined the global Education for All Fast Track Initiative (EFA FTI). Gender disparities in primary and secondary education (MDG 3) are also narrowing, with girls' enrollment rates growing faster than boys' in all regions, although the target of achieving gender parity by 2005 was not met.
- While only 20 percent of developing countries are on track to reducing child mortality (MDG 4), the most recent survey data suggest that rates of progress are accelerating in some countries, and very significant progress is being made to reach the poor with key interventions, such as childhood immunizations.
- Access of women to trained birth attendants, the best indicator of maternal mortality (MDG 5), shows strong improvement in East Asia, more modest in Latin America, but shows little gain in Sub-Saharan Africa.
- The first signs of decline in HIV/AIDS infection rates (MDG 6) are emerging in high-prevalence countries such as Haiti, Uganda, and Zimbabwe. Evidence is growing that prevention programs work when they are intensive and sustained. The number of AIDS patients under treatment in the developing world has scaled up

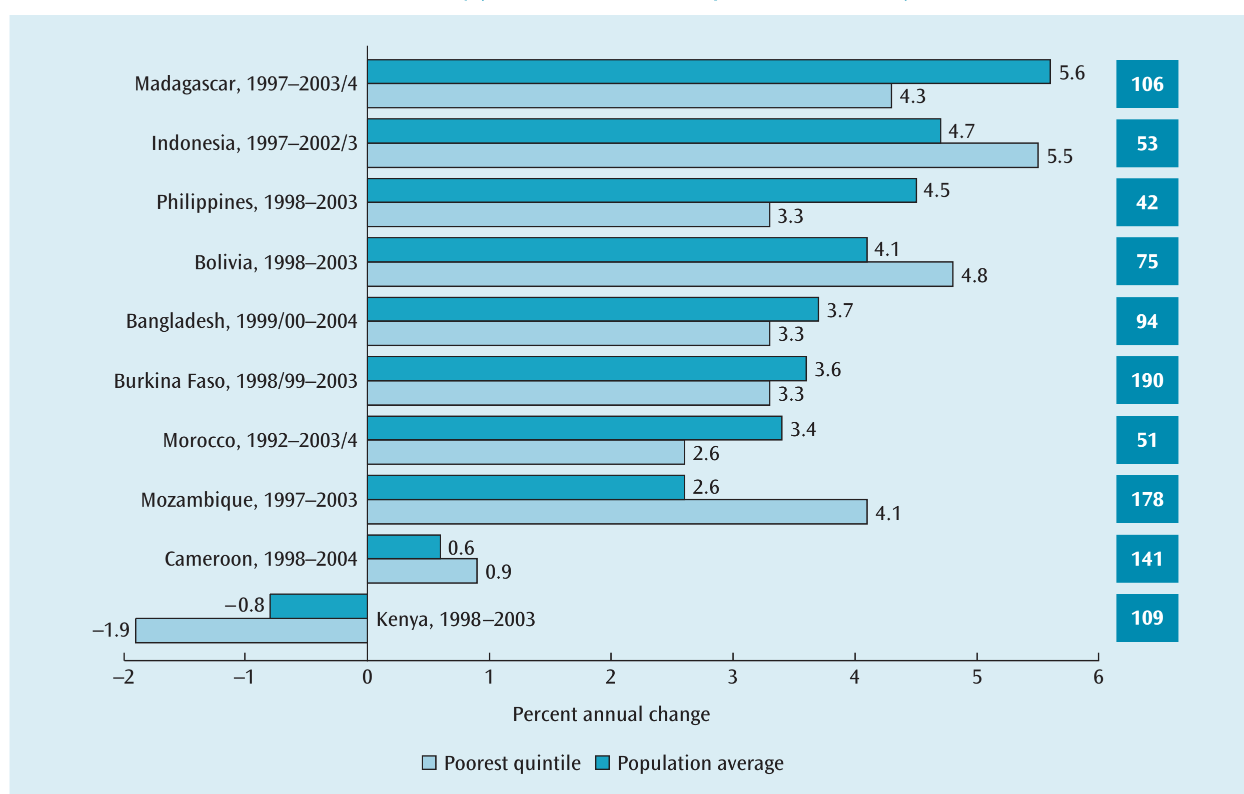
rapidly, approaching 1 million in 2005, from less than 100,000 in 2000. And new global efforts to combat malaria are improving treatment and rapidly spreading the use of treated bednets.

Figure 2 shows the annual reductions in child mortality between survey years in all 10 countries for which the Demographic and Health Survey data are available since 2002. It shows that nine of the countries have made gains, over half at quite rapid rates, ranging from Burkina Faso (3.6 percent per annum) to Madagascar (5.6 percent per annum). Moreover, the gains are reaching the poor. In four of the countries, child mortality fell fastest among the poorest quintile households. This is helping to reduce, albeit gradually, the gap in performance of poor households. The survey evidence on primary school completion yields a similar conclusion.

Better policies in the social sectors explain some of the progress. An increasing number of countries in all regions are adopting reforms to make education and health systems more effective and responsive to the people they serve: increasing community voice in the management of frontline schools and health facilities; allocating funds more transparently; managing the recruitment and deployment of providers more effectively; measuring and publicizing student learning outcomes and other key results; and conditioning income transfers to families on their use of education and health facilities.

There has also been a substantial increase in external support. Official development assistance (ODA) for primary education

FIGURE 2 Annual reductions in child mortality (number of child deaths per 1,000 live births)



Source: World Bank estimates from Demographic and Health Surveys.
Note: The boxed numbers show the number of child deaths per 1,000 live births in the most recent survey.

nearly tripled between 2000 and 2004. Aid is also better aligned with MDG priorities, and in education, the EFA FTI is producing tangible gains in donor harmonization at both the country and global level. However, spending on health and education in government budgets is tracked only by the World Bank and the IMF, and there is a need to improve the consistency of the data.

Extending and sustaining these gains will require more flexible and predictable aid. The main financing need in health and education is recurrent expenditures, yet less than one-third of bilateral aid to low-income countries is in non-special-purpose grants that can more readily be used for both recurrent costs and investment. The volatility of aid disbursements is another serious constraint to expanding social services, which depend on multi-year financing of recurrent costs. Finally, there is evidence that transactions costs in health are increasing, with the growth of "vertical" global health initiatives. These are key issues for the development community to resolve in order to accelerate MDG progress.

Ultimately, however, the achievement of the MDGs is in the hands of developing countries. Increased and more flexible aid is unlikely to materialize unless countries reduce resource leakages and strengthen accountability of service providers to the public. Cross-country studies show that, on average, one in three health care workers is missing during unannounced facility visits, and one in six teachers is also absent. Funds may fail to reach their intended level in the budget if they are diverted before reaching local clinics and schools. Sound expenditure management systems are needed to address this issue and to meet the fiduciary concerns of donors and finance ministries. While many developing countries are taking steps to generate greater accountability in social service delivery, in most places deeper and broader reforms are still needed, as discussed in Part II of this report.

Meeting Donor Commitments of Aid, Debt Relief, and Trade

Meeting donor commitments is a central facet of the mutual accountability framework. Major progress was made in this area in 2005: the international community sharpened its focus on the Millennium Development Goals and reaffirmed commitments to increase aid, advancing the agenda for donor harmonization and alignment, and to expand debt relief to the poorest countries. But concerns over delivery remain.

In 2005 there were major new commitments to expand aid flows and deepen debt relief to the poorest countries. The UN World Summit in September helped maintain the focus on the MDGs. Along with the Commission for Africa Report, "Our Common Interest," and the Millennium Project Report, "Investing in Development," the UN report, "In Larger Freedom: Toward Development, Security, and Human Rights for All," helped focus international attention on development. Several initiatives were launched at the G-8 Summit (July 2005) in Gleneagles, including pledges to:

- Increase aid to Africa by $25 billion a year by 2010—more than doubling the current assistance to the region—and to all developing countries by about $50 billion.
- Extend and deepen debt relief to the poorest countries. The G-8 proposal, the Multilateral Debt Relief Initiative (MDRI), aims to cancel the roughly $50 billion of debt owed by Heavily Indebted Poor Countries (HIPC) to the African Development Fund (AfDF), International Development Association (IDA), and the International Monetary Fund (IMF).

However, concerns arise over whether these new commitments will be delivered, and if so, how effectively. Delivering on commitments will require spelling out the mechanisms for their implementation and monitoring their execution against well specified benchmarks. It will also require greatly

improving aid quality, and delivering it where it can be effectively used.

INCREASING THE VOLUME AND QUALITY OF AID

Aid from the Development Assistance Committee (DAC) countries of the OECD totaled $80 billion in 2004, and rose further in 2005 to an estimated $106 billion, averaging 0.33 percent of GNI. Most of the large increase in 2005 is due to debt relief to Iraq and Nigeria, and total aid has yet to reach relative levels of assistance in the early 1990s. There is a wide range in country contributions: five DAC members provide over 0.7 percent of GNI in aid, while the United States provided the lowest share (0.17 percent of GNI in 2004). Non-DAC donors also increased their aid contributions 9 percent in 2004, which brings the total assistance to $3.7 billion, or 0.18 of GNI (of which Arab countries contributed 0.85 percent of GNI in ODA).

The aid *commitments* by DAC countries, however, add up to much more than $106 billion. If all aid committed over the 2006–10 period were disbursed, it would lift DAC contributions further by $24 billion—to about $130 billion—in real 2004 dollars. More aid will need to be in non-debt relief forms as large opportunities for debt relief are exhausted. Monitoring real aid disbursements by DAC members is important for holding donors accountable to their international commitments.

Of equal importance for enhancing the contribution aid makes to the MDGs is the quality and composition of ODA. Three key elements warrant attention: aid flexibility, harmonization and alignment of support, and country selectivity.

Flexibility. Increasing the share of flexible aid, which can be targeted at meeting MDG needs, is a priority for scaling up. Over 70 percent of bilateral aid from DAC countries between 2001 and 2004 was in the form of special purpose grants: debt relief, technical cooperation, food aid, emergency aid, or administrative costs. Flexible aid (non-special purpose grants and multilateral ODA), which could be used to meet recurrent and capital costs for MDG-related expenditures, increased by only 8 percent, from $38 billion to $41 billion.

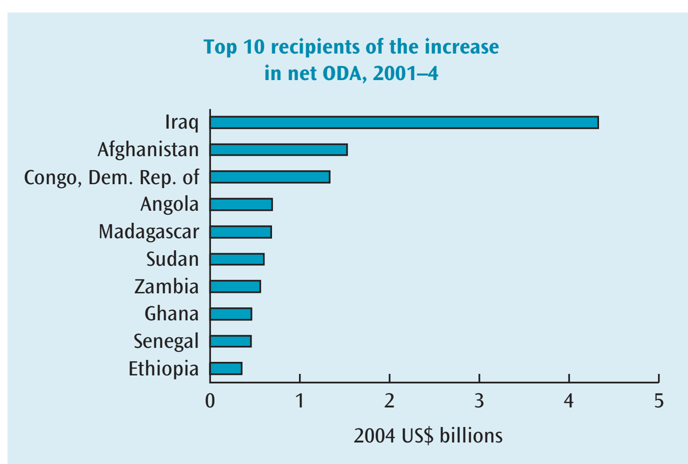
Harmonization and alignment. Progress with the agenda on harmonization and alignment, as embodied in the "Paris Declaration" of the High Level Forum in March 2005, is a priority. The 12 global targets for enhancing aid effectiveness by partner countries, donor countries, and the multilateral development banks are not just symbolic. Implemented, they will radically transform the way most aid is delivered. A preliminary baseline has been developed, but the gap between the baseline and the targets is wide. Donors and the IFIs face challenges in changing management practices and incentives. Regular monitoring and peer pressure, it is hoped, will advance this agenda.

Selectivity. Aid allocation will need to shift if support for the MDGs is to be the objective. Evidence on aid allocation among countries underscores that aid is often not channeled to where the impact on the MDGs is likely to be greatest. While aid selectivity is increasingly based on need (poverty level) and ability to effectively use aid (quality of policies and governance), there is evidence that other factors still determine a large share of aid disbursements. For example, over 60 percent of the increase in ODA between 2001 and 2004 was directed to three countries—Afghanistan, the Democratic Republic of the Congo, and Iraq, although these three countries collectively account for less than 3 percent of the poor people in developing countries (figure 3).

MAKING PROGRESS IN DEBT RELIEF

The Multilateral Debt Relief Initiative (MDRI) that emerged from the G-8 Summit in July 2005, complements the existing efforts to reduce the debt burden facing HIPCs. The existing HIPC initiative has delivered debt relief to 28 countries as of end-2005. Debt ser-

FIGURE 3 ODA increases concentrated in a few countries



Source: OECD DAC database.

vice to fiscal-revenue ratios was halved, and expenditures related to poverty reduction are estimated to have increased from $6 billion to nearly $11 billion. The new MDRI initiative goes beyond this level to cancel all of the debt claims of the African Development Fund (AfDF), IDA, and the IMF for countries that have reached, or will eventually reach, their completion points under the HIPC initiative. The IMF has already fully implemented the initiative, while the AfDF and IDA are finalizing arrangements. As a result, the estimated annual debt service flows of these countries will fall by around $1 billion annually over the next decade, and by somewhat higher amounts after that.

To lock in these gains (estimated at about $1 billion annually for the first decade) careful benchmarking and monitoring are needed. With the MDRI a new benchmark in aid is needed to ensure that there is no counting of debt relief against higher DAC country aid commitments to the IFIs. Accumulation of new, unsustainable debt is another risk facing MDRI recipients. The debt sustainability framework is currently under review to ensure that it helps guard against this risk and supports HIPC country efforts to improve expenditure composition.

MEETING COMMITMENTS TO LIBERALIZE INTERNATIONAL TRADE

Advances in multilateral trade reform talks in 2005 remained elusive. The roadmap that emerged from the Hong Kong, China talks still requires concurrence on the most divisive issues—agriculture and industrial products. This roadmap is scheduled to be agreed on by April 2006, and finalized by October 2006. Other outcomes of the Hong Kong, China meetings were modest. Agricultural export subsidies are to be phased out by 2013, conditional on disciplining equivalent programs such as food aid. Duty-free and quota-free access to developed country markets for products from the least-developed countries was significantly weakened by the likely exemption of 3 percent of tariff lines in key products.

Some success was achieved in support for “aid-for-trade,” in recognition that the potential gains from trade are not evenly distributed and many countries, particularly in Sub-Saharan Africa, lack the requisite infrastructure and skills base to benefit from multilateral trade liberalization. The United States, the United Kingdom, Japan, and the European Commission have all committed to increasing resources for building trade capacity in low-income countries. There is a critical need to ensure that aid for trade is effective and is not a substitute for allowing greater market access.

IFI Performance: Strengthening Results Management

A final key element of the mutual accountability framework rests with efforts by the IFIs to support development outcomes. However, assessing their contribution to actual development outcomes is complex, because there are many other determinants and partners, in particular, country governments. The focus here is on evaluating the IFI progress with the results orientation of their management practices, their contributions to development finance, the strengthened impact evaluation, and aspects of institutional integrity and transparency.

Implementing the results agenda. The 2004 Marrakech Roundtable on Results called for a monitoring system to assess the results orientation of the multilateral development banks (MDBs); that system is COMPAS, the Common Performance Assessment System, which draws on MDB frameworks and action plans to implement managing for development results (MfDR). While it is still too early for robust assessment, the initial COMPAS efforts are promising: awareness of results is increasing, and frameworks, systems, and procedures are being put in place in all the institutions.

The degree and manner in which MDBs are carrying out the results agenda varies. A key challenge will be to establish an institutional culture of using the information on results to inform decision making. MDBs face trade-offs that complicate implementation. There is tension between alignment with country systems and fiduciary concerns. There are also significant gaps between institutional harmonization policies and country level practices, raising questions about aligning staff incentives with the MfDR framework. Focusing the MDBs on outcomes, rather than on the more traditional input management, will require a sustained effort. Implementation will require both a strengthened MfDR capacity in partner country governments and long-term MDB commitment.

Impact evaluation is a key component of results management. Each IFI has an independent evaluation unit that conducts both institution-wide assessments—for example in support of health sector reforms, pension systems, or the quality of analytic work. The MDBs also assess specific country programs and projects. Additional efforts are under way to help develop more robust, evidence-based advice to partner countries that can help define the types of interventions they should support. Two examples are the Development Impact Evaluation initiative (DIME) at the World Bank, and the program of impact evaluations launched in the Inter-American Development Bank (IADB)'s Office of Evaluation and Oversight. Two dozen rigorous evaluations are currently under way through DIME, on education projects, conditional cash transfer programs, and slum-upgrading initiatives.

Financing flows. In 2005 lending through the concessional and non-concessional windows of the MDBs declined, although the dip in concessional lending was due, mainly, to constraints on IDA-13 resources and to a spike in IDA disbursements the previous year. In general there is an upward trend in MDB financing to low-income countries, and the IDA-14 replenishment provides for this to continue through 2007. In contrast, disbursements to middle-income countries have steadily declined for some years, and net lending has been negative. Several factors shape the middle-income country demand for funding: shifting demand toward sovereign bond financing; prepayment of older, higher-cost loans; greater financial market access with improvements in creditworthiness; and slow development on the part of MDBs of new, innovative financing mechanisms for the middle-income countries. Better alignment of MDB strategies with evolving middle-income country needs is necessary.

Improving alignment, integrity, and transparency. An outgrowth of the Paris Declaration is the commitment by donors and IFIs to support the development of national systems over parallel donor structures. MDBs are adopting different approaches to this goal, including technical assistance to strengthen country systems and testing country systems in select countries. The IMF's experience with safeguard assessments of Central Banks provides a positive example in this area. So far there has been limited progress in the use of country systems, due, in part, to inherent risks and fiduciary concerns.

MDBs' concerns about corruption range from preventing fraud and corruption in MDB-financed projects, to promoting good governance in country programs, and to supporting international efforts to fight corruption. Efforts are under way to improve their ability to reduce corruption in the use of

their own funds, and to empower investigative departments. However, numerous challenges remain: ad hoc reactions to instances of corruption remain the norm while systematic management of risks is still being developed. Moreover, ring-fencing of projects cannot substitute for strengthening country systems, which is a much more challenging and lengthy task.

Improving transparency is part of the effort to strengthen IFI accountability. Evidence shows that transparency is improving, which makes it easier for country partners to scrutinize policies that affect them and to participate more in the development dialogue. Disclosure of country performance ratings by the IADB, and those planned for 2006 by the AfDF, Asian Development Fund (AsDF), and IDA, are cases in point. The IMF's speedy publication of country reports is another.

Part II: Governance as Part of Global Monitoring

Governance has emerged as an essential element of the mutual accountability framework. The UN Millennium Project report cites "governance failures" as one of four obstacles to reaching the MDGs. The UK's Commission for Africa report recommends improved governance, together with market opening, as keys for alleviating poverty. Governance is also highlighted in new donor approaches, for instance in the European Union's Cotonou Agreement—effective in 2005, and the United States' Millennium Challenge Account. Developing countries, too, have noted the centrality of governance; for example, in the New Partnership for Africa's Development (NEPAD)'s Africa Peer Review Mechanism. Yet, while empirical research links governance-related institutions and development, there is not yet a consensus as to how to approach governance and its measurement.

This GMR aims to provide a platform for the inclusion of governance as an ongoing part of MDG monitoring. To do so, it provides a governance monitoring framework that can enable a more empirically grounded dialogue, and notes some indicators that might be used in going forward, together with some additional work to develop them. This framework identifies some patterns of governance across countries and over time, and highlights challenges for strengthening governance. The complexity of governance and the need to proceed with caution should be borne in mind.

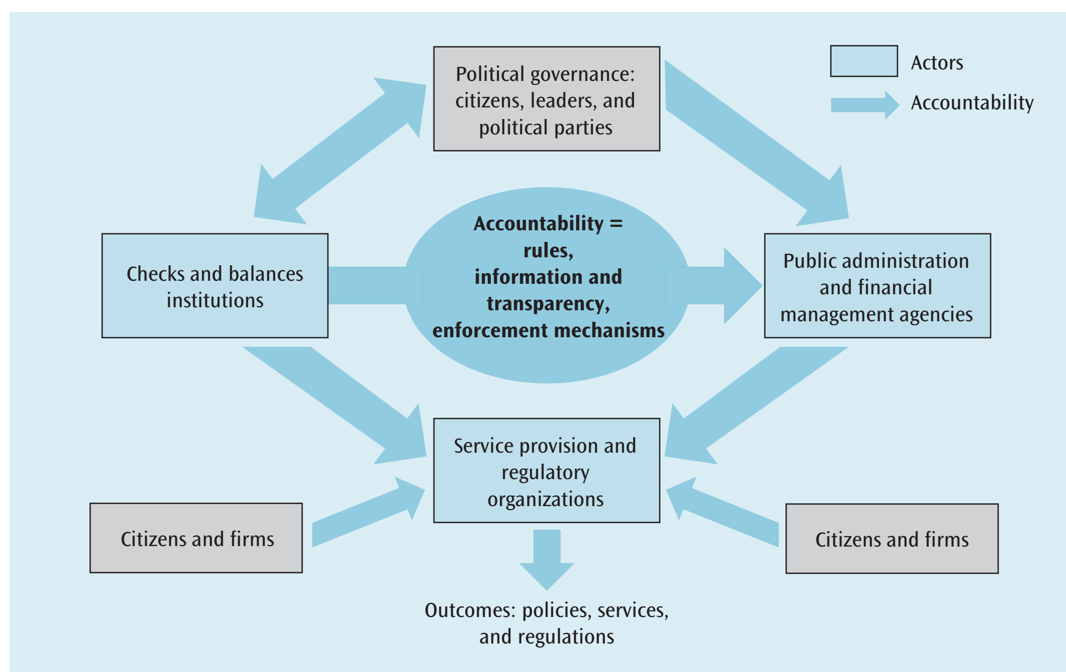
Improving governance is not simply a matter for aid recipients. The global milieu has powerful influences on governance systems in developing countries. Global markets can be a source of virulent, corrosive corruption or a powerful disciplining device. Donors and IFIs can impose practices and reporting requirements that fragment and overwhelm already fragile country systems, or they can provide support in ways that help strengthen governance. Global mechanisms can help poor countries strengthen governance to meet the MDGs, including promoting standards and codes to provide sources of good practice for all countries. For this reason, the establishment of global checks and balances is another priority.

A Framework for Monitoring Country Governance

Public sector governance can be defined as the way the state acquires and exercises its authority to provide and manage public goods and services, including regulatory services. A governance system has both a supply side (the capabilities and organizational arrangements embodied in its players) and a demand side (the accountability arrangements that link the players to one another). To monitor governance—and to improve it—a framework is needed to cut through the complexity. The GMR lays out one possible framework, which identifies the key actors in a national governance system and the key accountability relationships among them (figure 4).

Political leaders are the prime drivers, setting the objectives for the rest of the governance

FIGURE 4 National governance system



Source: Authors.

system. Often they work for the general interest; other times they cater to special interests and core supporters. Sometimes these powerful interests may capture the state. Even a democratic electoral process does not guarantee that politicians will focus on the general interest.

Checks and balances institutions are important for the sustainability of effective governance. They include parliaments, independent oversight agencies (audit institutions, ombudsmen, and anticorruption commissions), the judicial system, a free press, and accountable local governments.

The *public bureaucracy* is the implementing arm of government. It includes both cross-cutting public administration and financial management control agencies (such as the Ministry of Finance) and agencies that directly deliver social and regulatory services to citizens and firms (for example, education or licensing).

Citizens and firms are central to effective accountability. Citizens select political leaders; as users of services, citizens and firms can also hold providers accountable for the efficiency and effectiveness of service provision.

Within such a system, effective *accountability* requires clear rules and expectations, transparent information to monitor performance, and incentives and enforcement mechanisms that reward success and address failure. Transparency is not sufficient, on its own, for good governance, but it is a powerful feature for improvement, with broad applicability across an array of public actions.

Corruption is one outcome of a governance system. It can reflect the failure of any number of accountability relationships—for instance, political failure leading to state capture, bureaucratic failure, or a failure of checks and balances.

While it may be difficult to get more than a subjective measure of political governance, the capability of the bureaucracy, the strength

of checks and balances, and some aspects of service delivery can be measured more objectively. The framework thus points to three different ways in which governance can be monitored, and for each, specific foci for measurement are suggested:

A: *Overall governance performance*:
- (i) Summary measures of governance system quality;
- (ii) Control of corruption;
- (iii) Quality of economic and sectoral policies.

B: *Quality of bureaucracy:*
- (i) Public financial management and procurement systems;
- (ii) Public administrative systems;
- (iii) Front-line service provision and regulatory agencies.

C: *Performance of checks-and-balances institutions:*
- (i) Constraints on the executive;
- (ii) Justice and the rule of law;
- (iii) Transparency and voice.

The Challenge of Monitoring Governance

Measuring governance is difficult. Formal systems can be categorized and rated—but the gap between formal arrangements and realities on the ground is often wide. Institutional processes are difficult to observe and measure systematically. Two complementary approaches respond to these measurement challenges.

One approach is to use broad measures to monitor aggregate governance. The GMR highlights as useful several aggregate indicators, including the so-called Kaufmann-Kraay (KK) indicators compiled by the World Bank Institute on the basis of a large number of (mostly external) assessments, Transparency International (TI) indicators, and the Country Policy and Institutional Assessments (CPIAs) compiled by the World Bank (the 2005 ratings are to be released for IDA countries in 2006).

These broad governance indicators have many uses. They can be powerful forces for raising awareness, and they can also focus attention on broad areas in which individual countries can strengthen their national systems. However, these broad indicators, as with all governance indicators, are also subject to quite wide measurement errors.

Ranking countries on the basis of the KK corruption indicators, for example, only 87 out of 203 can be confidently assigned to top, middle, and bottom thirds. The standard measurement error in the CPIA is of a similar relative magnitude. Assessments can therefore broadly distinguish high-, middle-, and low-rated countries, but some are likely to be misclassified when ratings are broken down on a much finer scale. Governance indicators also may not be able to pick up with precision the modest, short-run changes in governance, although they will do better at signaling longer-run trends. In sum, broad governance indicators are useful but have limitations, including their margins of error; as a basis for cross-country comparison, they need to be applied with caution.

A second approach is to use narrow measures of the quality of specific governance subsystems. While these too can have nontrivial measurement error, the narrow focus of specific indicators makes them "actionable" in the sense that they can help to identify governance weaknesses and to monitor improvements. Specific governance indicators are being used in diverse ways:

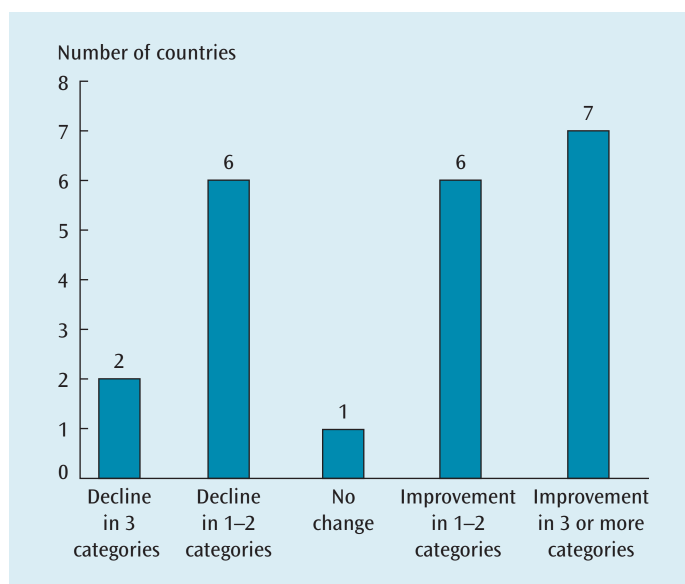
- The Public Expenditure and Financial Accountability (PEFA) program uses 28 indicators to track public financial management.
- The Doing Business and Investment Climate Surveys are creating monitoring baselines for regulatory performance, including a baseline for corruption.
- The Center for Global Integrity has applied a detailed set of indicators on the quality of checks and balances in 26 countries.
- Detailed indicators have been developed for monitoring procurement, the quality of statistical systems, and administrative reform.

- User scorecards and similar surveys provide an entry point into governance from the perspective of service delivery.

So far, however, other than in the areas related to private sector development and to the public financial management for HIPC countries, there has been no focus on refining and applying such indicators systematically.

Between them, the broad and narrow approaches to governance monitoring yield 14 governance measures that are currently available, offer comprehensive country coverage, and cover each of the diverse facets of national governance systems. These measures can provide a useful baseline for ongoing governance monitoring to move forward. The greatest value-added for governance monitoring will come from the improvement of specific indicators. More sustained use and investment in specific, actionable, governance indicators is a recommendation of this GMR.

FIGURE 5 Net change in HIPC indicator tracking scores, 2001–4



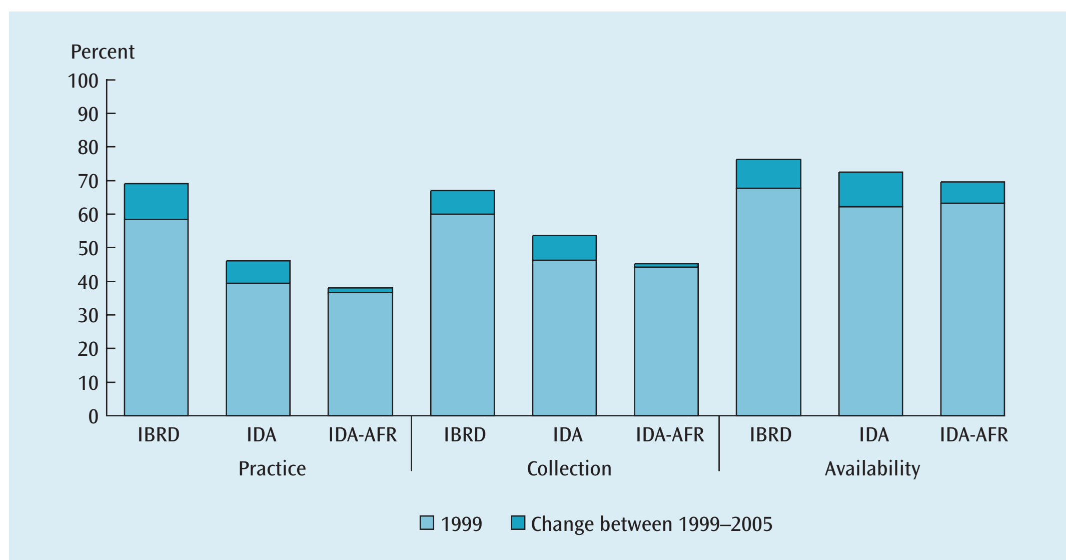
Source: IDA and IMF 2005, update on HIPC tracking.

Strengthening Bureaucratic Capability, Checks and Balances, and Service Delivery

Bureaucratic capability. Strengthening public financial management (PFM) is an area of great importance for scaling up aid, and it is also the area in which most progress has been made in developing and applying specific, actionable indicators. Assessments of the quality of budget and financial management systems conducted in both 2001 and 2004 for 22 HIPC countries showed that, while progress is uneven, countries that are determined to improve their public financial management systems can do so quite rapidly. Seven countries, including Ghana, Mali, Senegal, and Tanzania, achieved substantial improvements between 2001 and 2004 (figure 5). Especially for countries that receive budget support, improvement in PFM should be monitored. With political commitment and support, many countries should be able to achieve reasonably strong PFM within a 5- to 10-year period. Similar approaches can be used to monitor and guide reforms in other areas, including public administration and procurement, where monitoring has been piloted in 10 countries.

Checks and balances: the role of transparency. While transparency is alone not sufficient for good governance, its role in national governance systems is pervasive—from the political apex of the system, through the publication of judicial decisions, to a free press, and all the way to the service provision front line. Transparency has a supply side and a demand side. On the former, quality information built on a platform of robust statistical capacity is key, as is assuring that citizens enjoy a right to information. Over 50 countries had adopted the Freedom of Information Laws by end-2004, with efforts under way in an additional 30 countries. However, assessments done for IDA-14 paint a worrisome picture of the statistical capacity in IDA countries (figure 6). Many lack the capacity to produce high quality information, which leads to a vicious circle of low attention to data and low demand for improvement; progress in this area is slow, especially in low-income Africa. Extended support for the

FIGURE 6 Measuring statistical capacity in IBRD, IDA, and IDA-Africa, 1999–2005



Source: Country Statistical Information Database (www.worldbank.org/data/countrydata/csid.html).

Marrakesh Action Plan for Statistics, an international response to the challenge of improving capacity to monitor the MDGs, is an important component of efforts to strengthen transparency.

On the demand side, an active civil society is key to translating transparent information into action. Together with government agencies, a Philippine citizen monitoring program identified losses of more than $3 million that the Department of Education promised to rectify. In Tanzania, the Rural Initiatives and Relief Agency helped local communities track government program expenditures and ensure that funds were indeed delivered. Both cases, with grants of under US$25,000, help to underscore the notion that empowerment through information can be a low-cost/high-return strategy for improving governance. The donor and IFI community should design its operations and programs to systematically go beyond technocratic dialogue with officials and actively foster transparency by bringing information on analysis and performance into the public domain.

Service delivery can be an entry point for better governance, and may be one of the few options in weak governance settings. Some facets of the business environment, such as levels of unofficial payments for specific services, can be linked to governance and are increasingly being monitored through instruments such as the Doing Business Indicators and Investment Climate Surveys. Surveys for Europe and Central Asia, for example, found that corruption was most pervasive in licensing, tax administration, and obtaining government contracts.

In countries where formal "top-down" accountability is weaker, sector-wide programs, decentralization, and community-based (CDD) approaches have become increasingly used to enhance service delivery. The World Bank alone channeled over US$10 billion directly to poor communities between 1999 and 2005. All of these approaches have limitations. Donors fail to harmonize; for instance, in 2004 Tanzania had 110 education projects on the books with an estimated average size of under $1 million. Donor financial projects often bypass line ministries and subnational governments. While a 2005 review concluded that CDD projects have supported participation and helped to get services to citizens cost-effectively in var-

ious administrative settings, the wider impact on governance of such approaches is still debated. In difficult governance settings, sectoral and bottom-up approaches may be the most feasible entry points for governance reform, although their effects are slow, indirect, and uncertain. These approaches need to be monitored for their impact on both the demand for, and supply of, good governance.

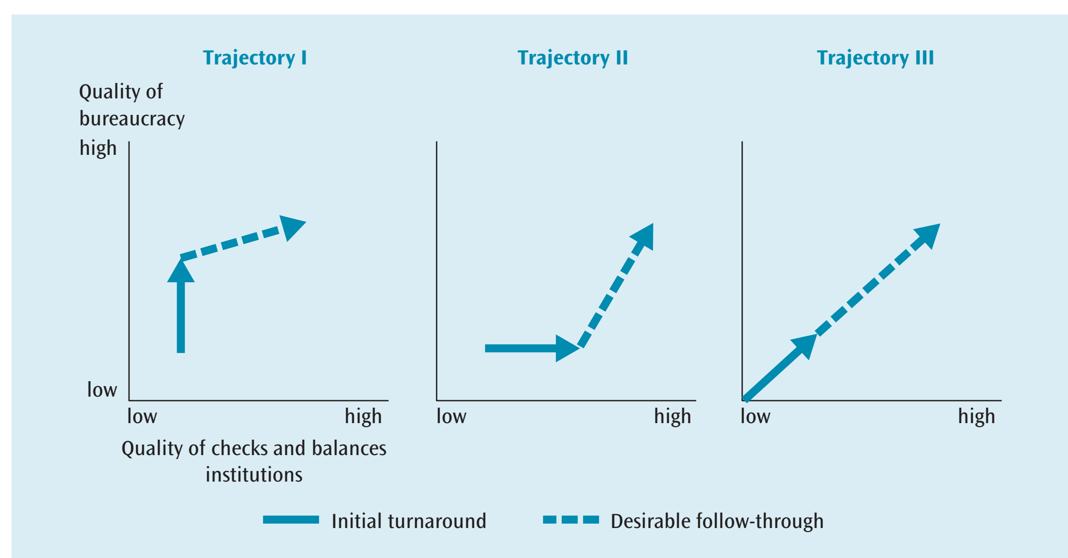
Approaching Country Diversity: The Need for a Long-Term Perspective

Even taking margins of error into account, some judgment as to governance quality can be made for about two-thirds of the 66 low-income countries. At the upper end of the spectrum, about one-third of countries generally score well across all or most measures. At the lower end of the spectrum, another one-third generally are in the bottom two quintiles on the outcome measures, and generally do not score well on the measures of subsystem quality either. These latter countries are basically stuck in clientelism, or state failure.

But many countries (including some in these two groups) have a strikingly uneven mix of governance strengths and weaknesses. Some countries have relatively capable public bureaucracies, but weaker checks and balances institutions; others have the reverse. Some with weak policies appear to be less corrupt; others, who are stronger on the policy front, seem to be less successful in controlling corruption. Bangladesh is perhaps the best known example of a country with relatively weak perceived control of corruption but strong performance on policies and on poverty reduction. Several other countries share this paradoxical pattern. These patterns reflect many institutional and historical factors.

Figure 7 illustrates three possible trajectories for governance turnarounds. In the first trajectory (Indonesia in the 1970s and Uganda in the 1980s are examples), a developmental political leader takes power and focuses on liberalizing the economy and strengthening the performance of the public sector—with checks and balances a lower priority. Poverty reduction gains can be rapid in this scenario, but if country reformers and development partners wait too long to put the challenge of strengthening checks and balances onto the agenda, the conse-

FIGURE 7 Governance turnarounds: three trajectories



Source: Authors.

quence (as in Indonesia during the latter Suharto years) can be rising corruption, financial crisis, a difficult process of political succession, and a reversal of earlier gains.

In the second trajectory, a country moves to political pluralism (for example, Albania in the early 1990s and Nigeria more recently). Only sometimes does this new political openness translate into stronger bureaucratic capability. In the third trajectory, following state collapse, international intervention or support helps to provide an umbrella of security under which both the bureaucracy and checks and balances institutions are reestablished (Mozambique offers an example of a country that appears to have followed a balanced trajectory).

In the short term, none of these turnarounds is superior to any other, but eventually improvements in governance need to evolve in a balanced way. Development partners need to take the different governance trajectories into account and to engage, on a *long-term basis,* to strengthen lagging elements of the governance system. It took many years for durable governance institutions to emerge in today's industrial countries.

Strengthening Global Checks and Balances

Since the early 1990s, a framework of global checks and balances has emerged, which is centered around three types of programs:

- International law enforcement: OECD's anti-foreign bribery convention and the anti-money laundering activities of the Financial Action Task Force complement each other; they help to tackle international corruption and they enable OECD countries to share in the prosecutorial burden. This is valuable for poor countries, which often lack the capacity and reach to pursue complex cases across international borders.
- Anti-corruption treaties: the UN Convention Against Corruption (effective December 2005), provides a global legal framework to address corruption, which complements regional anti-corruption treaties. It recognizes the recovery of looted assets as a "fundamental principle."
- International transparency initiatives: recognizing the special challenges posed by concentrated natural rents, the Extractive Industries Transparency Initiative for hydrocarbons and other minerals, and the Kimberley Process Certification Scheme for raw diamonds, build on broad international support for transparency.

The success of these international initiatives is not easy to monitor. Assessments suggest that a promising start has been made, but there is a very long way to go before global good governance becomes really effective, and this will require sustained support. The Kimberley process has been relatively successful. Almost all producer countries participate, as do all major rough-diamond importing countries. But recovering looted assets is still difficult, with low rates of asset recovery. Of the estimated $12 billion to $20 billion looted by Presidents Mobutu, Abacha, and Marcos, only some $1.5 billion has been recovered. Offenders frequently have to be charged with tax evasion rather than corruption. Some programs still have noticeable loopholes, such as the exclusion of transactions related to the financing of political parties. Still, it is worthwhile recalling that only a few years ago foreign bribes were considered a legitimate business expense by many OECD counties.

IFIs and donors can assist these checks and balances processes by providing technical assistance and funding to support countries' participation, and by encouraging the participation of middle-income countries, which loom larger in commercial dealings with poor countries. More generally, donors can strengthen their own anti-corruption controls (including through the debarment and cross-debarment of suppliers engaging in bribery and corruption), increase transparency, and provide aid in ways that encourage good governance rather than

fragment and deplete already weak country systems. Implementation of the Paris Declaration is needed both to improve the quality of aid and to contribute to good global governance. Developing countries have begun to implement mutual programs to support good governance, in particular the NEPAD African Peer Review Mechanism: donors can also help to support such programs.

The stakes are high. While worldwide corruption is difficult to quantify, one estimate puts the proceeds at $1 trillion annually. For a single case, the Iraq Oil-For-Food Program, the Volcker report documents kickbacks of $1.5 billion by 2,235 suppliers. How this is settled will provide a strong signal on the seriousness with which the OECD countries support the fight against corruption.

Scaling Up: Moving the Agenda Forward

Scaling up is about much more than aid: it is, at heart, a question of making mutual accountability work. Donor governments, IFIs, and partner governments must all work together to reinforce their accountability to deliver on commitments for enhanced aid, to reform trade, to harmonize and align support with strategies, and to implement sound national development strategies.

Governance is a critical part of this agenda. Donors, IFIs, and developing countries are broadly accountable for strengthening the checks and balances that are fundamental for development and its financing, through both global and national systems. For developing countries, well functioning and transparent budget, administrative, and procurement systems; a political process responsive to the country's citizenry; and strong checks and balance systems are key to a well functioning governance system—and provide a straightforward basis for support.

Given this set of challenges, how might the international community scale up flexible ODA to help meet the MDGs? For the one-third or so of IDA-recipient countries that score well on most governance measures, the task is easier. They have in place budget management and administrative systems that are reasonably capable of targeting spending to developmental priorities, and executing and monitoring expenditures. From a *governance* perspective scaling-up can proceed with fewer constraints.

In the remaining countries, scaling up may require some alternative approaches. First, even where current systems fall short, aid might be scaled up based on a clearly improving trend in the quality of budget and administrative management systems. In such settings, aid can be seen as an investment in strengthening country systems. For countries determined to improve their administrative budget systems, achieving a "good enough" standard within 5 to 10 years may be feasible.

A further objective could be to focus on reforms that foster transparency—in budget management and more broadly. Transparency relies on public information as a source of pressure for better public sector performance—in a less technocratic way than is implied by top-down reforms of bureaucratic capability. Even with continuing weakness in administrative systems, a case could be made for scaling up aid to countries that clearly commit themselves to facilitating transparency in how public resources—and state power more broadly—are used.

The third approach is to target scaled-up aid more directly toward poverty-reducing services. In countries where bureaucratic capability may be on the upturn but is at an early stage of improvement, sector-specific approaches that focus on improving governance and service provision in parts of the overall system are attractive. In countries where there is little sign of political commitment to improve governance and capacity, opportunities at the local level will need to be identified.

Part I
Monitoring Progress

1

Charting and Sustaining Progress in Income Poverty Reduction

The first Millennium Development Goal (MDG) calls for the development community to reduce the global rate of extreme income poverty—measured by the share of the population living on less than $1 per day—by half between 1990 and 2015. Current trends suggest that if the developing world can maintain the growth momentum of the past 15 years, it will meet this MDG. Numerically, the reduction in the global poverty rate owes the most to impressive advances in China and India, but it has also been helped by acceleration in income growth elsewhere in the developing world in recent years. The past year has seen strong growth and poverty reduction in much of the developing world as a result of improved developing-country policies and a global environment conducive to growth.

Thanks to these improvements, the long-term prospects for growth and income-poverty reduction appear good in most regions. Perhaps most notably, low-income countries are projected to continue their rebound from their stagnation and contraction of the early 1990s by growing at an average of well over 3 percent per capita in 2006. There are risks to the forecast, of course: the perennial but very real risks of abrupt adjustments in global external imbalances and sharp increases in interest rates, newer threats like an avian flu pandemic, and a risk of deeper pain from persistently high oil prices. Weaknesses in developing-country institutional and policy frameworks (such as financial sector vulnerabilities) also pose risks, and high commodity prices have helped make possible delays in needed fiscal adjustment and structural reform. Continued rapid poverty reduction will therefore depend on further steps by developing countries to consolidate domestic sources of growth, as well as the promotion of equity.

This chapter reports on efforts to track progress in two areas related to growth: improvements in access to and quality of infrastructure, and promotion of an investment climate conducive to private sector growth. These policies make sense under any circumstances, but they take on special importance when the global environment is already very favorable by recent historical standards.

Poverty Reduction and Growth: Positive Trends, Significant Challenges

Progress on Poverty Reduction

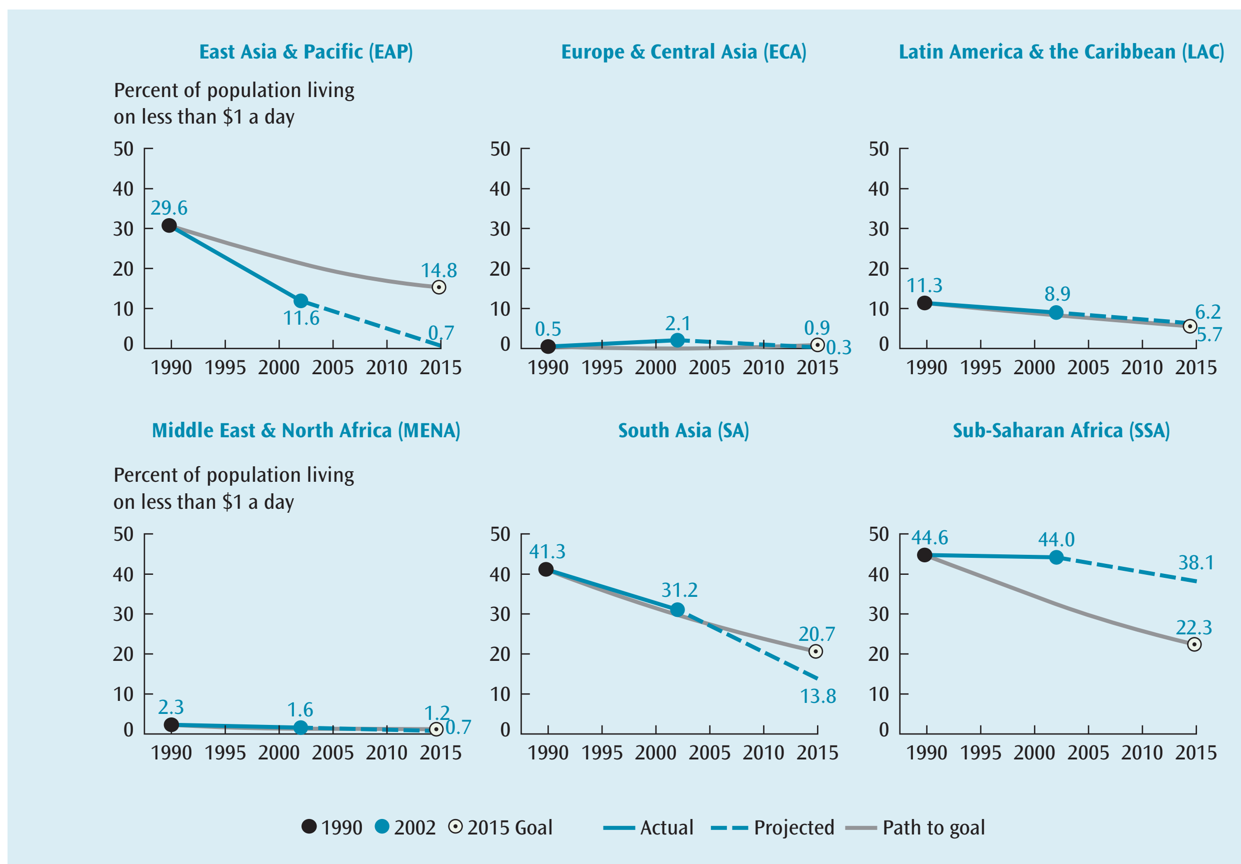
The developing world as a whole is predicted to meet the poverty MDG. The latest projection is that the share of developing-country population living on under $1 per day will fall from 27.9 percent in 1990 to 10.2 percent in

2015. By 2002, roughly halfway through the goal period, the share had already fallen to 21.7 percent. Although more recent global poverty estimates are not yet available (due to lags in availability of household survey data), the relatively robust income growth of recent years has increased the likelihood that the target will be attained.

But the news on poverty is far from unambiguously positive. While the poverty decline in the East Asia and Pacific (EAP) region has been extremely rapid, no other region has seen such rapid progress (figure 1.1). South Asia (SA) has made strong improvements too, placing it roughly on the path to meet the target. But Europe and Central Asia (ECA) saw a sharp increase in its low rate of poverty as a result of the transition recessions of the 1990s. The most discouraging news on poverty comes from Sub-Saharan Africa (SSA), the region with the highest share of its population in poverty in 1990. In 2002 the share fell slightly to 44.0 percent, which is significantly below the 46.4 percent in 2001 but virtually the same as in 1990. And current projections are that in 2015 Africa's poverty rate will remain over 38 percent—far above the 22.3 percent target.

The estimates in figure 1.1 are updated only through 2002, the last year for which household survey data are available for enough countries to allow regional and global estimates. However, it is possible to "project" the evolution of poverty through 2005 by combining the most recent household survey data available with data on

FIGURE 1.1 Progress toward the Poverty MDG Target, 1990–2002, and a forecast for 2015



Source: World Bank Staff estimates.

growth rates of real per capita incomes and assumptions about income distribution. These projections should not be regarded as estimates, but they give some idea of how recent rapid income growth may have translated into lower poverty.[1]

The projections suggest that poverty rates may have fallen in all regions since 2002. In three regions, the rate has probably declined by 2 to 4 percentage points—to a projected 8.8 percent in EAP, 27.5 percent in SA, and 41.4 percent in SSA. These advances leave unchanged the conclusions above: on current trends, EAP and SA will likely reach the MDG for income poverty, while Sub-Saharan Africa will not, despite the recent acceleration in growth in the region. In the other three regions (Europe and Central Asia, Latin America and the Caribbean, and Middle East and North Africa), where initial poverty rates were lower, poverty likely dropped by less than 1 percentage point between 2002 and 2005.

Improvements in Long-Term Growth

Continued poverty reduction depends on sustained growth, and here the picture is a positive one. Most regions have good long-term growth prospects and strong recent performance, thanks to improvements in macroeconomic policies over the past two decades. In general, policies that contribute to macroeconomic stability help sustain growth, whereas those that promote instability, such as inflationary monetary policies and fiscal policies that lead to high budget deficits, tend to hurt growth by deterring private investment. Macroeconomic policy making will likely face new challenges as levels of official development assistance (ODA) to developing countries are scaled up.

Per capita GDP growth in low-income countries (LICs) was higher in 2005 than the average for any five-year period since the late 1970s, and the strong growth is expected to continue (table 1.1).[2] This trend is encouraging, particularly when contrasted with the low per capita growth seen in the early 1990s, even though economic growth in many countries remains below the level needed for them to achieve the MDGs. In the low-income countries of SSA, per capita growth was about 3 percent for the second straight year in 2005, despite continuing conflicts and periodic weather shocks. This growth is a marked improvement on the 1995–2004 SSA low-income country growth average of about 1.3 percent, not to mention the income declines of the early 1990s. In SA, LICs other than India grew at a strong 4.8 percent, nearly matching India's rapid growth. By contrast, the few LICs in the largely middle-income Latin America and Caribbean (LAC) region and the Middle East and North Africa (MENA) region grew more slowly.

As noted in *Global Monitoring Report 2004* and *Global Monitoring Report 2005,* macroeconomic policies in low-income countries have improved greatly over the past 15 years. These improvements were largely sustained in 2005. High oil prices contributed to an up-tick in inflation in low-income countries, but inflation rates in 2005 remained at roughly half the level of the early 1990s. Other indicators—fiscal deficits, external debt, and debt-service ratios—remained on average well below 2000–4 levels, and in fact lower than they had since the 1980s.[3] Over the coming year, improvements in macroeconomic indicators are expected to continue (table 1.2).

International Monetary Fund (IMF) staff assessments suggest that in low-income countries, efforts to improve macroeconomic policies and governance have achieved results, to a point (table 1.3).[4] In the areas of monetary policy and exchange-rate regimes, 70 to 80 percent of low-income countries are now rated as having good policies. On macroeconomic policy consistency and financial sector governance, too, the news is positive: less than a fifth of countries are rated as unsatisfactory. By contrast, fiscal policy and especially composition of public spending are viewed with greater concern.

The assessments also confirm that among low-income countries, those with higher growth rates tend to have better macroeco-

TABLE 1.1 Per capita GDP growth in low- and middle-income countries (by region)

	1985–9	1990–4	1995–9	2000–4	2003	2004e	2005f	2006f
	1.9	0.8	1.8	1.6	1.6	2.9	2.0	2.1
Memo item: World (PPP weights) [b]	3.8	2.3	3.4	3.8	3.9	5.0	4.4	4.4
High income	3.0	1.5	2.2	1.6	1.4	2.7	1.9	2.0
Low-income countries	2.4	1.4	3.3	3.2	5.1	4.5	5.3	4.7
East Asia and Pacific	0.9	4.6	5.0	5.0	4.2	5.5	6.1	5.2
Europe and Central Asia	1.4	–14.4	–0.7	4.9	6.3	6.7	3.2	4.5
Latin America and the Caribbean	–4.0	–4.0	1.7	0.0	–0.2	1.3	1.5	0.6
Middle East and N. Africa	8.1	–1.6	3.3	0.6	0.0	–0.5	0.4	0.3
South Asia	3.6	2.7	4.0	3.7	6.1	5.1	5.4	4.8
Excluding India	2.2	2.1	1.7	2.5	3.0	4.2	4.8	3.8
India	4.0	2.8	4.6	4.1	6.9	5.3	5.5	5.1
Sub-Saharan Africa	0.2	–1.8	1.1	1.4	2.5	2.9	3.0	3.8
Middle-income countries	1.5	1.2	2.7	4.0	4.5	6.3	4.9	4.6
East Asia and Pacific	6.4	8.1	5.9	7.1	7.9	8.2	7.4	7.1
Excluding China	3.8	5.5	1.0	3.4	3.9	4.6	3.0	3.7
China	8.2	9.6	8.1	8.4	9.3	9.4	8.6	8.0
Europe and Central Asia	1.3	–5.8	1.8	5.4	6.0	7.3	5.2	5.0
Latin America and the Caribbean	0.2	1.7	0.9	0.8	0.5	4.5	3.1	2.5
Middle East and N. Africa	–1.0	1.8	2.0	2.9	3.3	3.2	3.1	3.7
South Asia	1.5	4.3	3.9	3.0	5.1	4.5	3.5	4.8
Sub-Saharan Africa	–0.4	–2.4	1.1	2.3	1.8	3.0	3.6	3.3
Developing countries	1.4	0.9	2.5	3.6	4.3	5.7	4.7	4.5
Excluding transition countries	1.7	3.0	2.7	3.4	4.1	5.6	4.7	4.4
Excluding China and India	0.3	–0.7	0.9	2.1	2.3	4.5	3.4	3.3

Source: World Bank staff estimates.
Note: PPP = purchasing power parity; e = estimate; f= forecast.
a. GDP in 2000 constant dollars; 2000 prices and market exchange rates.
b. GDP measured at 2000 PPP weights.

nomic policies, a relationship previously documented in *Global Monitoring Report 2004*. They also indicate that countries with better macroeconomic policy indicators tend to have better governance in related areas. In particular, countries with good public sector and monetary governance are more likely to have lower inflation and external debt-to-GDP ratios.

In 2005 middle-income countries (MICs) enjoyed continued rapid income growth, building on the strong performance of the previous year. Although China pulled the average up with its per capita growth of over 8 percent, all six regions experienced rapid average MIC growth, at over 3 percent. Europe and Central Asia had the strongest performance outside the East Asia and Pacific region: ECA's middle-income countries have made a strong recovery from the transition shock of the 1990s, and their growth once again exceeded 5 percent in 2005, as it did for the 2000–4 period. Middle-income Latin America and Caribbean countries, which recorded little increase in per capita incomes over the previous decade, managed growth of over 3 percent, despite a drop-off from 2004. The indicators of macro policy suggest that these improvements were supported by better macroeconomic policies in MICs (table 1.2). However, this advantage has been blunted by the risk and frequency of financial crises, which have also made poverty alleviation more difficult. And despite the rising incomes

TABLE 1.2 Macroeconomic indicators for low- and middle-income countries (by region)
(Annual averages, except where indicated)[a]

	1985–9	1990–4	1995–9	2000–4	2005 est.	2006 proj.
Inflation (median annual %)[b]						
Low-income countries	6.7	13.3	8.4	5.0	7.3	5.5
Middle-income countries	9.2	17.7	8.1	4.6	4.2	4.8
Current account balance (% GDP)						
Low-income countries	–6.4	–8.0	–7.6	–6.0	–5.7	–5.0
Middle-income countries	–1.9	–1.3	–4.4	–2.0	–2.1	–1.8
External debt (% of GDP)						
Low-income countries	76.3	98.9	97.2	101.9	90.5	88.2
Middle-income countries	44.8	46.6	43.8	47.8	42.4	40.5
Fiscal balance (% of GDP)						
Low-income countries	–6.5	–7.0	–4.9	–4.3	–1.0	–0.6
Middle-income countries	–3.8	–2.7	–3.1	–3.1	–1.1	–1.0

Source: IMF World Economic Outlook (WEO) database (Winter 2006 Board version); staff calculations.
a. Averages are calculated as unweighted means of country values
b. Median inflation is calculated from the annual medians and then averaged over five-year periods.

TABLE 1.3 Quality of macroeconomic policies in low-income countries, 2005
Share of countries falling into each category (percent)

Rating	Fiscal policy	Composition of public spending	Monetary policy	Consistency of macro policies	Governance/ transparency in monetary and financial institutions	Foreign exchange regime
Unsatisfactory	26	61	11	16	18	7
Adequate	26	28	19	40	25	13
Good	48	11	70	44	57	80

Source: IMF staff assessments.

of these countries, poverty reduction in lagging regions remains very much a concern (box 1.1).

There has been significant progress in making the middle-income economies, and particularly emerging-market economies, more resilient to economic shocks. First, on average, current account deficits relative to GDP have fallen since the late 1990s, and this trend is projected to lead to lower external debt-to-GDP ratios, which should help reduce the likelihood of debt crises. Nevertheless, debt ratios will remain high in many countries and will need to be reduced further. Second, there has also been a clear shift among emerging market economies toward more flexible exchange rate regimes. Such increased flexibility in exchange rates can help mitigate the real impact of crises, to the extent that real exchange rate depreciation offsets some of the real effects of falling aggregate demand. Third, financial sectors in middle-income countries have become somewhat sounder, in part because reputable international banks

BOX 1.1 Lagging regions in middle-income countries and progress toward the MDGs

Extreme poverty and deprivation is not confined to low-income countries. Middle-income countries remain home to a large share of the world's poor people, especially of those who live on less than $2 per day. Much of this poverty lies in subnational regions where income and social indicators severely lag national levels. Household incomes in Brazil's northeast remain below half of the national average, in spite of programs to accelerate development there over the past half-century. The Turkish government faces a major challenge in eastern Anatolia, where life expectancy is nearly 10 years below that of the affluent western region, and the rate of underweight children is twice as high. Many other MICs confront similar problems; witness China's western region, Thailand's northeast, and Mexico's southern states.

Lagging regions of MICs confront many of the same development issues that low-income countries do. Many struggle with geographic isolation and poor integration with national markets, compounded by poor infrastructure. Lagging regions have often depleted their resources, leaving them a weak productive base for traditional activities. Governance is often far weaker than elsewhere, darkening the investment climate and undermining service delivery; social conflict and lack of security can raise costs and further undermine the capacity to attract investment.

For these reasons, regional MDG indicators often reveal a large agenda for action in middle-income countries. Donors and international financial institutions (IFIs) have given increased attention to the special institutional challenges involved in supporting subnational reforms in lagging regions. Subnational policy-based lending was introduced in the 1990s, but more innovative work is needed to address these issues in MICs. One promising development is the recent initiative to introduce joint International Finance Corporation (of the World Bank Group)-International Bank for Reconstruction and Development (IFC-IBRD) financing for infrastructure investments by subsovereign borrowers. Although the World Bank made more than $4.5 billion in loans with sovereign guarantees for subnational infrastructure projects in fiscal 2005, the Bank Group's only instrument to offer financing to these subnational borrowers without sovereign guarantees is IFC's Municipal Fund. The new approach would combine the strengths of both the IFC and Bank approaches.

have taken on an increased role in Eastern Europe and Latin America. However, indicators of financial soundness suggest that room for improvement remains in many countries.

Short- to Medium-Term Outlook: Sustained Growth, but with Risks

What rates of growth and poverty reduction can developing countries expect over the short to medium term? The answer depends substantially on the pace of economic expansion in the advanced economies. Rapid rich-country growth increases trade and facilitates higher aid flows, and it can also affect developing countries through its impact on private financial flows, labor migration, and remittance flows. On average, in 1971–2000, a 1 percent increase in the real GDP of advanced economies was associated with a 0.4 percent increase in the real GDP of developing countries, although the relationship was much weaker for primary commodity exporters (IMF 2001: 80). Policies that encourage developed-country growth can thus improve prospects for achieving the MDGs.

Developed-country GDP growth is projected to remain robust over the near to medium term. After averaging a respectable 2.7 percent in 2004 and an estimated 1.9 percent in 2005, growth is projected to increase slightly in 2006. The United States is expected to remain the main driver of the expansion, but increased support will come from Europe. Average advanced-economy inflation rates (at 2.3 percent) and fiscal deficits (at 3.1 percent

of GDP) are projected to remain moderate. This outlook is consistent with continued high growth in exports from developing countries and reasonably constant terms of trade (table 1.4).

This forecast incorporates the assumption that global interest rates will not rise abruptly. Financial markets are relatively calm at present, but a sharp rise in interest rates could weaken consumer spending in developed countries and threaten the most vulnerable emerging-market economies, such as those with high debt ratios and short debt maturities. The forecast also assumes there will be no need for a sudden adjustment in global current account imbalances—including the U.S. external current account deficit, which has deteriorated from $416 billion in 2000 to $798 billion in 2005. If the demand for U.S. assets were to decline sharply, the ensuing U.S. contraction could spark a global recession.

These risks have received considerable attention in macroeconomic forecasts in recent years, but the generally positive medium-term scenario could also be derailed by newer risks. First, the recent rise in the price of oil and the current tightness of the oil market pose dangers. By September 2005 oil prices had increased by over 50 percent compared to end-2004, and they fell only moderately in the last quarter. Thus far, the impact of higher oil prices on global growth has been relatively minor overall, in part reflecting the fact that higher prices were mainly due to increasing global demand spurred by growth rather than to supply shortfalls. For oil-importing developing countries, increases in aid, together with increased prices on other commodity exports, have helped cushion the blow, so that their GDP growth dropped only slightly in 2005. Nevertheless, gross national income (GNI) growth for those countries fell sharply, from 6.3 percent in 2004 to an estimated 3.7 percent in 2005, and further adjustments are likely to come. Moreover, many large emerging market economies have not yet allowed domestic gasoline prices to rise enough to reflect the price increases; in the advanced economies, the consumer may only now realize that high oil prices are largely permanent and require a cutback in household budgets. The impact of higher oil prices on private investment may also take some time to emerge fully. In addition, the decline in the price of oil in late 2005 was at least partly due to the combination of mild weather and oil reserve releases; hence the decline may not be sustainable.

Oil prices are expected to average between $55 and $60 a barrel for the next two years, and further increases in oil prices cannot be ruled out, as excess capacity among producers of the Organization of Petroleum Exporting Countries is limited and the market remains vulnerable to supply shocks. Disruptions in oil supply could seriously depress future developing-country growth in much the same

TABLE 1.4 Global economic environment and developing countries
(Annual percent change unless otherwise indicated)

	1995–9	2000–4	2005e	2006f
World trade (average)	7.4	6.3	7.4	8.0
Developing countries:				
Volume of exports of goods and services (average)	8.0	9.7	10.9	10.3
Terms of trade (average)	0.2	1.6	5.4	1.7
Fuel exporters	3.4	8.8	23.4	8.3
Nonfuel exporters	–0.5	–0.3	–0.1	–0.4

Source: WEO, Winter 2006 Board Version.
e = estimate, f = forecast.

manner as the oil supply shocks of the 1970s, especially if prices of other commodities weaken. Countries will need to adjust to permanently higher oil prices, most notably by increasing energy efficiency and avoiding price controls that drain public finances.

A second major new risk is economic dislocation caused by avian influenza. In addition to the terrible toll that it could exact in human lives, an influenza pandemic could prove a serious threat to the global economy. Countries that depend heavily on international tourism and that lack adequate public health and medical facilities, or that are at some risk of capital flight being triggered by an outbreak, are particularly vulnerable. Therefore, action to neutralize the epidemic's potential for economic dislocation—for example, funding for culling birds and compensating farmers—is urgently needed. The budgetary cost to low-income countries of programs to prevent or impede the spread of the disease and manage the treatment of the sick will prove difficult to finance without external assistance. It is in the global interest that the countries at the front line of this disease be able to react quickly and decisively. At the January 2006 ministerial conference in Beijing, the international community took a key step toward making this happen by pledging $1.9 billion to fight avian flu.

Implications for Developing Countries

To sustain their progress in accelerating growth and poverty reduction since the 1980s, developing countries will need to increase their economies' resilience and reduce vulnerability to cyclical downturns. They will also need to make major progress along other dimensions.

The remainder of this chapter covers two of those dimensions. First, it reviews developing countries' progress on monitoring and improving the investment climate for private sector growth and productivity. Second, it highlights a key component of that business climate: the quantity and quality of infrastructure. The availability of high quality infrastructure services in key areas—such as water, sanitation, electricity, telecommunications, and transport—not only promotes growth and poverty reduction but also spurs progress toward the human development MDGs (see chapter 2). The choice to monitor these two areas in depth inevitably means a choice not to focus on other areas; box 1.2 discusses some important areas related to poverty reduction that are not otherwise covered in this chapter.

Improving the Investment Climate: Contribution of Better Analysis

The quality of the investment climate contributes strongly to growth, productivity, and employment creation—all of which are essential for sustainable reductions in income poverty. Data on the quality of the investment climate can thus serve as a leading indicator for poverty reduction. In the past several years, the World Bank and its partners, including other multilateral development banks, have increased collection of data on the investment climate quality in many countries. The new data are translating into concrete policy recommendations.

Analysis to Improve the Business Climate

The World Bank produces quantitative measurements of the investment climate using two major vehicles: the Investment Climate Surveys (ICS) and the Doing Business (DB) surveys. The two are complementary; the ICS draw their data from firms, and the DB surveys rely on experts. Together, these surveys map out much of the terrain that developing-country entrepreneurs must navigate as they seek to invest in and expand their businesses. They help countries to identify major bottlenecks to private sector growth and to concentrate their reform efforts on the areas with the biggest potential payoffs.

BOX 1.2 Beyond improved investment climates and infrastructure

The investment climate in general and infrastructure in particular are far from the only important areas to monitor for spurring growth and poverty reduction. Investment to raise agricultural productivity is essential, especially given that the majority of the world's poor still live in rural areas. Better rural infrastructure and investment climates constitute part of the story of improving agriculture, but there are many other factors—such as freer international trade in agricultural products, greater competition in agricultural input markets, and more research and development in tropical agriculture. Another potentially important mechanism for promoting growth, through increased competitive pressures and reduced production costs, is greater engagement in international trade; progress in this area is discussed in depth in chapter 3.

More generally, growth-targeted policies will need to be complemented by measures to promote equity. When people are denied equal opportunities—whether in access to education, health, financial systems, justice, or the political process—their talents and productive capacity are wasted, and society as a whole suffers. Expanding opportunities for those who have the least is thus not only a desirable end in itself, but also an important instrument for achieving growth and poverty reduction. A focus on equal opportunity therefore implies monitoring and acting to remove the factors limiting shared growth, as discussed in detail in *World Development Report 2006*.

What does this mean in terms of actual policies? In finance, a concern for equity may mean balancing the focus on financial stability and performance of well-served clients with approaches to expand financial access to underserved clients. In education and health, it may mean using vouchers or conditional cash transfers to boost the effective demand of excluded groups. In private sector development, it requires addressing the constraints on informal and small-scale rural enterprises, not just those on larger-scale formal firms. In power, it may mean complementing efforts to extend the electrical grid with smaller-scale decentralized mechanisms for providing electricity. In all sectors, it means monitoring how economic and social trends and policies affect excluded and disadvantaged groups. Monitoring trends in income poverty is a start—but only a start, in that monitoring of outcomes has to be accompanied by measuring and analyzing processes that lead to those outcomes.

Finally, policies should be aimed at promoting growth that is sustainable. If countries meet the poverty MDG target by mining soil fertility and depleting natural resources at excessive rates, improvements may not be sustained. This is a key concern of the MDG on environmental sustainability. One way to analyze sustainability is to look at measures of "adjusted net saving"—that is, saving adjusted for consumption of resources. This metric raises real concerns: in low-income countries, adjusted net saving has fallen from 7.6 percent of GNI in 1999 to 6.5 percent in 2004, while in middle-income countries, it has dropped sharply from 14.3 percent to 8.9 percent, owing partly to consumption of oil rents in petroleum-producing states. Beyond this concern, current environmental risks also reduce the prospects for meeting MDG targets. For example, low-income countries depend on biomass fuels for nearly 50 percent of their total energy, but the resulting indoor air pollution leads to high rates of death and illness. Low-income countries also faced urban air pollution levels (in terms of particulate matter less than 10 microns, a major health hazard) that are on average 70 percent higher than World Health Organization standards in 2002. Moreover, policies and institutions dealing with the environment and natural resources are generally rated as weak in developing countries, raising particular concerns as countries and donors contemplate major infrastructure investments.

As discussed in previous Global Monitoring reports, the ICS collect data from firms on both objective and subjective indicators covering a wide range of investment climate dimensions. In the past year, the surveys were fielded in over 35 countries, bringing the total to 75 countries. Moreover, a second round of surveys has begun in countries that were first surveyed three years ago, thereby allowing analysis of the effect of changes in the investment climate and specific policies on firm performance.

In 2005 the surveys also expanded by including more service-sector firms and more of the informal enterprises that employ many poor people. Under a protocol signed in March 2005, the multilateral development banks (MDBs) will conduct the surveys jointly, increasing cost-effectiveness and potential policy impact. The collaboration began successfully with the European Bank for Reconstruction and Development and World Bank surveying all the ECA countries in 2005; now all 27 ECA countries have been surveyed more than once.

The findings of the DB surveys (analyzed in the World Bank's annual *Doing Business* reports) are based on responses to standardized surveys of experts from 155 countries. This year the surveys will cover 20 additional small states. The surveys address 10 areas of regulation: starting a business, dealing with licenses, hiring and firing workers, registering property, getting credit, protecting investors, paying taxes, enforcing contracts, trading across borders, and closing a business. Experts answer questions in their area of expertise on the basis of their experience operating within the regulatory system. Most respondents are from the private sector and are either lawyers or accountants who deal frequently with rules and their enforcement. The surveys ask only objective questions—for example, what steps are necessary to register a new company, how many days each step takes, and how much time each step takes—producing quantitative indicators for business regulations that can be compared across countries and over time.

Analysis for Action: Identifying Sources of Higher Business Productivity and Growth

The new data from the ICS and DB surveys have strengthened the analytical basis for action and increasingly make it possible to assess progress in improving the business climate.

IMPROVEMENTS TO THE INVESTMENT CLIMATE CAN BE SUBSTANTIAL

Research based on the ICS not only reinforces the importance of the business environment as a determinant of competitiveness, but also points to specific areas for reform. It is not enough for a firm simply to have the right technology, or efficient management, or skilled employees. Certainly productivity on the factory floor matters, but advantages in this area can be offset, even swamped, by excessive costs associated with poor access to infrastructure and financial services, or weak property rights and governance (Hallward-Driemeier and Smith 2005). In both low-income and middle-income countries, understanding the climate for firm productivity and growth is essential.

Much of the development community's attention is focused on maintaining and accelerating growth in low-income countries, located primarily in Africa. One key question is why productivity is so low in much of Africa compared with that in India and China. Analysis of ICS data shows that some of the disparity stems from differences in labor productivity, but that high indirect costs and business-environment–related losses also significantly depress the productivity of African firms relative to that of firms in other countries.

Is it reasonable to expect improvements in investment climates in low-income African countries? Consider evidence on the differences among African countries. Even as the region as a whole lags behind, some African economies show evidence of a more productive business community and better business climate. South Africa, a middle-income country, sets a standard for the region; yet as box 1.3 illustrates,

the ICS identify constraints on firm productivity even in its relatively well-functioning business environment. Among LICs, Senegal shows what an African country can achieve with a strong business community and a relatively good business environment. In Kenya, a long history of entrepreneurship is reflected in strong potential factory-floor productivity, but high investment-climate-related costs impede competitiveness. Uganda and Tanzania appear to be middle-of-the-road performers. At the bottom end, firms in Zambia and Mozambique—and to a lesser extent those in Nigeria and Ethiopia—have relatively weak factory-floor productivity, and their value-added is heavily squeezed by high business-environment costs (Eifert, Gelb, and Ramachandran 2005).

Local governance is often as important as national governance in determining the investment climate. Some policies are set at the local level, and even when policies are

BOX 1.3 Improving the investment climate in South Africa

Starting from a strong fiscal position, the South African government is aiming for accelerated and shared growth of 6 percent by the end of the decade. Conditions for such rapid growth look favorable. By comparison with firms in other countries, few South African firms rated investment climate constraints as major obstacles to growth. Most firms believe that the courts are able to protect their property, that losses due to power outages are relatively small, and that tax rates are reasonable and are declining. Although the burden of regulation is not particularly low, it is comparable to that in most middle-income countries: on average, senior managers spend 10 percent of their time dealing with regulatory requirements, much less than in China and Lithuania (25 percent). Yet investment remains low. Reform is still needed in four areas:

Wages, particularly for skilled workers, are high by international standards, eroding competitiveness. Workers' skills were identified as a serious obstacle by more managers than were any other area of the investment climate. Firms must pay a particularly high premium for skilled and educated workers. The median monthly wage for an unskilled production worker in South Africa in 2002 was about $240 a month compared with $250 a month in Poland and $167 a month in Brazil. Yet the median monthly wage for a manager in South Africa was about $1,850 a month, over twice as high as in Poland ($740 a month) and over three times as high as in Brazil ($540 a month).

Rigid labor regulations discourage firms from hiring new workers. Nearly one-third of enterprise managers said labor regulations were a serious problem. Other indicators support this concern, suggesting that labor regulation is more rigid in South Africa than in many other middle-income countries. In *Doing Business 2006,* South Africa ranked 28th in the world overall on ease of doing business, but only 66th on regulations related to hiring and firing workers.

Macroeconomic instability raises uncertainty, particularly for exporters. Macroeconomic instability was rated as a serious obstacle by about 33 percent of South African firms. At first this finding seems puzzling, because inflation has been modest and macro fundamentals have been steadily improving. But exchange rates have been volatile, especially against the dollar. Close to three-quarters of enterprises that export to the United States, the country whose currency has been most unstable against the rand, rated macroeconomic instability as a serious obstacle.

The cost of crime is higher in South Africa than it is in many of its competitors. For the median firm, direct losses due to crime and the cost of security were about 1.1 percent of sales. Although lower than in the countries most affected by crime, this rate is higher than in many middle-income countries: losses from crime were less than 1 percent of sales in China, Poland, Brazil, and even Russia. Security costs accounted for about two-thirds of the cost of crime, while direct losses accounted for the other third.

Sources: Clarke and others 2005; Kaplan and Ramachandran 2005.

national or regional, local officials who implement and enforce them often have considerable discretion. By covering multiple locations within a country, the ICS make it possible to measure just how important the local investment climate is in determining productivity. The answer is often "quite important." Within Morocco, for example, total firm productivity (TFP) differences across regions owe much more to the effects of local investment climates than to the combined effects of two other key factors in productivity: agglomeration economies and natural geographic advantages (Mengistae and Thompson 2005). And in South Asia and China, investment climate measures explain up to 80 percent of the differences in productivity, even controlling for measures of economic geography (Dollar, Hallward-Driemeier, and Mengistae 2005; Lall and Mengistae 2005). A similar result was found with respect to the role of investment climate indicators in facilitating greater international integration in Asia and in Latin America (Dollar, Hallward-Driemeier, and Mengistae forthcoming). More reliable infrastructure services, access to finance, and less onerous regulatory burdens help firms grow faster and facilitate entry into export markets. Workers also benefit: a better investment climate is associated with both higher wages and greater job creation.

Corruption matters. Uncertainty of regulatory policies and their enforcement continues to rank as one of the top constraints reported by entrepreneurs. Almost 95 percent of firms report that "at least some of the time" there is a gap between formal regulations and the way they are enforced. Discretion and frequent interactions with officials are both associated with a higher incidence of demands for "additional payments" (typically a euphemism for bribes). In Bangladesh, for example, 85 percent of firms report that tax inspectors expect to receive "gifts" during meetings, and that payments equivalent to 2.5 percent of sales are paid to help "get things done." By comparison, only 10 percent of firms report paying "gifts" in Latvia or Slovenia. In many cases, it appears to be the large and expanding firms that are targets of corruption (World Bank 2005b).

ICS data also help identify potential sources of innovation, a key source of productivity and income growth. New research shows that greater competitive pressure on a firm is generally associated with higher rates of innovation by the firm, as measured by rates of introduction of new products and processes. There is some guidance for policy makers here: the same evidence indicates that such benefits are more likely to be realized through more effective enforcement of competition laws than through lower tariff barriers (Clarke 2005).

Finally, ICS data identify labor market regulation as an important determinant of firm performance and behavior, including decisions to hire and train workers. Evidence from Brazil and China shows that greater flexibility can boost productivity, enable more innovative firms to grow, and reduce the incentive to shift employment to informal workers (Almeida and Carneiro 2005; Dollar, Wang, Xu, and Shi 2005).

Thanks to the new repeat surveys for the 27 ECA countries, it is possible to diagram how the investment climate is changing in that region (figure 1.2). Overall, the picture suggests progress, with noticeable improvements in survey indicators of crime, corruption, and especially policy uncertainty.

DOING BUSINESS UPDATE: EASTERN EUROPE REFORMS THE MOST, AFRICA THE LEAST

Data from the Doing Business surveys complement the ICS data in describing the landscape for firms by focusing on the regulatory costs of opening and operating businesses. New businesses are a vital source of economic growth and jobs in any country. Yet the DB surveys show that poor countries place the highest burdens on entrepreneurs, loading them down with administrative hassles that divert energy from running the business. Poor countries also reform their business regulations the least.

In 2004 the DB surveys showed that more reform took place in Eastern Europe and

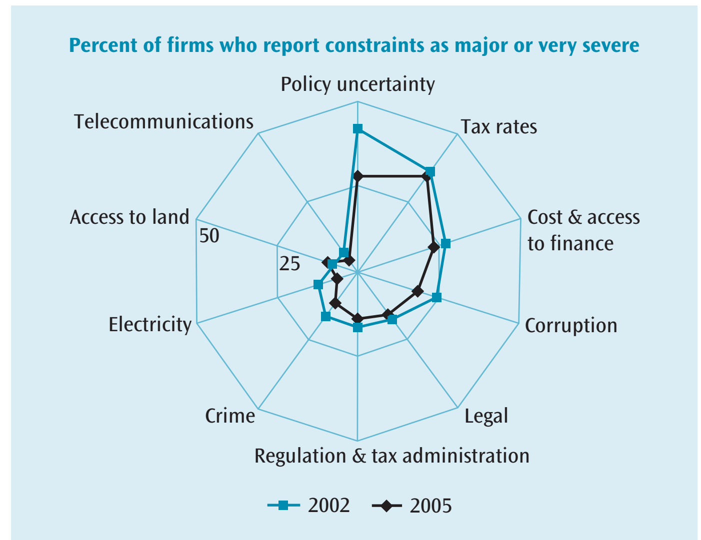
Central Asia than in any other region; every ECA country took at least one step to make things easier for business (figure 1.3).[5] Two ECA countries, Serbia and Montenegro and Georgia, topped the global rankings for most reforms enacted. At the other end of the scale, Sub-Saharan Africa reformed the least as a region. By the Doing Business metric, African countries averaged only around 0.6 reforms per country in 2004, and for every three African countries that improved regulations for business, another country made it more burdensome to do business.

Some African countries are acting to improve their business environment. Rwanda introduced sweeping reforms over the last few years to make it easier for entrepreneurs to start and run their businesses. Land titling reform followed new company and labor laws, and the country has benefited from streamlined customs procedures and better credit information. Nigeria reformed in three areas in 2004—company startup, labor regulation, and credit information. These examples need not be isolated.

In addition, several African countries are already providing good regulatory environments for business. Mauritius and South Africa both rank in the top 30 economies globally on the ease of doing business; Namibia is not far behind at 33rd. All countries need to regulate enterprises to promote worker safety, environmental goals, social protection, and other goals, but these countries do so in ways that are less burdensome to business. *Doing Business in 2007* will feature 50 reform cases, including 9 from Africa that could serve as best-practice examples for would-be reformers.

The payoff from easing regulation is large. *Doing Business in 2005* showed that more complex regulations are associated with lower growth rates. *Doing Business in 2006* finds they are also associated with higher informality; or, to put it more positively, where regulations are simple, jobs are more likely to be created in the formal sector. Reaching the top quartile of performance, as measured by the Doing Business indicators, is associated with

FIGURE 1.2 Evolution of investment climate indicators in Europe and Central Asia, 2002 and 2005

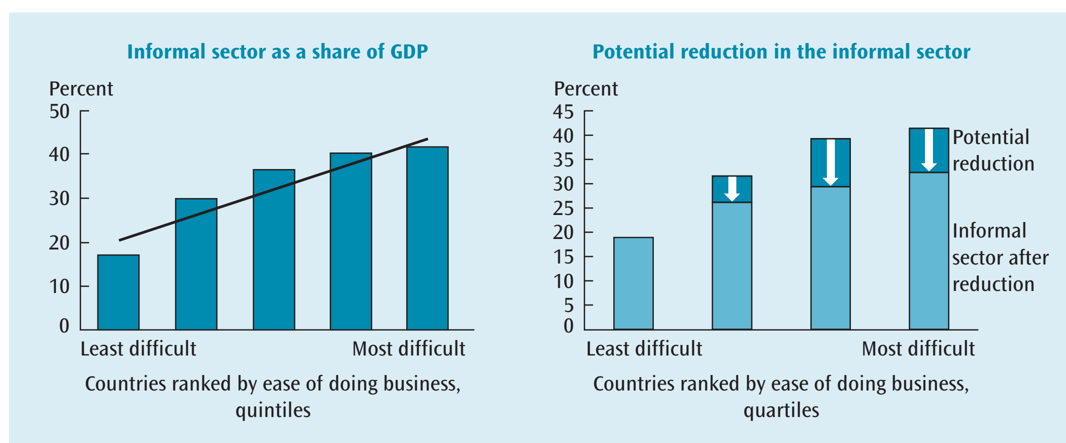


Source: World Bank Investment Climate Surveys.
Note: The graph does not include every country in the region. Points closer to the center are better.

FIGURE 1.3 *Doing Business* reform intensity in 2004 by region

Source: Doing Business Database.

FIGURE 1.4 The informal sector and the ease of doing business in 2004



Source: World Bank 2006a; Doing Business database; Schneider 2005; WEF 2005.
Note: Relationships are significant at the 1% level and remain so when controlling for income per capita.

a 9-percentage-point fall in the share of GDP accounted for by informal activity (figure 1.4). More formal jobs mean that more workers are protected by pensions, safety regulations, and health benefits. Women, who make up three-quarters of the workforce in some developing economies, are big beneficiaries of regulatory reform; so are young people looking for their first job.

Infrastructure Growth: Beyond Treading Water

One key element of the investment climate is the quality of infrastructure, which is the backbone of a functioning economy. As reviewed in *Global Monitoring Report 2004*, the analytical evidence increasingly demonstrates the importance of infrastructure for sustaining growth and achieving both poverty alleviation and development goals. Improving infrastructure services to poor households and rural areas is central to pro-poor growth agendas. For the economy as a whole, infrastructure can enhance investment climate and growth by increasing productivity, bridging markets, and facilitating trade. Beyond that, infrastructure services directly benefit households by supplying basic elements necessary to guarantee quality of life, satisfaction of basic needs, and increased welfare in general. This section tracks changes in infrastructure availability and quality in the developing world, and it explores their implications for monitoring and spurring improvements in infrastructure services.

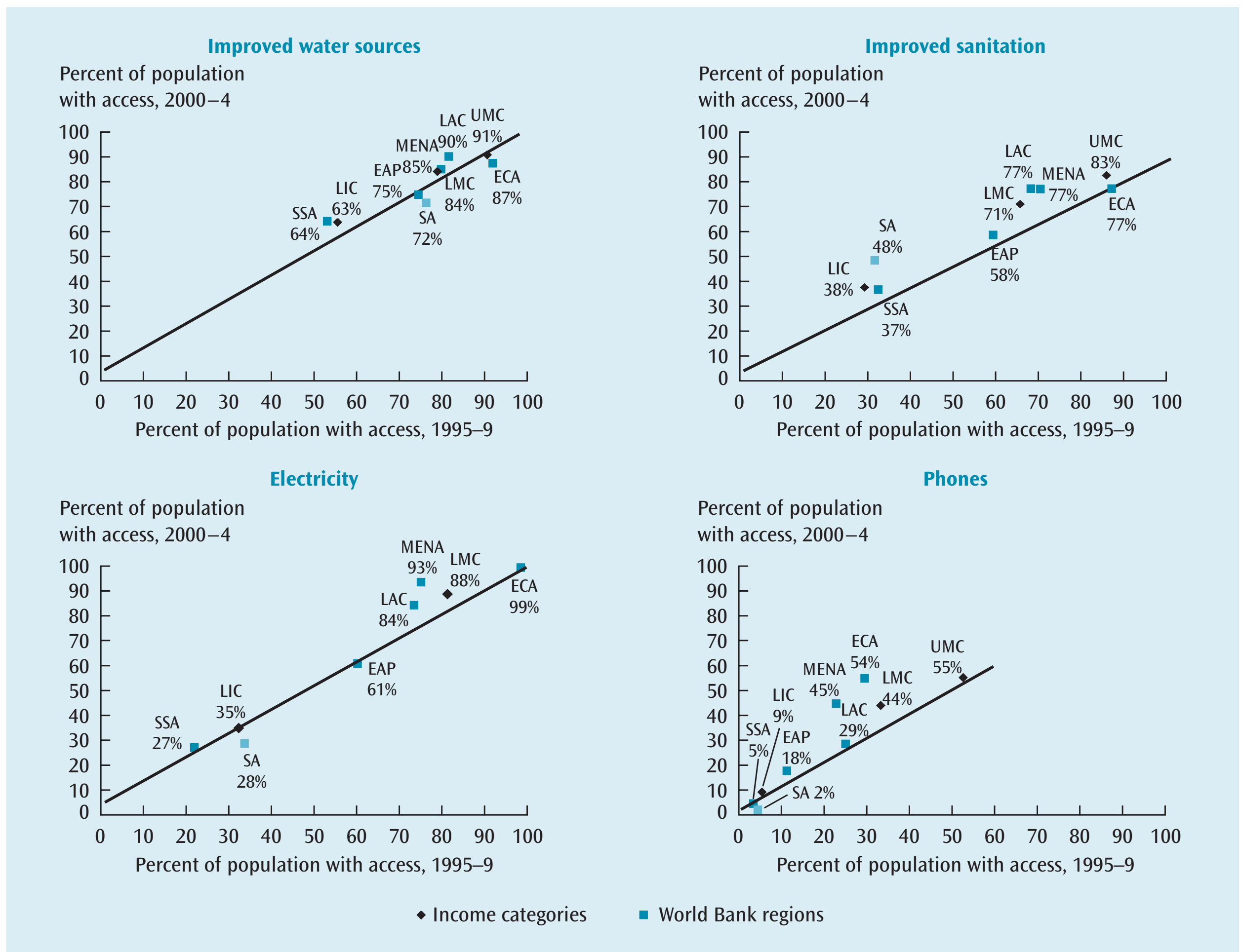
The State of Infrastructure: Progress, but Not Fast Enough

Despite considerable expansion in the infrastructure critical to meeting the MDGs, rates of household access to infrastructure services are not increasing as rapidly as the numbers would first suggest. First, the good news: infrastructure services are reaching more people in the developing world in absolute terms. Between 1990 and 2002, over one billion people gained access to improved water supply and sanitation services.[6] Also during the 1990s, the number of total telephone subscribers in developing countries (expressed in population shares) nearly quintupled, from 27 to 129 per 1,000 people; it is estimated that between 2000 and 2005, the number may have tripled again to reach almost 400 subscribers per 1,000 people. Similarly, between 1995 and 2004, an estimated 470 million people gained access to electricity.

The situation is less positive than it appears from these figures. In many cases, access rates have hardly kept pace with population growth. The failure of infrastructure to expand on a per capita basis, and to reach a substantially higher share of households, could reduce developing economies' growth potential. In countries where infrastructure services are scarce and underdeveloped, the potential returns on infrastructure access may be particularly high.[7]

Among developing regions, infrastructure progress has been most rapid in East and South Asia in absolute terms. But in per capita terms, South Asia is losing ground: improvement in infrastructure and in access to water, electricity, and phones has not been quick enough to match the region's 2 percent population growth rate. Figure 1.5 illustrates this by mapping infrastructure access rates from 1995–9 against those from 2000–4; in three sectors, South Asia languishes below the 45-degree line (which represents no change in access rates). As the figure also shows, the Middle East region has been a top performer, particularly in telecommunications and electricity, to which more than 15 percent of the population gained access over the last five years.

FIGURE 1.5 Progress in household access to infrastructure, 1995–2004



Source: Staff calculations, based on DHS, LSMS, and various household surveys over the period; see Briceño-Garmendia and Klytchnikova 2006.
Note: See figure 1.1 for region codes. LIC = low-income countries; LMC = lower-middle-income countries; UMC = upper-middle-income countries.

Africa undeniably improved overall access rates in most infrastructure services, but it still lags behind other regions. Although the number of telephone subscribers has tripled in African countries, the number of households with phones remains below 5 percent. And in other sectors, improvements have been modest. From the mid- to late-1990s to 2002 (latest available data), the average electrification rate for the region improved to about 27 percent; this is a significant gain of 5 percentage points, but it still left Africa the lowest among developing regions. In water and sanitation, in absolute terms, Africa has been the region with the slowest progress, despite some progress in coverage rates.

Eastern Europe is losing ground in key infrastructure areas. By the early 1990s, Eastern Europe had universal access to most infrastructure services. But since 1995, the region has suffered a decline of about 5 and 9 percent of the share of population with access to improved water and sanitation, respectively, and the quality of the water network has deteriorated significantly (World Bank 2005b). By contrast, phone access has expanded rapidly, and access to electricity remains nearly universal.

In Latin America, both coverage and quality of infrastructure have seen sustained improvements in the last decade, at least according to the usual indicators. And yet as with macro reforms in the region, these improvements have apparently not yielded the expected growth payoff. One reason may be that despite the advances, the region has lost ground relative to middle-income competitors and peers, particularly in East Asia. Moreover, the empirical evidence is now pointing to signs of underinvestment—in large part because of public sector cuts to achieve fiscal targets—suggesting that Latin America and the Caribbean may lag further behind competitors in infrastructure in years to come (World Bank 2005a). This region's story has initiated discussion about the future growth impact of reductions today in infrastructure investments, particularly public sector investments.[8]

Access Gaps and Vulnerable Groups

Because gains in household access rates have been modest, large gaps in access persist between vulnerable and better-off groups. These gaps can separate disadvantaged groups from the vitality of a growing economy and prevent them from benefiting and contributing fully. To narrow infrastructure gaps, it is important to identify vulnerable groups and how to reach them.

Poverty and isolation are twin dilemmas that define vulnerability. Information from household surveys suggests that in many developing countries, modern infrastructure services cater mostly to the highest-income quintile of the population. In low-income countries, access for the rich is significantly less than universal, and the poor are almost entirely excluded from access to modern network services (table 1.5).

As for the effects of isolation, a comparison of rural and urban populations suggests the geographic disparities in infrastructure service provision. Rural populations across the developing world tend to have lower rates of infrastructure access than urban populations do (table 1.6). To take one extreme example, 65 percent of urban households in low-income countries have access to electricity, but only 17 percent of rural households do. Lack of electricity can pose a severe constraint on growth and poverty reduction—limiting, for example, the growth and productivity of the off-farm enterprises that are essential to rural development.

Policies and investment efforts will need to continue targeting these access gaps and supporting vulnerable and isolated groups in rural areas. Yet at the same time, policy makers in the developing world cannot afford to ignore the huge infrastructure challenge posed by the recent (and forecast) urban expansion in the developing world. Over the next 30 years, the global urban population is forecast to increase by almost two billion—and virtually all of this growth will take place in developing countries, particularly in the poorest

TABLE 1.5 Percentage of households with access to basic infrastructure services, quintile comparison (2000–4, latest observations available)

	Electricity[a]		Water[b]		Sanitation[c]		Telephone access[d]	
Country group	**I**	**V**	**I**	**V**	**I**	**V**	**I**	**V**
Low-income	9.7	68.7	41.1	78.5	27.2	68.8	3.2	24.5
Lower-middle-income	79.5	99.3	64.5	86.6	48.2	78.7	21.2	66.1
Upper-middle-income	81.4	99.5	76.7	95.0	73.4	96.4	32.0	73.1

Source: World Bank staff analysis; see Briceño-Garmendia and Klytchnikova 2006.
a. DHS and HHS—Households reporting access to electricity
b. JMP/WHO—Percent of population with access to an improved water source
c. JMP/WHO—Percent of population with access to an improved sanitation facility
d. DHS/HHS—Households reporting access to a telephone
I. poorest quintile
V. richest quintile
DHS = Demographic and Health Surveys
HHS = household surveys
JMP/WHO = Joint Monitoring Programme for Water Supply and Sanitation/World Health Organization

TABLE 1.6 Percentage of households with access to basic infrastructure services, urban-rural comparison (2000–4, latest observations available)

	Electricity[a]		Water[b]		Sanitation[c]		Telephone access[d]	
Country group	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Low-income	65.1	17.3	82.7	54.9	58.3	27.8	20.9	3.0
Lower-middle-income	90.9	76.6	93.6	73.8	84.3	56.2	57.8	24.4
Upper-middle-income	97.7	76.5	94.1	84.2	88.4	73.7	67.6	41.8

Source: World Bank staff analysis; see Briceño-Garmendia and Klytchnikova 2006.
a. DHS and HHS—Households reporting access to electricity
b. JMP/WHO—Percent of population with access to an improved water source
c. JMP/WHO—Percent of population with access to an improved sanitation facility
d. DHS/HHS—Households reporting access to a telephone
DHS = Demographic and Health Surveys
HHS = household surveys
JMP/WHO = Joint Monitoring Programme for Water Supply and Sanitation/World Health Organization

regions.[9] The economic future of most countries, including those still urbanizing, will depend on how well their cities function.

Urban expansion is a challenge, but it also gives policy makers opportunities with respect to infrastructure bundling and wholesaling, as well as the option of taking advantage of economies of scope in the production and distribution of services. Focusing on the unserved urban population may sometimes be the most efficient approach. In Latin America and the Caribbean, for example, the roughly 3 percent of urban population without access to improved water constitutes about 34 percent of the total unserved population; a similar situation holds in Eastern Europe.[10]

Monitoring Infrastructure Gaps: The Need to Assess Quality

Where infrastructure services are lacking, customers often rely on lower quality techno-

logical alternatives offered by informal service providers. Monitoring these alternatives is challenging because of the lack of data. As a result, monitoring has focused on access, which is the easiest aspect of provision to measure. But qualitative aspects are crucial for infrastructure provision. Having access to water for 3 hours a day is not the same as having access for 24 hours a day; nor is dung equivalent to kerosene as a main cooking fuel. Other crucial dimensions of quality—such as reliability, safety, and customer orientation—should also be measured. A quality-adjusted access rate is therefore in order.

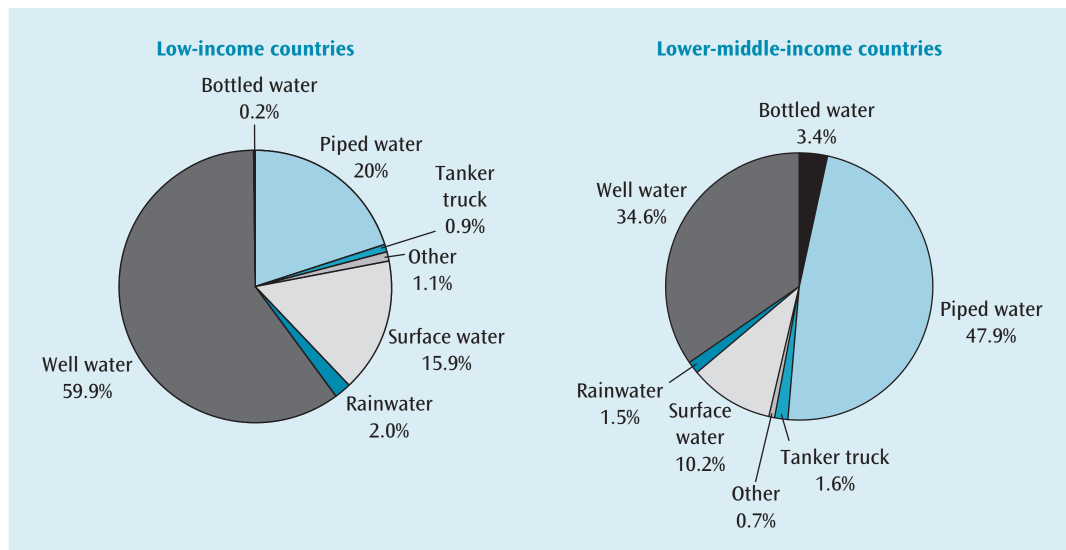
Assessing quality is time-consuming and expensive. Consider the water sector. The World Health Organization and United Nations Children's Fund have created a "technological" taxonomy of one aspect of water services quality. From simple questions added to a multipurpose household questionnaire, a household's water service can be classified according to its safety—that is, whether the service represents improved technologies like pit latrines or a piped sewer system, or unimproved sources such as an unprotected spring or surface water.[11] But many other aspects of quality of service (such as continuity of flow, predictability of flow, and availability of water during the dry season) that also determine the degree of "access" to water and sanitation have not been captured reliably in general-purpose surveys. Although "dedicated" water and sanitation surveys can be conducted in individual project areas, they are too expensive and complex to be a routine form of water and sanitation monitoring.

BOX 1.4 The monitoring dilemma: matching the story of suppliers with the story of users

Effective results-based monitoring in the infrastructure sectors is difficult. The most basic challenge lies in the discrepancy between the data that service providers collect routinely and the data needed to monitor progress in meeting the MDG targets and household needs more generally. Water supply utilities, for example, routinely collect data on the number of active household connections, which is of crucial technical and financial importance to the utility. But these data tell little about the quality of the water supply to those not connected directly to the network. In sanitation, the problem is even more serious: the standard indicator, the number of sewerage connections, tells nothing about the sanitation used by the vast majority in developing countries who are not served by a sewerage utility. Even in the telecommunications sector, monitoring access is a challenge. The International Telecommunications Union annually carries out surveys of telephone regulators and telephone companies and subsequently reports the most reliable figures on the number of phone lines and subscribers. But these numbers overestimate access rates and probably also progress, because dividing the number of subscribers by total population does not differentiate between households with more than one phone and those with none.

As recognized by the World Bank and the Joint Monitoring Program since its landmark report in 2000, the key to getting meaningful data on access and service quality in infrastructure services lays in the use of surveys and census data obtained from households, not from service providers. While such a survey-based approach has its own problems—most notably, the impracticality of conducting household surveys every year to monitor relatively minor changes—it is the most straightforward way to cut through the inevitable biases in data obtained from service providers. Unfortunately, there has been little systematic monitoring through household surveys focused on infrastructure services, in particular information and communications technologies and transport services. Moreover, when infrastructure issues have been monitored in household surveys, the focus has been on measuring access to the service, which means quality and affordability have not been monitored. Fortunately, the development community is now committed to overcoming this problem.

FIGURE 1.6 Access to water, by water source



Source: Staff analysis of Demographic and Health Surveys; see Briceño-Garmendia and Klytchnikova 2006.

Notwithstanding the limitations, the technological taxonomy of services can suggest quality disparities in general and, globally, among country income groups. In the case of water supply, wells are the main source of water for 60 percent of the population in low-income countries. The more sustainable and efficient option of piped water covers only about 20 percent of the LIC population. In the case of lower-middle-income countries, the proportions reverse: about 35 percent of the population relies on wells for water, whereas 48 percent receive piped water. These data suggest that quality, not just access, rises with country income levels.

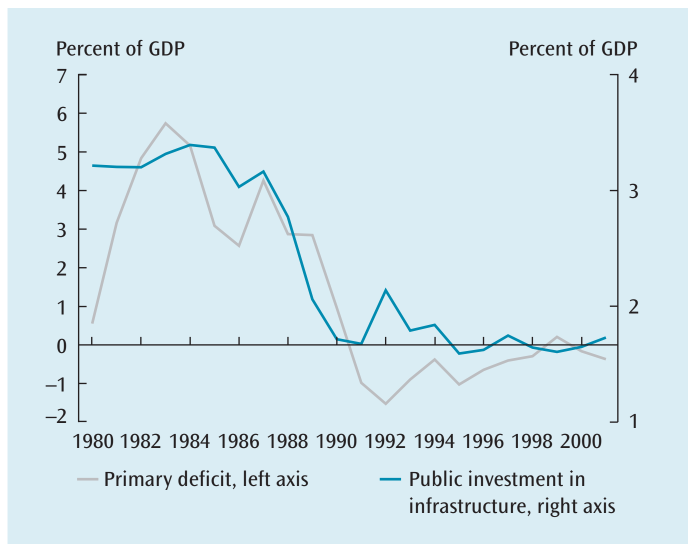
Expanding Provision of Infrastructure Quantity and Quality

Expanding provision of infrastructure services will require three efforts. First, finding the financial resources is essential; when public sector financing for infrastructure investment is diminished because of fiscal constraints, efforts to accelerate growth and meet MDGs are potentially hampered. Second, governments and the development community need to be open to reaching unserved communities through innovative approaches, which may involve informal or nongovernmental organization (NGO) providers. Third, they need to help subnational entities develop the capacity to raise resources and borrow responsibly to finance infrastructure.

THE FINANCING CONUNDRUM: PROTECTING FISCAL SPACE FOR INFRASTRUCTURE INVESTMENT

The demand for infrastructure and other services is huge; even as the private sector presence has grown, investments have not matched needs. It has become evident that, with or without private sector participation, the public sector plays the key role in guaranteeing infrastructure provision, not only as a regulator but also as a financier. But over the last two decades many countries' public investment in infrastructure as a share of output has decreased to levels that many now believe are too low. In some sectors—telecommunications especially—private investment has replaced public investment. Overall, however, the increase in private investment has been too small to offset the decline in public investment.

FIGURE 1.7 Primary deficit and public infrastructure investment, Latin America, 1980–2000



Source: Calderón and Servén 2004; and FITCH.

In sectors such as roads and water, private investment, even if it has increased, remains a small proportion of total investment.

In many cases the decline of public investment has paralleled attempts to reduce unsustainable budget deficits. Governments have found it easier to cut investment (and maintenance) than to reduce the public sector wage bill and other current expenditures (figure 1.7).

In the long run, attempts to cut deficits by cutting public investment may be partly self-defeating.[12] Public investment can create assets that later generate user fees (power plants, for example) or lead indirectly to higher tax revenues by increasing output (well-chosen roads, for example). Yet conventional fiscal targets focus only on the effects of expenditure reduction on the cash deficit and public debt, not on the long-term effects of well-targeted public investments. They can therefore encourage governments to invest too little.

To minimize the problem of underinvestment in needed infrastructure, governments must consciously offset these biases. One way to do so is to examine the usual indicators of liquidity and debt together with indicators of the long-term fiscal effects of expenditure decisions, including measures of net worth. Where appropriate, these long-term indicators can even be included in fiscal targets or fiscal rules. Estimates of long-term effects are highly uncertain, of course, so governments must guard against self-serving forecasts—for example, by setting conservative targets and by being transparent in their forecasts (IMF 2005).

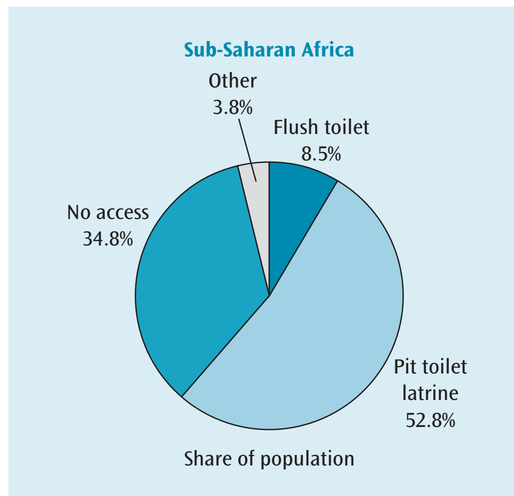
Such measures need to be accompanied by other measures to select and maintain good investments: (1) mechanisms to improve the techniques and use of cost-benefit analysis (for example, for making decisions about road investments), (2) commercialization (corporatization or privatization) of public enterprises that get their revenue from direct user fees (such as ports, airports, railways, and water and power distribution), and (3) creation of competition in services wherever possible and allowing competing private firms to make investment decisions (for example, in telecommunications and perhaps power generation).

REACHING THE UNSERVED THROUGH INNOVATIVE APPROACHES

Private utility operators are generally thought to provide efficient, sustainable services in urban centers. Yet in practice, particularly in poor and rural areas, private utilities are often absent or inadequate, and households must meet their water, energy, and sanitation needs through self-provision, or through reliance on low-cost, small-scale, and local private providers. Africa has been at the forefront of innovation in water and sanitation for the last 20 years by replacing central planning approaches with community-based management of village water supplies and by implementing technologies like easy-to-maintain hand pumps and low-cost pit latrines (figure 1.8).

What about the vulnerable urban poor? Many nongovernment projects have sought to promote electrification in slums. Case studies of different approaches have been carried out in Brazil, India, the Philippines, and South Africa. One successful program is in Salvador, Brazil, where a privatized distribution company

FIGURE 1.8 Access to various forms of sanitation



Source: Staff analysis of Demographic and Health Surveys; see Briceño-Garmendia and Klytchnikova 2006.

changed course after realizing that it was incurring substantial losses and providing poor service to slum areas. It devised a community agent program that uses NGOs to assist in collection, monitoring, and reporting. The result has been improvements in maintenance, responses to outages, and efficiency of energy use. Recent surveys reveal that 90 percent of customers are highly satisfied with the program. This experience suggests the benefits of working with NGOs and informal providers to improve electricity service to slums (USAID 2004).

It is also increasingly common that low-cost, small-scale, and local private providers help fill a gap that the public network monopolies ignore. In Dar es Salaam, Tanzania, a cholera outbreak in 1996 forced the sewerage and sanitation department to loosen its monopoly on cesspit cleaning. Private providers entered, and now a market for cesspit cleaning is emerging. Households can choose a provider on the basis of price and easy-to-monitor performance (World Bank 2004). Appropriate transport services—such as the pedal rickshaws of Dakha and other South Asian cities, and the bicycle and motorcycle boda-boda services of East Africa—fill an important gap in local transport services and provide substantial employment for members of poor households (Hine 2005).

BRINGING MONEY AND USERS CLOSER TOGETHER: DECENTRALIZATION AS PART OF THE SOLUTION?

In recent years, the evolving development paradigm has placed new emphasis on the role of subnational entities—local governments, utilities, and development financial institutions—in providing or financing infrastructure and other public services. Subnational entities may in theory be in a better position than national governments to deliver many services efficiently, because they can better encourage local participation, assess local demand, and prove responsive and accountable. Chapter 6 discusses some conditions under which this is likely to be true in practice, including effective downward accountability and clear allocation of responsibilities. Other prerequisites for effective decentralization include robust reporting and audits, as well as debt limits and clear provisions on emergency financial support from central governments.

Effective decentralization would require subnational entities to meet new responsibilities for providing and financing infrastructure services. But many such entities have weak financial and management capabilities and face thin local capital markets. As a result, these subnational governments are not creditworthy and cannot attract private financing for infrastructure. Weak subnational entities remain dependent on central governments, which have different spending priorities and are unable to provide sufficient financing for infrastructure. Under these conditions, service suffers and decentralization fails to deliver its potential gains.

Over the longer term, the development of subnational entities and domestic financial markets will help alleviate these problems. As stronger domestic financial institutions (banks, pension funds, and insurance providers) develop, they will be able to mobilize local resources more efficiently, and they will have a

BOX 1.5 Small-scale private service providers

Small-scale private service providers (SPSPs) have emerged to fill the large gaps in electricity and water access and are now beginning to gain acceptance as a viable alternative for delivering services to those most in need. Despite concerns about quality monitoring and enforcement, SPSPs are a significant force in low-income and remote regions. Indeed, they are estimated to reach as much as half the population in postconflict countries and in weak or failed states. In addition, it is estimated that up to a quarter of the urban population in Latin America and nearly half of urban dwellers in Africa rely on SPSPs for at least a portion of their water supply.

These SPSPs are largely single-purpose entities that often operate without any formal legal status. They provide services through widely varying technologies, ranging in sophistication from water tankers and diesel generator dealers to stand-alone networks and power grids. A majority of SPSPs tap financing through a combination of three sources: their own earnings and savings, loans from friends and family, and money borrowed from formal and informal lenders. The total establishment costs for private water network operators ranged from $100 per connection to $300 per connection, depending mainly on local circumstances and markets, whereas the average investment for a second-hand water tanker was $10,000–15,000. Investment requirements for private electricity networks ranged from $1,000 to a few million dollars.

Many communities would go unserved if not for SPSPs. Governments and donors should acknowledge this reality by working with these providers to improve their access to financing, which will help SPSPs expand their coverage while improving the quality, efficiency, and affordability of their services. Establishing a clear policy and regulatory framework for SPSPs will also help them expand their coverage.

Source: Based on Kariuki and Schwartz 2005.

BOX 1.6 Building creditworthy borrowers

Although decentralization is assigning greater responsibility for infrastructure and other public services to subnational entities—local governments, public utilities, and development financial institutions—those entities often lack the ability to attract the necessary local currency financing. At the same time, as national governments devolve responsibility for infrastructure and other services, they prefer to use their borrowing capacity to finance other activities, and they are increasingly limiting their transfers to subnationals.

To make decentralization work, national governments are asking the World Bank and other multilateral agencies to provide financing directly to subnationals, in local currency and without sovereign guarantees. Most other multilateral agencies are able to do this, but the World Bank's Articles of Agreement require guarantees.

The Bank Group's only instrument to lend to subnationals without sovereign guarantees is IFC's Municipal Fund, which lends to subnationals in local currency and at market-based interest rates. Based on early success, the Bank and IFC are working together to scale up the Municipal Fund and to transform their approach to subnational lending. The goal is to build creditworthy subnational entities using technical assistance and financing so they access commercial financing on the strength of their own credit.

growing demand for local, medium- and long-term debt. They will be able to assess and to price credit risk and will seek opportunities to invest in domestic infrastructure assets that offer attractive risk/reward profiles. International competition among borrowers and among lenders will lead to economic, risk-adjusted access to credit. These changes have begun, and multilateral agencies are helping to accelerate them with financing and technical assistance. Box 1.6 describes one way in which the World Bank Group is contributing.

Notes

1. These projections come with several caveats. First, they are based on preliminary 2005 estimates of population and national-accounts GDP growth, as well as estimates of income distribution, all of which may be subject to considerable revision. Second, while for some countries (most notably India and China) preliminary household survey data are available for 2004, for other countries the latest available household data are from 2002. Third, the estimates for India—which loom large in the South Asia estimates—are particularly problematic because of a change in survey methodology in 2004, which results in poverty estimates that are not strictly comparable with those of earlier years. All of these caveats mean that the actual poverty estimates for 2005, when they become available, may differ substantially from these projections.

2. Some country groups in table 1.1 include only a small number of countries. In the low-income portion of the table, East Asia and Pacific includes Lao PDR, Myanmar, Mongolia, Papua New Guinea, the Solomon Islands, and Vietnam; Europe and Central Asia includes the Kyrgyz Republic and Moldova; Latin America and the Caribbean includes Haiti and Nicaragua; and Middle East and North Africa includes Yemen. In the middle-income countries' portion of the table, South Asia includes Sri Lanka, and Middle East and North Africa includes Algeria, the Arab Republic of Egypt, the Islamic Republic of Iran, Jordan, Morocco, Oman, the Syrian Arab Republic, and Tunisia.

3. In a small number of oil-producing Sub-Saharan African countries, fiscal balances improved dramatically in 2005, leading to a significant fall in the average value of the fiscal balance-to-GDP ratio for the region as a whole. Excluding these countries results in an average fiscal balance for Sub-Saharan Africa of –3.4 percent of GDP, which is nevertheless lower than in earlier years.

4. Staff assessments are obtained from a survey by IMF country teams of the quality of policies in each area.

5. This section is taken from *Doing Business in 2006*. Unless otherwise specified, data refer to 2005, the latest year for which comparable data are available.

6. The global commitment to improving access to drinking water supply and sanitation is reflected in MDG 7: to halve the proportion of people without sustainable access to safe drinking water and basic sanitation. Progress toward this goal is tracked by the WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (JMP). Monitoring access to water and sanitation on an annual basis is not practical, so the JMP analyzes household survey data from around the globe every few years to detect overall trends; see below for a discussion of monitoring challenges.

7. Returns on infrastructure investment tend to fall, sometimes sharply, as economies reach maturity. For details see Briceño-Garmendia, Estache, and Shafik 2004.

8. See the section of infrastructure financing below for further discussion of this issue.

9. The (still) predominantly rural African countries and East Asia and Pacific region are logging urban growth rates of 4.1 percent and 3.3 percent, respectively, compared with rates of 1.3 percent and –0.6 percent for rural growth.

10. For details on the goal of improving urban slums and preventing the emergence of new slum areas, see United Nations 2005.

11. For detail, see WHO/UNICEF 2005.

12. Although there are opportunities for cutting waste and corruption costs in some public investment projects, the evidence suggests that public investment in infrastructure in developing countries increases output and growth. See Calderón and Servén (2005) for surveys of the recent empirical literature. For a discussion of corruption issues, see chapter 7 of this report.

2

Managing Money for Human Development Results

The wave of new donor commitments in 2005 comes on top of sustained increases in global funding for education and health over the previous five years. For the lowest-income countries, especially, the stage is set for resource transfers on an unparalleled scale and the chance to make the Millennium Development Goals (MDGs) a reality of better lives for hundreds of millions of people. The challenge now is to turn resources into results. This chapter highlights how some countries are doing just that, and identifies the key constraints to faster and more equitable MDG progress elsewhere.

Broad regional trends of MDG progress have not changed significantly since publication of *Global Monitoring Report 2005*. All regions are off track on the child mortality goal and on at least some of the other goals. The two regions lagging most seriously behind—South Asia and Sub-Saharan Africa—are off track on all of the goals. Children's nutrition is worsening in many parts of Africa, a majority of countries are not making sufficient progress on maternal mortality, and HIV/AIDS continues to spread across the world.

But the latest data on outcomes since adoption of the MDGs provide some encouraging signs of progress. A large set of countries, including many in Sub-Saharan Africa, have accelerated their progress on primary school completion in the past few years. Supplemental immunization programs in Africa have produced substantial declines in measles cases since 2000. Girls' enrollments are growing faster than boys' in every region, and the number of women elected to parliaments is increasing in many places. The first evidence that HIV prevention programs are beginning to work is emerging. And the number of AIDS patients under treatment in the developing world has increased rapidly: from less than 100,000 five years ago to 1 million in 2005.

Encouraging trends are also observed in policies and program design. Countries in the global partnership Education for All Fast-Track Initiative (EFA FTI) are beginning to see clear benefits from more harmonized donor practices. Insecticide-treated bed nets (ITNs) are being distributed on a larger scale than ever, and national malaria strategies are getting funding and visibility. Global partners are closely monitoring child survival where it is not improving. Immunization programs are making strides in reaching the poor. And in every region, countries are adopting policies to make education and, to some extent, health systems more effective and responsive to the people they serve. They are increasing community voice in the management of front-line schools and health facilities. They are allocating funds more transparently. They are beginning to link providers' pay to performance. And they are conditioning income transfers to

families on the families' use of education and health facilities.

The latest data also confirm that external funding to support the health and education MDGs has increased sharply since 2000, and donor support appears better targeted to the lowest-income countries that have country-owned poverty reduction strategies and strong commitment to the MDGs. Recent studies also suggest that at least some developing countries have successfully managed to scale up immunization and schooling coverage while carefully managing unit costs.

Signs of progress are clear. But the world is still far from achieving the human development MDGs; donors and countries must keep working on ways to speed progress. This chapter analyzes five core challenges in ensuring that increased financing translates into faster and more equitable MDG progress. For donors, there is one overriding challenge: increasing the efficiency of aid. For developing countries, the key challenges are

- maintaining efficiency as expenditures scale up rapidly;
- reducing leakage to ensure that resources are used for intended purposes;
- doing more to reach the poor; and
- investing smartly to achieve larger impacts on human development outcomes through complementary investments in water, sanitation, roads, and housing.

Countries Making MDG Progress

Comprehensive data on country and regional progress toward each of the MDGs can be found in *World Development Indicators 2006*. This chapter identifies some of the countries making exceptionally fast progress toward the MDGs, and the success factors involved, as well as countries where MDG outcomes are worsening.

MDG 1: Nutrition

Malnutrition is an indicator and perpetuator of income poverty. The nonincome poverty target under MDG 1 is to halve, between 1990 and 2015, the proportion of people suffering from hunger, as measured by the percentage of children under five who are underweight. Only 34 of 143 countries are believed to be on track to meet this goal. Almost all of South Asia and much of Africa are off track, and in a number of African countries nutrition outcomes are worsening, reflecting the nexus between HIV and undernutrition.

Two countries making notable progress are The Gambia in Africa and Bangladesh in South Asia. While starting from—and still at—a very high level of child malnutrition, Bangladesh is the only country in South Asia that may achieve the nutrition goal. One factor is the country's successful scale-up of community-based nutrition programs that work with mothers to improve feeding practices and promote infant and child growth. Tested in the early 1990s by the local nongovernmental organization (NGO), the Bangladesh Rural Advancement Committee (BRAC), the programs have received strong government backing and coordinated donor support since 1995 and are now mainstreamed into Bangladesh's national health, nutrition, and population sector program. In the next phase nutrition programs will operate with a strong focus on results: disbursements are linked to performance, and good performance is rewarded with bonus funds from donors, many of which operate in Bangladesh through a sectorwide approach (SWAP) funding pool. Nutrition is also one of the six pillars of the Bangladesh Poverty Reduction Strategy Paper (PRSP) (Pelletier, Shekar, Du, and Kostermans 2005).

The strong performance of The Gambia over the last five years can be attributed to high-level political support (the National Nutrition Council and National Nutrition Agency are chaired by the country's vice president); to development of institutional capacity at the national, divisional, and local levels for monitoring and addressing malnutrition; and to effective and well-targeted interventions. Programs focus on the window of opportunity between pregnancy and the first two years of life, when nutritional interventions have maximum impact on infants' brain

development. The program educates mothers, provides micronutrient supplements, and promotes infant and child growth through improved feeding practices.

MDG 2: Universal Primary School Completion

Estimates of the primary completion rate in developing countries show steady progress in most regions. Although about one-third of all developing countries are considered off track, and another 18 percent have inadequate data, the number of countries that have achieved universal primary completion increased from 37 in 2000 to 50 in 2004, and recent data suggest that the average pace of progress is increasing slightly. In 1990–7, the mean rate of improvement in primary completion was about 1.5 percent per year; since 1998, it has been 2.1 percent per year. Analysis by the secretariat of the EFA FTI, the global partnership to promote primary education progress, shows that the 17 countries that have joined the FTI are registering even faster improvement—about 3 percent per year. In two FTI countries, Niger and Guinea, for example, primary completion rates have been increasing three times faster than before 2002–3. Countries making the fastest progress—such as FTI countries Ethiopia and Mozambique and others such as Cambodia, Benin, and Rwanda—are exceeding the rates of improvement achieved by today's industrialized countries at a similar point in their history.

Not all of this progress can be attributed to the FTI. But countries become eligible to join FTI by having a "credible" education sector plan agreed with donors, and donor commitment to harmonization and the mobilization of additional grant funding to reward policy and outcome progress are at the core of the FTI's mutual accountability framework (box 2.1). Niger provides an example of the interaction between policy progress and increased and more flexible donor support (box 2.2).

While the quantitative progress is encouraging, universal primary completion is only a meaningful goal if it signals childrens' command of a globally relevant level of skills and knowledge. Countries and donors need to give more attention to measuring learning outcomes, testing teachers for content mastery before they are hired, and making sure teachers have the materials and professional development support they need to be effective in the classroom. The FTI must stay focused on promoting completion with quality.

MDG 3: Gender Equality

The first MDG to fall due was a measure of progress toward the goal of gender equality and empowering women—the elimination of disparities in primary and secondary education by 2005. Although it was not met, girls' enrollments are growing faster than boys' in all regions, and the prospects for reaching the primary level target by 2015 are good. In South Asia and Sub-Saharan Africa, however, the primary completion rate for girls is still more than 15 percent lower than that for boys (World Bank 2004a). In 2015, it is projected that 21 of 133 countries—12 of them in Sub-Saharan Africa—will still have girls' to boys' primary enrollment ratios below 0.9 (Grown, Gupta, and Kes 2005).

Achieving the target of gender equality at other educational levels will be more difficult. The challenge of getting and keeping girls in secondary school is particularly severe. In South Asia, only 47 percent of girls go to secondary school, and in Sub-Saharan Africa, only 30 percent (Grown, Gupta, and Kes 2005). In developing regions as a whole, 80 girls for every 100 boys are enrolled in tertiary education (United Nations Statistics Division). The widest gaps are in Sub-Saharan Africa, where only 68 girls for every 100 boys are enrolled in university or other tertiary-level education, followed by Southern Asia, with 71 girls for every 100 boys. As for literacy, there was some progress in the 1990s in reducing the gender gap, but at the current rate, southern Asia, western Asia, and northern and Sub-Saharan Africa will not achieve the MDG target of parity by 2015 (United Nations Statistics Division).

BOX 2.1 Education for All Fast-Track Initiative

Three years after its launch, the EFA FTI appears to have reached cruising altitude. It has an agreed operating framework, an established system of rotating donor leadership, a functioning secretariat, and donor collaboration mechanisms credited with producing tangible gains in harmonization at both the country and global level. Since early 2005, seven countries whose donor partners endorsed their education sector plans have joined the initiative (Djibouti, Kenya, Lesotho, Madagascar, Moldova, Tajikistan, and Timor-Leste), bringing the total to 20.

In its third year of operation, the $445 million EFA FTI Catalytic Fund (in 2003–7) has disbursed $75 million to nine countries that meet the criterion of having too few donors to close the financing gap in their agreed education plans. Five new donors made contributions to the Catalytic Fund, joining four earlier donors on its governing board. Total aid for education in the FTI countries over the past three years is estimated at $350 million a year, most of it—under the initial concept of a virtual fund—flowing through existing donor channels.

A new support facility—the Education Program Development Fund—was launched in 2005, with $30 million in contributions from five donor countries for 2005–7. The fund finances upstream and downstream technical support for countries with weak capacity to develop or implement sound sector plans—a core requirement for joining the initiative. Key beneficiaries are expected to be fragile states, and 25 countries are already benefiting from its support.

At the December 2005 EFA FTI meeting in Beijing, it was agreed that the initiative will expand to as many as 40 additional countries over the next two years and that the Catalytic Fund may need to shift to longer-term financing (beyond the current three-year limit). In addition, the steering committee was expanded and specific actions on harmonization were requested of all members.

Although the initiative will face challenges during 2006, with a change in the secretariat and a continuing need for additional financing, it has clearly emerged as a key vehicle for financing, technical support, and donor harmonization in education.

Source: EFA FTI Secretariat.

Progress in increasing women's share of nonagricultural wage employment and holding parliamentary seats is notable. Women's share of the labor force has risen in almost all regions (United Nations Statistics Division), but women are still at a disadvantage in labor markets. Their participation is often restricted by onerous time burdens that result from a very unequal division of tasks in the household and limited infrastructure for child care and other household duties (Blackden and Wooden 2006). The earnings gap between men and women is shrinking, but in developing countries women still earn on average about 30 percent less than men (World Bank 2001). Unemployment rates are consistently higher for women workers (ILO). Occupational segregation is pervasive; women frequently are confined to traditional female occupations that pay low wages (World Bank 2001). Given the current trend in gender equality in political participation, it may be difficult to reach the MDG 3 target of having 30 percent or more of national legislative seats held by women by 2015. By January 2005, only 17 countries had met this target, and globally, the proportion was only 15.9 percent, up from 13.5 percent in 2000 (United Nations Statistics Division).

Notwithstanding the overall slow progress, there are many examples of innovative programs that are helping countries progress toward gender parity, particularly in education, but also in access to economic resources and political participation.

Education. In Bangladesh the emphasis that government and other actors have placed on girls' education since the 1990s has changed the public discourse and the pattern

BOX 2.2 Jump-starting progress on primary completion in Niger

Five years ago in Niger, only one of every five children completed primary school, one of the lowest completion rates in the world. The government struggled to expand schooling, devoting 80 percent of its education budget to primary schooling, but it received little external support and could not afford to hire more than 250 new teachers per year. But by 2005, Niger was one of the world's best performers in terms of progress in bringing children through its primary education system. What changed?

A key factor was a politically difficult reform of teacher salary policy: the government froze the recruitment of civil service teachers and promoted system expansion by hiring new "contract teachers" on shorter-term, renewable contracts at a lower salary level, on a par with the average teacher salary across low-income countries. Since then, teacher hiring has jumped from 250 to 2,500–3,000 per year. The 16,000 new contract teachers have more than doubled the teaching stock and made the unit costs of primary education more fiscally sustainable. School enrollments have doubled—from 530,000 to 1.1 million children—representing a 16.6 percent yearly increase. Children in rural areas have been the biggest beneficiaries; in these areas enrollments increased from 38 percent to 51 percent between 2002 and 2005, closing the gap with the national average.

The government's courageous reform has increased the primary completion rate from 20 percent in 2000 to 36 percent in 2005 and reduced geographic disparities. Official development assistance (ODA) to Niger has tripled, from about $10 million to $39 million per year, since it joined the EFA FTI in 2002, and donors have made concrete progress in merging missions and using common performance indicators. The government's education sector plan, agreed with donors under the FTI process, is tackling key issues, such as lagging girls' completion rates, by introducing targeted stipends and trying to improve school functioning with local school management committees and a new information tool: performance "monitoring sheets" that compare schools' resources and results are posted in each school.

Source: EFA FTI Secretariat.

of education. This emphasis, combined with large-scale stipend programs to reward girls for going to school and sustained expansion of schooling supply, which included attention to latrines, wells, and female teachers, has closed the gender gap in both primary and secondary education. By 2002 girls' enrollment in primary school was 100 percent, and girls' attendance and performance on achievement tests surpassed those of boys.

Mauritania has also made impressive progress—increasing the primary enrollment ratio for girls from 39 percent in 1990 to 85 percent in 2001—by expanding the supply of schooling, recruiting female teachers, and offering girls scholarships and school meals. But at both the primary and secondary levels, boys still perform better in end-of-cycle exams, and the repetition rate for girls is higher.

Access to economic resources. In Argentina, the female share of nonagricultural wage employment rose from 36 percent in 1990 to 48 percent in 2003. Much of the change can be attributed to vocational and technical training programs targeted to women, such as FORMUJER, and to the 2003 Heads of Households program, which paid female heads of households with children under 18 years old for community work.

In Mali, the introduction of small-scale, multifunctional diesel engines that can provide electricity, pump water, and mechanize grain milling and other tasks has improved women's economic situation, reduced their work burden, and promoted development and poverty reduction in communities. Between 1999 and 2004, 400 diesel engines were installed, reaching 80,000 women in 10

districts. In the first five years of the project, the engines saved women 1 to 3.3 hours of labor per day; the girls-to-boys ratio in grade 5 improved; the proportion of girls entering secondary school rose from 31 percent to 38 percent; and visits to local clinics for injuries caused by burdensome work were reduced. Women's associations own, manage, and maintain the engines and sell energy services. Women have increased their income from an average of $68 to $122 per year, and the number of women earning at least 150,000 CFAF (West African Francs) increased by a factor of 10 (Modi and others 2005).

Political participation. A few years ago Morocco had the lowest rate of female representation in the Arab world: 0.6 percent. Today 35 female parliamentarians make up 11 percent of the parliament. Five years of research and advocacy by civil society resulted in an implicit 20 percent quota system, applied voluntarily by political parties at the last parliamentary elections.

Another impressive case is Rwanda, currently at the top of the world ranking for women's political leadership; there, women comprise 49 percent of the National Assembly. Rwanda's new constitution reserves 24 assembly seats for women. But 15 additional women were elected to nonreserved seats, bringing the total to 39 women in the Lower House (of 80 members). In the Senate a constitutional quota of 30 percent has also been exceeded.

MDG 4: Child Mortality

More than 10.5 million children under the age of five die each year from preventable and treatable causes—4 million during the first month of life and 3 million during the first week. Simple, known, and low-cost treatments for childhood respiratory and diarrheal diseases could keep an estimated two-thirds of these children alive. The MDG for child mortality calls on countries to put these interventions to work to achieve a two-thirds decline from the 1990 baseline by 2015, a reduction of 4.3 percent a year.

A recent study shows that this target rate of improvement is very ambitious compared with the average long-term country experience in improving child survival, and indeed, most low- and middle-income countries today are not making enough progress to reach the goal (Eifert and Gelb 2005). Some

BOX 2.3 China's slow progress on child mortality

China, which had one of the world's most spectacular records of sustained child mortality improvement *before* 1990, is now considered at risk of not reaching the child mortality MDG. Between 1960 and 1980, China reduced child mortality from 225 to 64 per 1,000 births, a rate of –6.3 percent per year and well above the MDG target rate. Since 1990, however, progress on under-five mortality has slowed substantially—despite a huge increase in economic growth and strong improvements in nutrition, including among children—factors that should greatly improve child survival. Although the most recent estimate of China's child mortality progress (–3.3 percent per year) is better than progress in many other countries, it is far below the progress of top performers, including most other East Asian countries.

National data also point to widening gaps in under-five survival between richer and poorer provinces, and between boys and girls. China is one of just seven countries in the world where a girl's risk of dying by age five is higher than a boy's, and it has the largest gender gap by far. New research suggests that infant and under-five mortality rates among girls in China may actually be rising. While improvements in male infant mortality continue to drive China's overall child survival progress, female infant mortality is increasing by nearly half a percent per year.

Source: World Bank East Asia Region 2005.

117 (79 percent) of the 148 developing countries for which data are available are estimated to be off track on MDG 4. While the majority of these countries are making some progress, seven countries have seen no improvement since 1990 (box 2.3), and in 15 countries the share of children who die before age five has increased. The last group includes conflict-affected countries, such as Cambodia, Central African Republic, Côte d'Ivoire, Iraq, and Rwanda, and countries hit hard by HIV/AIDS, such as Botswana, Kenya, Lesotho, South Africa, and Swaziland.

The overall picture is highly troubling. But there are some encouraging factors. First, some countries *are* sharply increasing child survival (table 2.1), and there are lessons to be learned from their experience. Second, post-2000 data provide some evidence of accelerating rates of progress. Third, led by the Global Alliance on Vaccines and Immunizations (GAVI) (box 2.4), immunization coverage has expanded sharply in many countries over the past few years, producing, for example, a 91 percent drop in measles cases in 19 Sub-Saharan African

TABLE 2.1 Sharp increases in child survival for some countries

	Under-five mortality rate per 1,000 births				
	1990	1995	2000	2004	Annual percent change 1990–2004
Low-income					
Vietnam	53	44	30	23	–5.9
Timor-Leste	172	145	102	80	–5.4
Bhutan	166	133	100	80	–5.2
Mongolia	108	87	65	52	–5.2
Lao PDR	163	131	101	83	–4.8
Sub-Saharan Africa					
Eritrea	147	122	97	82	–4.2
Comoros	120	100	82	70	–3.8
Cape Verde	60	50	42	36	–3.6
Mozambique	235	212	178	152	–3.1
Guinea	240	208	175	155	–3.1
Middle-income					
Czech Republic	13	10	5	4	–7.7
Egypt, Arab Rep. of	104	71	49	36	–7.5
Peru	80	60	42	29	–7.2
Macedonia, FYR	38	26	18	14	–7.1
Syrian Arab Republic	44	31	22	16	–7.0

Source: World Bank 2006.

BOX 2.4 Global Alliance for Vaccines and Immunization

The Global Alliance for Vaccines and Immunization (GAVI) links private and public sector partners to save children's lives and protect health through the widespread use of vaccines. By the end of 2005 it had made financial commitments totaling $1.4 billion over five years to 72 of the 75 eligible low-income countries. Immunization coverage in these countries has increased from 57 percent in the 1990s to an estimated 65 percent in 2003. GAVI's strong record has helped attract new funds. It is working with partners to develop the new International Financing Facility for Immunization; commitments in 2005 will yield an additional $3 billion in disbursements to governments before 2015.

countries since 2000 and pointing to possible further impacts on child survival rates in the coming years (Otten and others 2005).

While the largest declines in child mortality since 1990 have occurred in the middle-income countries, the experience of many countries demonstrates that appropriate combinations of policies and technologies can produce big gains in child survival, whether the starting level of child deaths is very high, as in Guinea, or very low, as in the Czech Republic.

MDG 5: Maternal Health

Cross-country data on maternal mortality rates are not readily available, so the best indicator is the share of women with access to trained birth attendants at delivery. The latest data, presented in table 2.2, show strong progress in East Asia and the Pacific since 1990 and good coverage in Latin America and the Caribbean. But in Sub-Saharan Africa there has been almost no improvement, and in South Asia the coverage levels remain low, despite significant improvement. Within South Asia the improvement is heavily driven by Bangladesh, which has achieved a very large and sustained increase in women's access to skilled attendants at birth.

Trends in coverage rates, for key maternal and child interventions, are important for tracking, whether effective interventions are being implemented. The "Countdown to 2015" working group established by the new global Partnership for Maternal, Newborn, and Child Health (PMNCH) is tracking coverage rates for key nutrition, vaccination, and other child health interventions in 60 priority countries where the under-five mortality rate exceeds 90. These data, measured more frequently and reliably than the MDG outcomes, provide a better indication of whether interventions are sufficient and effective. The Countdown working group is also following

TABLE 2.2 Skilled attendants at delivery, by region, 1990 to 2003

Region	Percent of births covered by the data	1990	2003	Percentage change 1990–2003
Sub-Saharan Africa	61	40	41	3
South Asia	97	27	38	42
East Asia and Pacific	80	45	76	68
Latin America and the Caribbean	70	74	86	16
Total developing countries	75	41	57	38

Sources: Data from Demographic and Health Surveys (DHS), Multiple Indicator Cluster Surveys (MICS), and comparable surveys, weighted by number of births.

BOX 2.5 A new global partnership for the health of mothers, newborns, and children

The new global Partnership for Maternal, Newborn, and Child Health brings together three existing partnerships to strengthen and accelerate the response to MDGs 4 and 5 and to provide a unifying framework for action. With more than 80 organizations and partners, it increases resources, supports national planning processes, and promotes donor convergence at the country level. It also provides leadership in interactions with other relevant players, including the Global Alliance for Vaccines and Immunization; the Global Fund to Fight AIDS, Tuberculosis, and Malaria; and the Roll Back Malaria Partnership.

countries' adoption of key policies that provide the basis for effective child health programs (box 2.5).

MDG 6: AIDS, Tuberculosis, and Malaria

Both the number of people living with HIV (40.3 million) and deaths from AIDS continued to increase in 2005. Sub-Saharan Africa remained the most affected region, with 63 percent of all people living with HIV. While no region has yet achieved a declining rate of new infections, recent data suggest that a few countries have begun to do so. These countries provide the first indication that determined government action can halt the spread of AIDS. New evidence suggests that prevention programs initiated some time ago are finally bearing fruit in Zimbabwe, the first documented decline in southern Africa: HIV prevalence appears to have fallen from 26 percent in 2002 to 21 percent in 2004. Haiti's epidemic, one of the oldest, could also be turning a corner: HIV prevalence among pregnant women there fell from 6.2 percent in 1993 to 3.1 percent in 2003–4; the most pronounced decline was in urban areas.

Increased AIDS mortality may explain much of these downward trends. But evidence that decreased HIV prevalence also reflects real successes of HIV prevention programs comes from recent comparisons of prevention activities across regions in Tanzania and across the Uganda-Kenyan border (box 2.6).

Central to successful programs are interventions of sufficient intensity, as highlighted by Zimbabwe. Despite an unfavorable macroeconomic and political context, the country has apparently maintained one of the highest levels of condom use in Africa (86 percent among men, and 82 percent among women for 2000–5). Sales data suggest that high condom use started in the mid-1990s. With other key behavioral changes, including sharp reductions in the number of sexual partners, condom use appears to have lowered the

BOX 2.6 HIV prevention works when it is intensive and sustained

That HIV prevention can work is illustrated by comparing the Mbeya region in southwest Tanzania to the Rukwa region in the west. Prevalence rates among pregnant women aged 15–24 increased in both regions from 1988 to 1994–5. They then started to decline in Mbeya—from 20.5 percent in 1994 to 14.6 percent in 2000—but continued to increase in Rukwa. A key factor appears to have been comprehensive prevention programs launched in Mbeya beginning in 1988 with German technical support. These programs led to a steady increase in the use of condoms, treatment of sexually transmitted infections, and observed behavioral changes. Rukwa, with limited resources and no external support, made little effort at prevention—and there has been no documented decline in HIV prevalence there.

Surveillance site data from western Kenya and eastern Uganda also suggests that policies matter. In the early 1990s, HIV prevalence was similar along the border: all 11 sentinel sites in the zone had rates above 10 percent. Since then, however, trends have diverged. By 2000 prevalence rates at the Kenyan sites exceeded 10 percent and varied from 10 percent to 35 percent, but in eastern Uganda, all six sites were below 10 percent, and five of the six were in the range of 3–6 percent. Many analysts believe high-level political commitment in Uganda has made the difference: Uganda's National AIDS Commission was established in 1986 within the Office of the President; Kenya took the same step only in 1999.

Uganda has also made extensive use of NGOs as well as government health services for comprehensive prevention programs, including voluntary counseling and testing (VCT). While there is some recent evidence that the broad-based approach to HIV prevention and care launched in Kenya after 1999 is also beginning to produce results, its later start appears to show in the different trends between the otherwise similar border populations of western Kenya and eastern Uganda through 2000.

Sources: Jordan-Harder and others 2004; Moore and Hogg 2004.

BOX 2.7 Global Fund to Fight AIDS, Tuberculosis, and Malaria

In 2005 Round 5 of the Global Fund to Fight AIDS, Tuberculosis, and Malaria approved new financing for 20 countries totaling $382 million, the lowest amount so far and substantially below the 2004 Round 4 approvals of more than $1 billion for 52 countries. Round 5 proposals included HIV/AIDS ($128 million); tuberculosis ($146 million); malaria ($67 million); and, for the first time, health-system–strengthening activities in two countries ($41 million).

Total approved financing for the Global Fund since Round 1 in 2002 has been $4.9 billion; $1.9 billion was disbursed by December 2005. Global Fund financing has provided funding for the distribution of 7.7 million insecticide-treated bed nets to combat malaria, for the treatment of 1 million tuberculosis cases under DOTS (recommended tuberculosis treatment regime), and funding for nearly 400,000 people with HIV for antiretroviral treatment (by December 2005).

overall prevalence rate (UNAIDS 2005). This finding echoes an earlier analysis that examined condom effectiveness in a general population with HIV prevalence in rural Rakai, Uganda: regular condom use significantly reduces the incidence of HIV (Ahmed 2001).

The number of people on antiretroviral treatment more than doubled from 400,000 in late 2003 to about 1 million by end-2005. Coverage now exceeds 80 percent in Argentina, Brazil, Chile, and Cuba. As a result of the scale-up in treatment, between 250,000 and 300,000 deaths were averted in 2005, but the full effects will only be seen in later years.

The World Health Organization estimates 350 million to 500 million clinical episodes of malaria per year. Evidence is accumulating that ITNs can reduce malaria deaths. The United Nations Children's Fund's Accelerated Child Survival and Development Initiative, started in 11 countries in West and Central Africa in 2002, and household surveys in 2003 confirmed significant increases in the use of ITNs. Although it is too early to see impacts on the under-five mortality rate, the program has focused on the hardest-to-reach districts and has proved that progress is possible against the odds. A similar program in Ghana sharply increased the use of ITNs from less than 5 percent to more than 75 percent.

Togo launched a potentially important new model of intervention in December 2004. The country conducted a major national campaign of ITN distribution combined with measles and polio immunization and deworming. Preliminary results indicate that the campaign increased possession of ITNs from 6 percent to 62 percent, averaged across all households. An estimated 98 percent of households with a child under five years of age now have at least one ITN, and 95 percent of households received it from the distribution campaign. The combined vaccination/bed net distribution appears to be a promising strategy for increasing cost-effectiveness.

MDG 7: Environmental Sustainability (Water and Sanitation Targets)

Although infrastructure in many regions has expanded rapidly in absolute terms, population growth has increased even faster. Only two regions—East Asia and Latin America and the Caribbean—are on track to meet the MDG targets for water and sanitation, which are crucial for progress on the health MDGs, as well as being important in their own right. Europe and Central Asia has gone backward—from nearly universal coverage in 1990 to eroded service and unsafe water quality as a result of protracted maintenance failures. Sub-Saharan Africa has had the slowest progress: only an estimated 64 percent of the population has access to safe water and 37 percent to improved sanitation.

The poorest quintiles in every region have the least access to water and sanitation, but the biggest divide is geography. Even in the lowest-

income countries, 83 percent of urban dwellers have access to water, compared with only 55 percent of rural dwellers. In lower-middle-income and upper-middle-income countries, more than 93 percent of the urban population has water access and more than 84 percent to sanitation, whereas coverage in rural areas is at least 20 percentage points lower.

Taking advantage of economies of scale and scope in water, sanitation, and housing provision in urban areas is key, as is using small-scale local providers in rural areas. As noted in chapter 1, Africa has been at the forefront in developing new ways to provide sustainable services to very poor and isolated populations. It has established community-managed village water supplies and private cleaning services for latrines. Since the government loosened its monopoly on cesspit cleaning, households in Dar es Salaam, Tanzania, have been able to choose among providers on the basis of price and performance.

Turning Resources into MDG Results

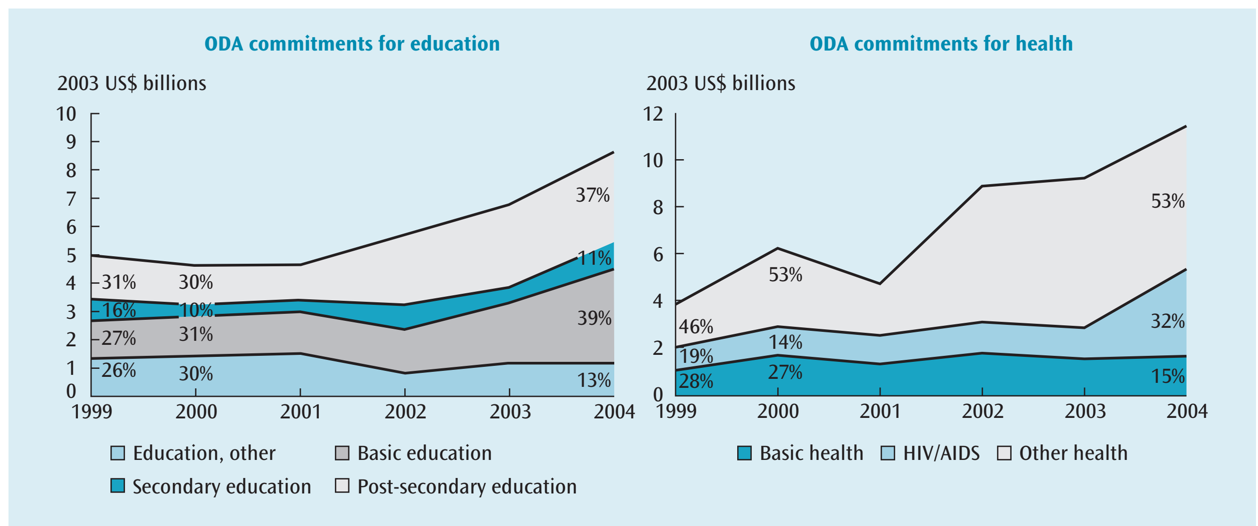
Global Monitoring Report 2005 focused on the constraint that human resource availability poses for many low-income countries attempting to accelerate MDG progress. It concluded that leveraging scarce skills (through contract teachers or community health workers, for example) was helping some countries overcome the provider constraint and allowing them to scale up service delivery. However, managing migration—especially of health manpower—dealing with the impact of HIV/AIDS on provider numbers, and expanding training systems all remain difficult challenges.

This report focuses on financing. The latest available data begin to offer an empirical basis for analyzing key questions on the financing constraints to MDG progress. How much funding is being mobilized? How efficiently is it being used? And what are the biggest challenges to improving results for investment?

External Financing

The latest data show that ODA commitments for education and health have increased substantially since the MDGs were adopted in 2000 (figure 2.1); 2004 saw the sharpest rise yet. Total assistance for health in 2004 is estimated at $11.4 billion and that for education,

FIGURE 2.1 Development assistance for education and health



Source: OECD DAC for education and health commitments; HIV/AIDS estimated commitments from Lewis (2005a).
Note: Values for HIV/AIDS for the years 2001 and 2003 are interpolated.

$9.5 billion. Within education, support for primary education has had the largest increase, and commitments to low-income countries have risen much more than aid to middle-income countries. In 2000–4, commitments for primary education in low-income countries rose 175 percent in constant dollars, compared with 87 percent in education ODA overall. Fifty percent of education support in low-income countries is now for primary education, compared with about 33 percent in the late 1990s. The realignment toward the MDG agenda has been clear.

ODA for health is increasing greatly as well. Since 2000 new commitments have grown 83 percent in constant dollars. The share for primary care has declined, however, from about 28 percent of total health assistance in 1999 to 15 percent in 2004. The fastest-growing segment of health assistance is for HIV/AIDS programs, up from about 14 percent of development assistance for health in 2000 to more than 30 percent in 2004. There are also important institutional changes: new private financing sources, notably the Gates Foundation, have become major players. Gates Foundation support for health has averaged about $500 million a year over the past five years. And the launch of some 70 global health partnerships over the past 10 years has also changed the landscape: in 2004 they delivered more than 20 percent of total health assistance (Gottret and Schieber 2006).

Developing-Country Spending

Fiscal data remain incomplete for 2003. Most major countries are missing from International Monetary Fund (IMF) data, the only source of standardized cross-country data on (central) government education and health spending, both in relation to GDP and as a share of the overall budget. Data available for 2003 cover only 21 of 79 middle-income countries and 27 of 57 low-income countries. For this small sample, however, the data do show some significant upward trends.[1]

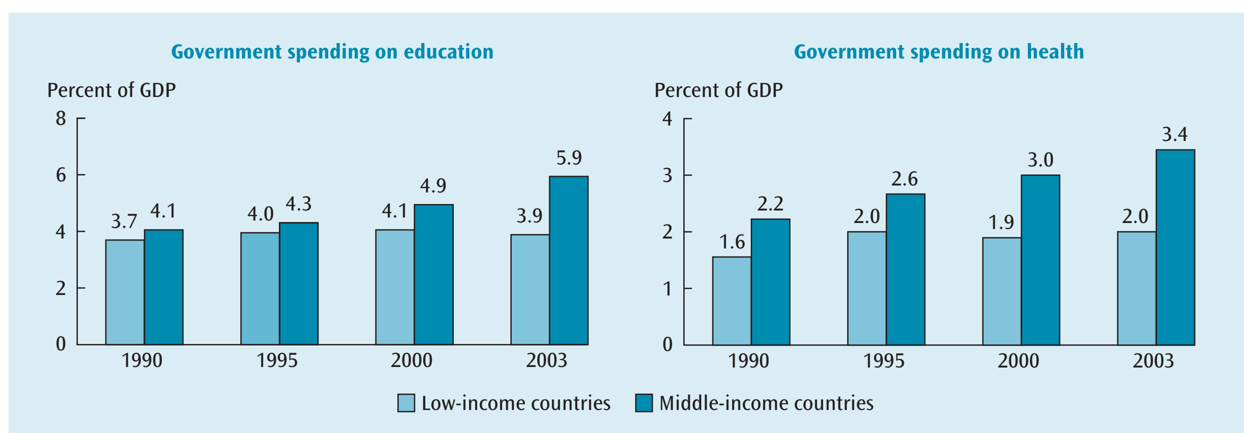
While average spending on education across the sample has not increased, in the subset of low-income countries for which comparable data from 2000 and 2003 are available, spending on education as a share of GDP *has* increased somewhat since 2000, in some cases significantly. Public spending on health has not, however (figure 2.2). But public spending on health, especially in low-income countries, is generally less than half of total national health spending, most of which is private, out-of-pocket spending on private health services and pharmaceuticals. For the small sample of middle-income countries covered by these data, spending on both sectors increased as a share of GDP, especially for education.

As a share of the central government budget, education and health expenditures increased slightly between 2000 and 2003 in every region except the Middle East and North Africa, and for education, in Sub-Saharan Africa (figure 2.3). Countries registering particularly high increases in the budget shares for education and health include Angola, Bhutan, Botswana, Burkina Faso, Chile, Guyana, Kenya, Kyrgyz Republic, Madagascar, Malawi, Moldova, Peru, Senegal, Sierra Leone, Vietnam, and Zambia. Nevertheless, all but a handful of countries fall short of the Fast-Track Initiative target of 20 percent of the budget for education: shares average around 15 percent. For spending on health, only three countries in the entire sample—Chile, São Tomé and Principe, and Turkmenistan—even approach the target of 15 percent of the budget set by African ministers in 2002. While the general trend is up, a few countries have seen large drops in spending shares for education and health: Cameroon, The Gambia, and (to a lesser extent) Mozambique.

The incompleteness of the data makes all observations tentative. It also poses a real issue for efforts to link resources to results in monitoring MDG progress, at least in the human development sectors. The current data platform is wholly inadequate.

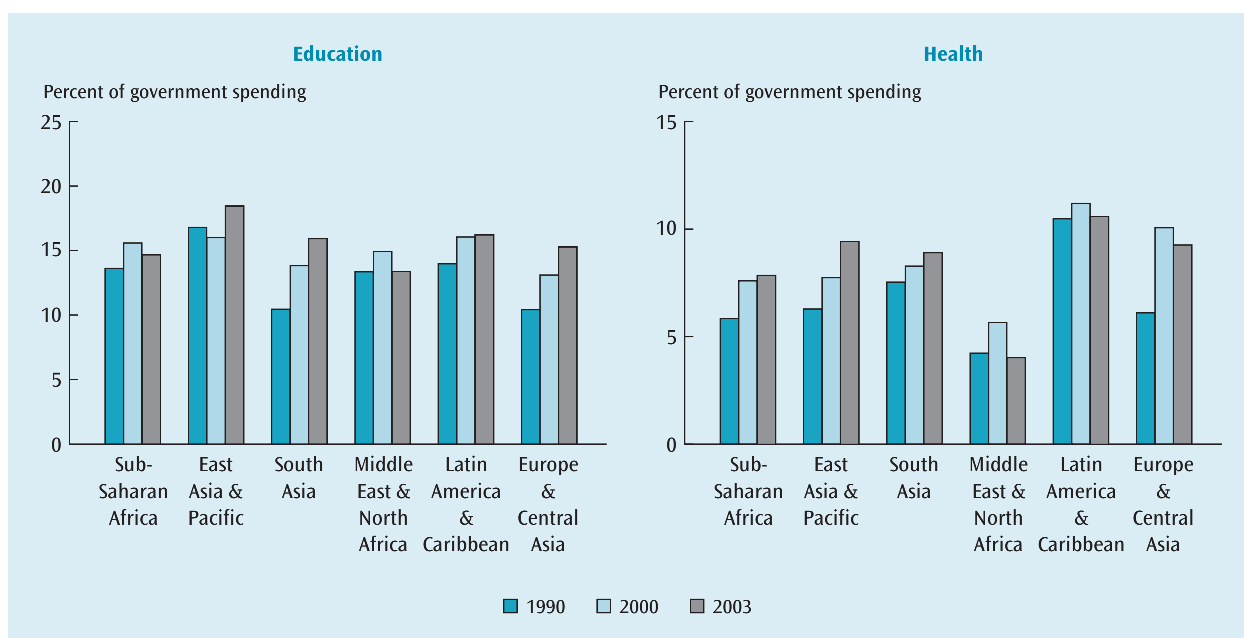
Both the IMF and the World Bank expend significant resources collecting and analyzing government revenue and expenditure data.

FIGURE 2.2 Developing-country spending on education and health



Source: IMF.
Note: Unweighted averages based on corresponding available data for 2000 and 2003.

FIGURE 2.3 Share of total government spending for education and health, by region



Source: IMF.
Note: Unweighted averages based on corresponding available data for 2000 and 2003.

The IMF focuses mainly on fiscal aggregates; the Bank analyzes subsectoral and subnational spending patterns and spending effectiveness in the context of its public expenditure reviews and sector studies. Yet no systematic, cross-country database unites these data. The only available series is produced by the IMF, and it has significant country gaps and no data on subsectoral or subnational social spending. It is impossible to say today, for example, whether increased ODA for primary education in Sub-Saharan Africa has been reflected in any increase in government spending on primary education

across that region. Meaningful efforts to determine whether increased resources are producing results depend on such data.

The Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) has made good progress over the past two years in upgrading the quality and timeliness of cross-country data on ODA, in part in recognition that these data are crucial for monitoring progress in implementing the Monterrey accords and donor commitments related to the MDGs. A parallel effort by the Bretton Woods institutions to ensure common standards and classifications in collecting government expenditure data and to unify these in a single, standardized cross-country database for use by both institutions—as well as others—is sorely needed in a world where not just results, but the efficient use of resources to produce results, is a core policy interest.

Spending Money Effectively—Five Key Challenges

Maintaining Efficiency as Spending Scales Up

Evidence from OECD countries shows that major increases in public expenditures in sectors such as education often translate mainly into higher unit costs rather than increases in output. In the United States, for example, researchers have documented that a tripling of real education spending per student since 1960 has all been absorbed by higher teacher salaries and lower class sizes and has had no measurable impact on either student numbers or average student learning levels (Hanushek 2003). Given the large increase in spending needed to scale up education, health, and water and sanitation coverage in many developing countries and documented institutional weaknesses, it is important to track how well increased spending is managed, including its impact on input prices and unit costs.

A recent study called for more attention to this issue in the MDG context and analyzed developing-country experience over the 1980s and 1990s in three sectors: primary education, childhood immunization, and road maintenance (Roberts 2005). While unit costs for education rose in six of the eight countries studied, those for road maintenance were constant or declining, and those for childhood immunization were stable in one country (Bangladesh), despite a massive expansion of program coverage; in another case, Nepal, data were inconclusive.

The study found that Bangladesh had expanded immunization coverage from virtually zero in the 1980s to 70 percent in the 1990s with no increase in unit costs. Although unit costs did fluctuate annually, with lumpy expenditures on equipment and vehicles, the program gradually penetrated hard-to-reach areas over a 12-year period, and the unit cost remained virtually the same as the average cost. The explanation appears to be the combination of falling real prices for the vaccines delivered[2] as the number of global suppliers increased; reductions in wastage; and improvements in staff productivity, which exceeded increases in salaries over the period.

For education, unit costs tended to increase as overall spending rose. Not surprisingly, given that teachers' salaries represent about 80 percent of education system costs, the prime driver was rising real salaries. Interestingly, however, the increases did not appear to reflect any short-run rigidities in the supply of new teachers, but rather the political necessity of reversing extended periods of real wage decline. In all six countries where unit costs increased throughout the period (Bolivia, Ghana, Mozambique, Uganda, Yemen, and Vietnam), severe previous wage compression leading to concerns about the quality and motivation of teachers was the main rationale: wage increases were considered essential to protect long-term education quality and sustained enrollment growth. Concomitant increases in the per-student costs of school construction, learning materials, and teacher training were observed, but these increases were much smaller.

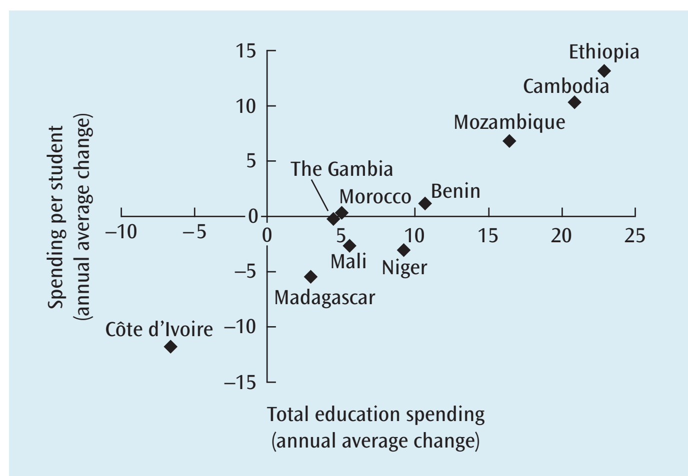
In some phases of the expansion in all of the countries, unit costs declined as a result of

"one-off" efficiency measures such as the introduction of double-shift schools or the reallocation of excess administrative staff at headquarters to classrooms. Rising pupil-teacher ratios in several cases also kept costs stable for some period, as in Uganda after 1996—but with a marked deterioration in quality, as reflected in declines in student test performance. Only in two of the six countries—Ethiopia and Mauritania—was the education system able to maintain rapid expansion with declining marginal costs over a fairly extended period, and in both cases the expansion appeared to be linked to initially high average teachers' salaries relative to the market for skilled workers. Even in these cases, however, erosion of perceived quality eventually became a political concern and led to wage policy reversals.

A new effort to extend this analysis takes a slightly different approach (Bruns, Mariscal, and Gacougnolle forthcoming). Instead of focusing on the countries with the fastest spending growth, it examines the countries with the best outcome performance—the 10 countries with the fastest improvement in primary completion rates in the period 1997–2003. Primary completion progress signals not only that education systems are rapidly expanding enrollments, but also that they are managing to maintain reasonable internal efficiency and at least minimally adequate quality—otherwise dropout rates will increase.

The picture that emerges is consistent with Roberts' (2005) education sector analysis. For at least some period, most of the 10 countries achieved rapid enrollment expansion with no increase in real spending per student (figure 2.4). Indeed, between 1990 and 2000, unit costs declined in all the countries except one (The Gambia), as enrollment growth outstripped budget growth. Since 1999, though, several countries have experienced significant real increases in education spending, which has allowed unit costs to rise in four countries and to remain constant in two. In the remaining four countries, however, unit costs continued to decline through 2002. Almost all of the countries have seen real budget growth,

FIGURE 2.4 Education unit costs in best-performing developing countries, 1999–2002



Source: Bruns, Mariscal, and Gacougnolle (forthcoming).

but enrollments have continued to rise faster. Interestingly, the country with the largest increase in unit costs between 1999 and 2002 is Ethiopia, which according to the new analysis and Roberts' study had a long period of unit cost compression.

How long unit costs can decline before major negative effects on quality are observed is related to the starting level of system efficiency. In this sample of low-income countries, primary education unit costs around 2000 averaged about 12 percent of per capita GDP but ranged widely—from 35 percent in Niger to 4 percent in Cambodia. This disparity helps to explain why Niger's policy actions to make the costs of primary schooling more sustainable (box 2.1) have been such a key factor in the country's recent progress in increasing enrollments and completion.

Conversely, the increases in unit costs in Cambodia since 1999 have clearly been necessary to improve quality. For Côte d'Ivoire, Ethiopia, The Gambia, and Mali, despite the sustained period of unit cost compression in the 1990s, the unit cost in primary education around 2000 was still slightly above the low-income country average. However, cost compression has continued in the past few years in most of these countries—raising the question

of long-term sustainability of enrollment and completion rate progress if budgets do not begin to keep pace with system expansion.

Under the EFA FTI and GAVI, data on country expenditures, service delivery, and unit costs are beginning to be tracked more systematically. This tracking should provide a stronger basis for monitoring the efficiency of spending as aid flows and domestic spending increase—and for learning from the countries that manage costs and quality best.

Making Aid More Efficient

The increased volume of ODA for education and health is important. But its impact will be blunted unless it can be used for the core expenditures countries incur to scale up service delivery in education and health. All MDG costing exercises have found the incremental financing needs in health and education to be largely recurrent expenditures, above all recurrent salary costs for health workers and teachers (Devarajan, Miller, and Swanson 2002; Bruns, Mingat, and Rakotomalala 2003; United Nations Millennium Project 2005). Although even the poorest countries need eventually to sustain their education and health systems with domestic resources, many can achieve this goal only gradually, as their economies grow and fiscal capacities deepen.

The first issue is the flexibility of external financing. A high share of today's ODA for health and education is transferred in forms that cannot be applied to core budgetary outlays. A recent study of 14 countries receiving poverty reduction support credits found that only 20 percent of donor commitments were provided as either general or sectoral budget support (Foster 2004). Fully 50 percent of assistance ran outside the budget, and 30 percent escaped government reporting altogether. If only 20 cents on each dollar of aid can be used to fill core financing gaps, true MDG financing needs might be five times those estimated to date.

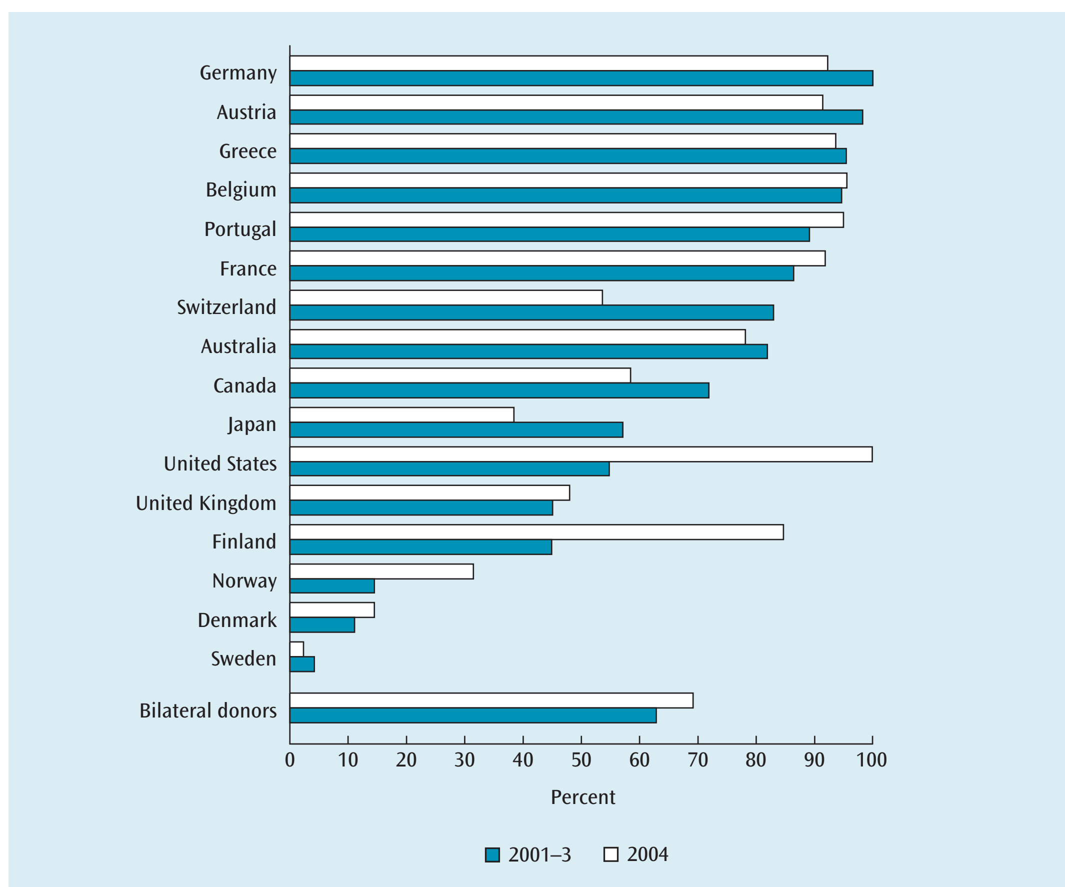
With respect to education, the disconnect between countries' need for flexible budget support and the high share of bilateral aid transferred as technical assistance is large. As figure 2.5 shows, bilateral donors' reports to the DAC indicate that at least 30 percent of all education funding is spent on consultants, studies, or training. The 2004 DAC data are not complete, but they show a small decline in the average share of donor aid transferred as technical cooperation and suggest that a few donors, such as the United States, may be trying to reduce this share. On a growing volume of aid for education, this represents some modest progress.

Technical assistance can provide needed analyses, capacity building, and practical experience. But it is also often badly coordinated among donors and poorly prioritized; rarely do donors compare study proposals to the alternative that, in some countries, 100 days of consultancy support could equal the annual cost of paying 100 teachers or keeping 5,000 children in school. The EFA FTI's new Education Program Development Fund attempts to tackle this issue by pooling donor resources for planning support and studies and by ensuring that these resources respond to government priorities. But it is too early to judge whether this effort produces a net reduction in technical cooperation as a share of donor support to these countries—or clear increases in coherence and quality.

A second issue is predictability. In scaling up health and education services, developing-country governments must take calculated risks that donor promises of future aid will materialize to help fund long-term recurrent spending obligations. Yet studies of overall aid flows show that commitments are highly volatile and that disbursements are poorly correlated with commitments, generally lower than commitments, and no less volatile. Worse, volatility tends to be procyclical, making it even harder for countries facing other revenue shocks to smooth recurrent expenditures, and volatility rises with aid dependence (Eifert and Gelb 2005; Bulir and Hamann 2002, 2005).

Figure 2.6 shows the substantial annual fluctuations in ODA disbursements for education and health for a sample of low-income countries between 1998 and 2004. Although

FIGURE 2.5 Share of bilateral education ODA commitments reported as at least half technical assistance



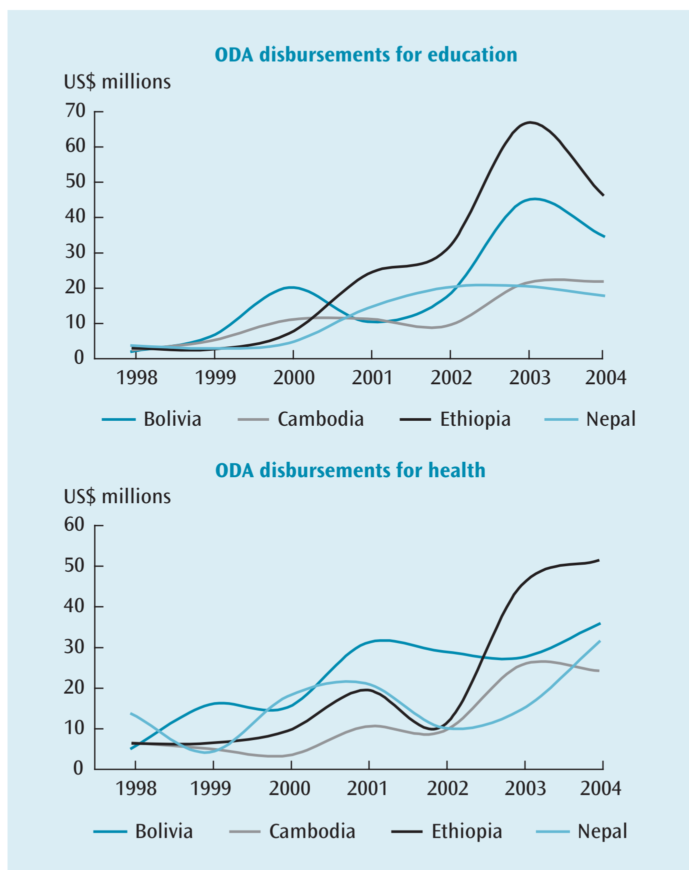
Source: OECD DAC database.

there is a clear upward trend in almost all of the cases, volatility around the trend line is substantial. The issue is that volatility is particularly crippling in the social sectors because of the high share of spending on personnel—80 percent in education and 60 percent in health. Unstable resources impede new hiring, necessary salary adjustments to retain skilled providers, and regular flows of salary payments to frontline workers, undermining service delivery.

A recent econometric analysis of child mortality outcomes from 1995–2000 in 75 developing countries found that both low levels and high volatility of donor funding for health explained the relatively slow progress of some countries in reducing under-five mortality (Bokhari, Gottret, and Gai 2005). More research is needed, but the study suggests an important possible reason that previous studies have typically found little correlation between government health spending and key health outcomes—the constraint on efficient expenditure imposed by aid volatility. More work is needed to develop systems of aid allocation that respond to performance on service delivery yet ensure stable, long-term flows of support (Eifert and Gelb 2005).

Finally, the transactions costs of accessing aid are high. Donors have made some inroads on this issue with the 2005 Paris Declaration on Aid Harmonization and the recent establishment of explicit targets for progress. In education, the EFA FTI is

FIGURE 2.6 ODA disbursements for education and health



Source: World Bank estimates from OECD DAC database.

explicitly supporting achievement of the Paris targets among education donors and beginning to track progress.

A recent report for the EFA FTI Secretariat examined donor practices in three African countries. Although these countries are not necessarily representative of FTI countries, the data paint an encouraging picture. Education donors in these countries are well ahead of donors in general on the Paris targets. In all three countries 100 percent of donor support is "on plan," aligned to the FTI-endorsed national education sector strategy, 100 percent of commitments are multiyear, and 100 percent of donors participate in an annual government-led review of sector performance. In Burkina Faso education donors have reached several other Paris targets as well: 100 percent of donors use shared progress indicators, 100 percent conduct joint evaluation studies, and 60 percent have aligned their financing with the country budget cycle (European Commission 2005).

In health, however, the consensus is increasing that the situation has worsened in recent years. The most difficult issue is the large number of global health programs, which have introduced "vertical" streams of assistance for specific health goals into countries' "horizontal" health systems. These programs get high marks for raising global awareness of major health issues; attracting new funding for health; and getting countries, donor agencies, private donors, and the for-profit sector in health (notably the big pharmaceutical companies) to collaborate on new solutions to global health challenges. The spread of HIV/AIDS treatments, increased immunizations, research on new vaccines, and increased funding for diseases that disproportionately afflict low-income countries (malaria, riverblindness, Chagas disease, and dengue fever) can all be attributed to the advocacy and funding efforts of specific global partnerships.

But these programs' success factors have a downside. Countries and their donor partners are increasingly concerned that the increase in global health partnerships is also increasing transactions costs, duplicating and fragmenting health delivery services, distorting some countries' health priorities, and undermining holistic fiscal and sectorwide planning, when significant NGO activities supported by global funders are unknown to public officials.

The planning cycles, coordinating mechanisms, appraisal processes, financing channels, surveillance metrics, procurement requirements, and audit and reporting requirements of global health programs can differ from program to program and from governments' health systems. Although weak expenditure management in some countries may justify ring-fenced donor funding channels, it does not justify a plethora of channels and procedures. Nor does it justify multiple coordina-

tion mechanisms: Angola and the Democratic Republic of Congo have each been required to establish four HIV/AIDS coordinating bodies. Nor does it justify the high cost of multiple reports: hosting missions and writing reports for different health programs is estimated to absorb 50–70 percent of the time of a district medical officer in Tanzania (McKinsey and Company 2005). Multiple parallel procurement requirements have not only increased countries' administrative costs, but also reduced their bulk purchasing power. Initiatives such as the "three ones" and the Global Task Team on HIV/AIDS aim at improving coordination, but there is clearly room for progress.

Concerns are also being raised about the long-term fiscal sustainability of donor-induced shifts in health spending, particularly in connection with HIV/AIDS programs. Although developing countries have increased domestic funding for these programs since 2000, this increased funding is dwarfed by the 300 percent rise in external support, largely from multilateral sources such as the Global Fund. About 60 percent of total AIDS program spending in developing countries is now externally financed, and this share is much higher in many African countries. In Ethiopia in 2003–4, external funding for HIV/AIDS equaled the overall public health budget. And in both Uganda and Zambia, AIDS funds exceeded public health spending by almost 185 percent (Lewis 2005b).

At the December 2005 High-Level Forum on the Health Millennium Development Goals, health ministers from a range of developing countries agreed with bilateral and multilateral donor representatives that action is urgently needed to address transactions costs and sustainability issues in health. Participants noted that countries with strong unified health sector plans—such as Bangladesh, China, Ghana, the Kyrgyz Republic, Tanzania, and Vietnam—had been more successful than others in using support from global health partnerships without distorting their own health sector priorities. Countries with strong leadership on HIV/AIDS, such as Rwanda, also report success in "pushing back" on global health partnerships and bilateral funders to insist on harmonized indicators, joint monitoring, and pooled funding.

A proposal currently being developed would commit donors and countries to a shared set of principles and establish a small global secretariat to monitor and support adherence to these principles at the country level. The "good practice" principles being discussed are joint commitment by countries and their donor partners to

- one unified, country-led health sector plan aligned with the PRSP, covering all actors—the national health system, the private sector, and NGOs;
- reliance on country systems, budget frameworks (such as the medium-term expenditure frameworks), reporting arrangements, and aid coordination mechanisms;
- support for strengthening health system capacity;
- a results focus; and
- a medium-term to long-term (10-year) horizon for aid commitments and greater predictability.

Since the forum, at least three global health partnerships have discussed the best practice principles at their board meetings. Given the limited consensus on the same issues among donors for health just one year earlier, the current climate is promising.

Reducing Leakage

Donor support for increased and more flexible aid hangs crucially on countries' ability to demonstrate effective use of that support. Yet leakage—or the failure of resources to be used effectively for intended purposes—is an acknowledged issue in developing countries where governance systems and accountability pressures are often weak. Even where the private sector plays a key role in health, education, or water and sanitation service delivery, achieving the MDGs will depend fundamentally on developing countries' ability to strengthen public sector performance.

Not all leakage is corruption. Poor management can lead to the wrong choice of technologies, suboptimal allocations of resources, and other inefficiencies that benefit no one in particular: badly designed subsidy programs or unbalanced education budgets that leave teachers with no books, new construction inaccessible to people with disabilities, and inappropriate drug purchases.

But health and education systems have features that create special opportunities for private gain at public expense. Asymmetric information between providers (doctors, teachers) and their patients or students give the providers heightened power to extract private payments for public services that should be free. The inherent decentralization of school and health systems makes it hard to monitor performance on the front line and as a result gives rise to absenteeism, theft, and shirking of duties. Large-scale procurement and payment systems, especially in health, create scope for graft and theft, as seen in developed countries as well. Finally, rapid increases in external funding, particularly for HIV/AIDS programs, can pressure governments to disburse large amounts of funding quickly, sometimes through wholly new institutional channels. Recent studies provide growing evidence of three different types of leakage.

Central losses. Very little systematic information exists on "losses at the top" of developing-country education and health systems. Although the scale of such losses cannot be estimated, they are clearly the point at which the most concentrated leakage of government and donor funds occurs.

In health, the hospital sector typically represents 30–50 percent of public health spending and its large-scale, often centralized procurement presents clear opportunities. In Colombia procurement overpayments were estimated at $2 million a year, enough for health insurance coverage for 24,000 people (Di Tella and Savedoff 2000). In Ghana survey respondents estimated that 21 percent of hospital procurement was corrupt and that 18 percent of a contract's value was typically required in kickbacks to public officials (World Bank 2000). In Venezuela and Costa Rica, over two-thirds of medical staff reported knowledge of stolen materials, equipment, or drugs, and in Uganda researchers estimated the average leakage rate for drugs across public facilities at 73 percent (McPake and others 1999). Parallel issues exist in education—procurement fraud in construction and theft and misprocurement of textbooks—but the market value of school books is lower than for drugs, and construction is often less equipment intensive.

Leakage of funds allocated to front-line facilities. More systematic information is emerging from public expenditure tracking studies (PETS) on the extent to which funds budgeted for schools, clinics, or specific programs fail to reach intended levels. Surveys in more than a dozen countries have consistently found discrepancies, although the scale varies considerably. In Ghana, for example, only 20 percent of budgeted nonwage transfers to health clinics were actually received, and only 51 percent of transfers to primary schools. Clinics in Tanzania received only 59 percent of nonwage transfers. Very commonly, funds are received only with substantial delays.

Front-line service failures. Their aggregate size may or may not be as large as losses at the center, but the most widespread losses and abuses in health and education systems occur on the front lines—providers absent from duty and providers demanding informal payments for services that are legally free. Cross-country studies show, on average, that one health worker in three is missing during unannounced facility visits, although there is a range. Absentee rates in education average about half that. Provider absence seriously disrupts service delivery, lowers system productivity, and depresses the demand for services. Researchers in India found that facility closures followed no pattern, meaning that a patient's likelihood of finding a provider was unpredictable (Bannerjee, Deaton, and Duflo 2004). The deterrent to seeking services is thus high.

Many reasons for absence are legitimate, including rural workers' need to travel to distant towns for paychecks or supplies. Low salaries and payment arrears, which force many competent and committed providers to work second and third jobs to survive, are clearly root causes of much absenteeism. But weak accountability pressures also contribute; absentee workers rarely face sanctions.

Equally pervasive are informal payments. In health, patients can be impelled to pay to be seen by a physician, to be admitted to hospital, to move up in the queue, to get an exemption from official fees, or to ensure better-quality treatment, as well as for basic supplies and services, such as blood supplies, drugs, food, or bed sheets. Informal payments are also seen in education—for tutoring, for graduation, for passing grades, and even for university access. The wedge between public sector pay scales and what providers can command in the market contribute to the demand for informal payments. So does the absolute insufficiency and irregularity of recurrent budget transfers to the facility level in many countries. Without informal payments, service delivery would be impossible in many places.

Informal payments disproportionately hurt the poorest. In about half of the 29 countries with data, the average informal payment for publicly provided health care was more than one-quarter of monthly per capita income—clearly imposing a hardship on low-income families (Lewis 2005b). In such environments, major illnesses pose a deep threat to families, forcing them to sell assets or incur debt to obtain needed medical care (Lewis 2000; Falkingham 2002, 2004; Killingsworth and others 1999). Evidence from Kazakhstan showed poor households spending more than twice their monthly income for health care in acute cases (Lewis 2005b).

Although increased aid could ease the conditions that spawn poor service delivery and corruption on the front lines—the low and irregular pay, the ill-maintained facilities, the shortages of books, supplies, or medicines—it can do so only if system managers are accountable for resource use and if incentives exist for performance.

Corruption at the top levels of health and education systems is harder to root out, and additional resources can simply increase the opportunities. The recent mismanagement of funding for HIV/AIDS programs in Kenya, Uganda, and the Ukraine provides glaring examples (Transparency International 2006).

Weak management systems can be improved, however, and corruption can be curbed; later chapters of this report examine the cross-country experience with strategies to strengthen governance. Health and education systems typically need to strengthen accountability relationships along two axes of the "accountability triangle" presented in *World Development Report 2004*: (1) strengthening system management—that is, policy makers' ability to contract with providers—and (2) strengthening "client power" or users' ability to demand better service from providers (World Bank 2004b). In both areas, many developing countries are making progress in putting transparency and new accountability relationships to work.

The following are some of the most promising strategies for improving system management:

- *Use transparent allocation rules, procedures, and the power of information to reduce leakage.* Clear rules and procedures concerning the basic package of services to which people are entitled, fee scales, resources a school or clinic should receive, and effective basic accounting and record keeping can have immediate impacts. Tbilisi Children's Hospital began posting lists of fees, and informal payments fell. Cash registers were installed in Kenyan hospitals to collect user fees and revenues rose 400 percent in three years, with no change in utilization rates (Vian 2006) . Transfers to schools in Uganda went up when the government openly publicized allocations in the press and on each school's door.
- *Measure results, performance, and impact.* Clear measures of output and performance

are fundamental for systems improvement. Parents are ill-equipped to evaluate the quality of local schools without data on how well their students are learning compared to students at similar schools. Basic data on education and health system performance is fragmented and two or more years out of date in most developing countries. Both to better manage the resources they have as well as to make the case for more support, countries need robust, real-time information on systemwide outcomes and intermediate results (primary completion rates, immunizations and other services delivered, morbidity and mortality data).

- *Implement a credible and effective audit function*. In Brazil and Chile, the capacity of the federal government to conduct random audits of enrollment records and budgets was crucial for the implementation of large-scale financing reforms that pay schools on the basis of attendance, creating powerful new incentives for schools and mayors to get hard-to-reach children into school.
- *Focus on provider quality, deployment, and incentives*. Skilled providers are the most expensive resources in health and education systems; recruiting, deploying, equipping, and supervising them carefully are key for the productivity of spending. Average salaries may need adjustment in many contexts, but research also shows that nonsalary inducements (such as housing, training, research opportunities, and public recognition) are as important as salary incentives for providers' motivation and development. Systems also need the authority to reward performance, and discipline, transfer, or terminate employees who engage in abuses. Technology may help; a program in India that provided digital cameras (with a tamper-proof time and date function) to remote rural primary schools and rewarded teachers who supplied one picture per day of the class in session found teacher absence went down to 22 percent compared with 42 percent in control schools (Duflo and Hanna 2005).

Accountability will be strongest if education and health systems need to answer to stakeholders on the performance of public services. Reforms that are increasing "client power" in different countries include:

- *Involve communities in monitoring and management*. An increasing number of countries in all regions are devolving some control over schools and health clinics to local communities. In Rwanda community councils are being given the power to hire and fire health clinic personnel and determine bonus pay. In Brazil, El Salvador, Guatemala, Honduras, India, Mexico, and Nicaragua, among other countries, village education committees and parent-teacher associations have a voice in hiring teachers and managing school accounts. Creating formal oversight bodies at the community level can place strong accountability pressures on local providers.

  But unleashing this client power often requires significant efforts to inform communities of their responsibilities and to build their skills to shoulder them. In India, two years after village education committees were mandated to receive direct school funding, only 12 percent of rural households surveyed in northern India knew about it, and only 26 percent of the committees had met in the previous six months (Pandey 2005). In Brazil, in the poor rural municipalities where auditors found irregularities in the use of federally transferred funds, the community councils created to supervise the transfers admitted they lacked the skills and power to challenge local mayors (Transparency International 2004).

Efforts to equip communities with better information, such as the "report cards" on schools' performance being developed in Cambodia and the training journalists in Benin receive to report on local school committee meetings, are important steps to shift what is often an imbalance in status, knowledge, and power between providers and

beneficiaries, especially the poor. Letting clients provide feedback on the quality of public services—for example, through "citizen report cards"—is also empowering, as a signal from the public sector that citizens' views are valued.

Donors are legitimately concerned about the risks of providing flexible aid where public sector performance is weak. But, as noted above, the core financing need in most low-income countries for increasing health and education services remains recurrent personnel costs. Stronger capacity across mainstream ministry functions—planning, budgeting, and expenditure management—is clearly needed. Better quality and more timely administrative data on system performance are also needed, because they provide the platform to track results for money spent. And donors' support must be guided by credible sector strategies that address key constraints, clarify accountability, and improve incentives for performance.

Doing More to Reach the Poor

The MDGs aim to extend human welfare improvements to all countries. But some of the goals—especially in health—can be achieved through investments that primarily benefit the better-off, while largely bypassing the poor (Gwatkin and others 2000). Last year's report showed that two-thirds of the countries that had reduced child mortality from 1990 to 2001 saw a widening gap in outcomes for families in the lowest income quintile. And although education progress has been more pro-poor, in one-third of the countries that improved primary enrollments from 1990 to 2002, the poorest have lagged behind.

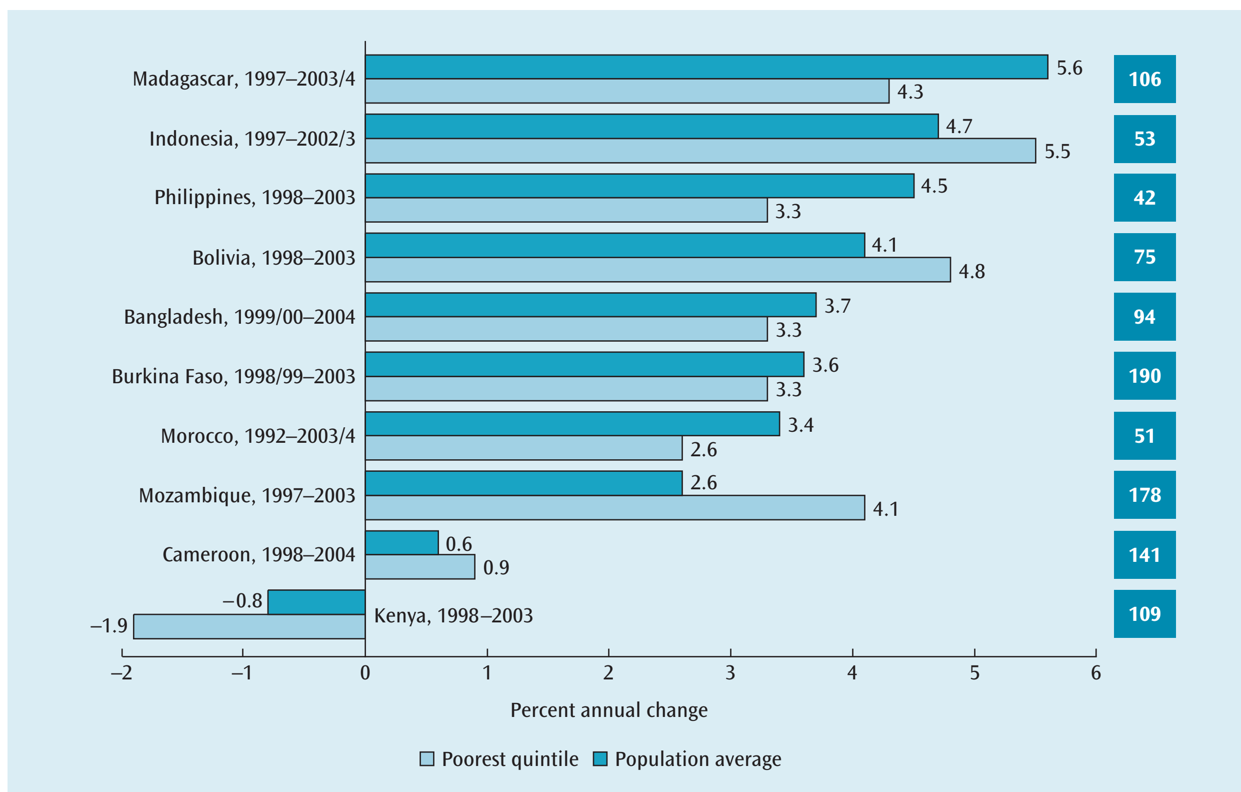
Since 2002 a new wave of demographic and health survey data has become available, shedding light on countries' more recent strategies and progress—and capturing experience since the MDGs were adopted. Analysis of the 10 developing countries with survey data for 2003 and 2004 shows the following:

- Nine of 10 are making rapid progress on child mortality. The exception was Kenya, where child mortality increased between 1999 and 2003.
- Seven of 10 countries are making strong progress in child immunizations, and in almost all of these the poor are benefiting most.
- Better quality antenatal care is also reaching the poor.
- Several countries—including Bangladesh, Kenya, Morocco, and Mozambique (where outcomes for the poor have improved, while the average has not)—are reducing child malnutrition faster for the lowest income quintile than for the population average.
- Eight of the 10 countries have improved primary completion rates, and in five of these, the poorest quintile has improved most.

Child mortality declined in 9 of the 10 countries between 1998–9 and 2003–4, and in Indonesia, Madagascar, and the Philippines the current pace of decline (more than 4.3 percent a year) is sufficient to reach the MDG (figure 2.7). In Madagascar the annual rate of improvement since the MDG baseline year, 1990 (–2.3 percent per year), puts it off track to meet the MDG in global estimates, but the new data show that progress has accelerated sharply over the last several years. Among Indonesia, Madagascar, and the Philippines, however, only Indonesia has seen the improvement for the poorest quintile keep pace with that for the population average. In Bolivia, Cameroon, and Mozambique, on the other hand, outcomes for the poor are improving faster than the mean, but the overall rate of improvement is not fast enough to reach the MDG. In Bangladesh, Burkina Faso, and Morocco, the poorest quintiles are lagging, but the gaps are not wide.

Immunization coverage is also improving in many of these countries, with impressive progress in reaching families in the poorest quintile. Except in Bangladesh (which already had a very high level of immunizations) and Madagascar (where there is a slight gap), the poorest groups have experienced much greater improvement in access to immunizations than the population as a whole. In three

FIGURE 2.7 Annual reductions in child mortality (number of child deaths per 1,000 live births)



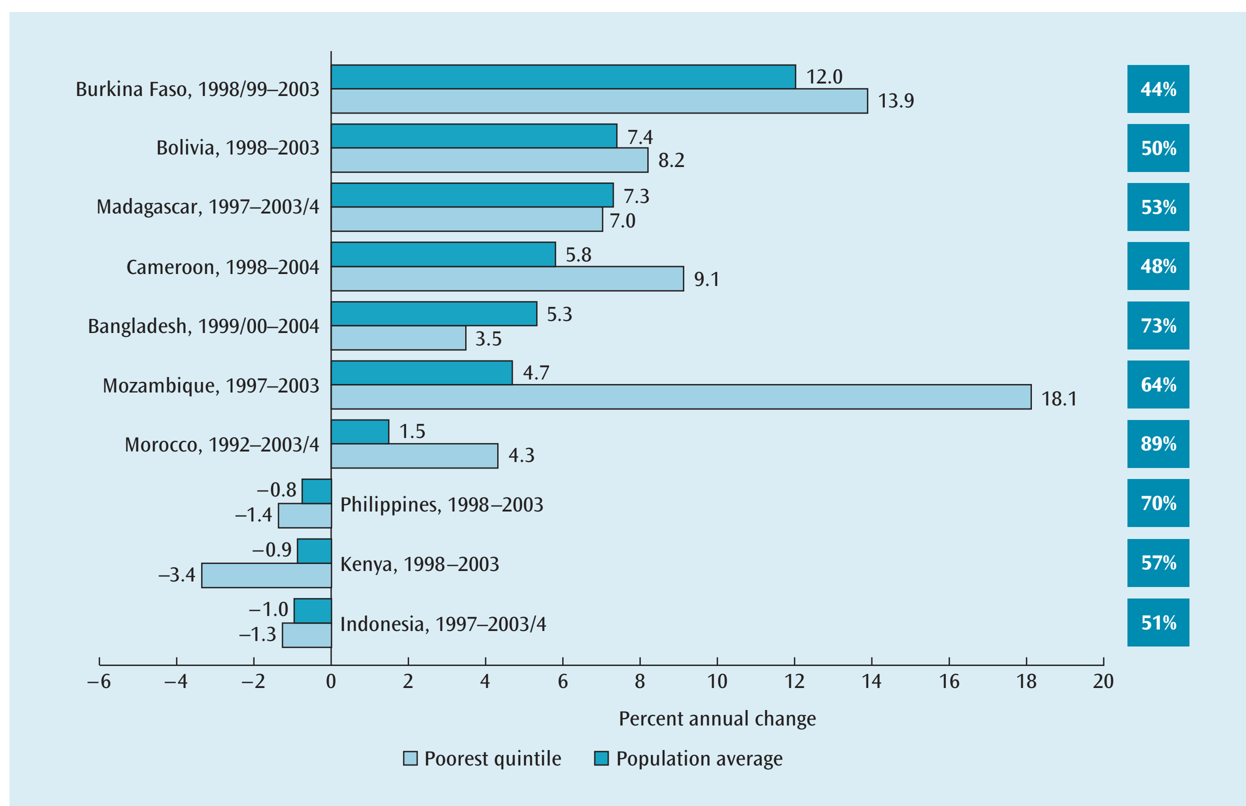
Source: World Bank estimates from Demographic and Health Surveys.
Note: The boxed numbers show the number of child deaths per 1,000 live births in the most recent survey.

of the countries, however, no improvement was registered. While in the Philippines the average level of immunization coverage is quite high, in Kenya and Indonesia, it is not. It should be recalled, however, that this period was a time of economic crisis in Indonesia, which makes the country's continued progress in addressing child mortality all the more impressive.

What explains these different patterns? Progress on child mortality reflects complex determinants (such as mothers' education, household income, and household access to water and sanitation), many of which can be slow to change. Is there a trade-off between faster aggregate progress toward key goals, such as child mortality, and progress for the poor? Given the higher marginal costs of extending basic services to rural areas, where a high share of the poor live, many observers would respond in the affirmative. Although these survey data permit no clear answers, they do provide some encouraging evidence that key health interventions, such as immunizations and access to trained providers for antenatal care, are spreading quickly and increasingly reaching the poorest groups, at least in this sample of countries.

In education the picture is also one of progress; primary completion increased substantially in three countries and more modestly in five others. Two countries, however, (Kenya and Bolivia) experienced declines, especially among the poorest quintile (figure 2.9). When considering these data, it is important to remember that they reflect changes in the education system and participation rates from roughly a decade ago, as they are based on reported schooling attainment for the 15–19-

FIGURE 2.8 Delivery of immunizations



Source: World Bank estimates from Demographic and Health Surveys.
Note: The boxed numbers show the immunization coverage (for children 12–24 months) in the most recent survey.

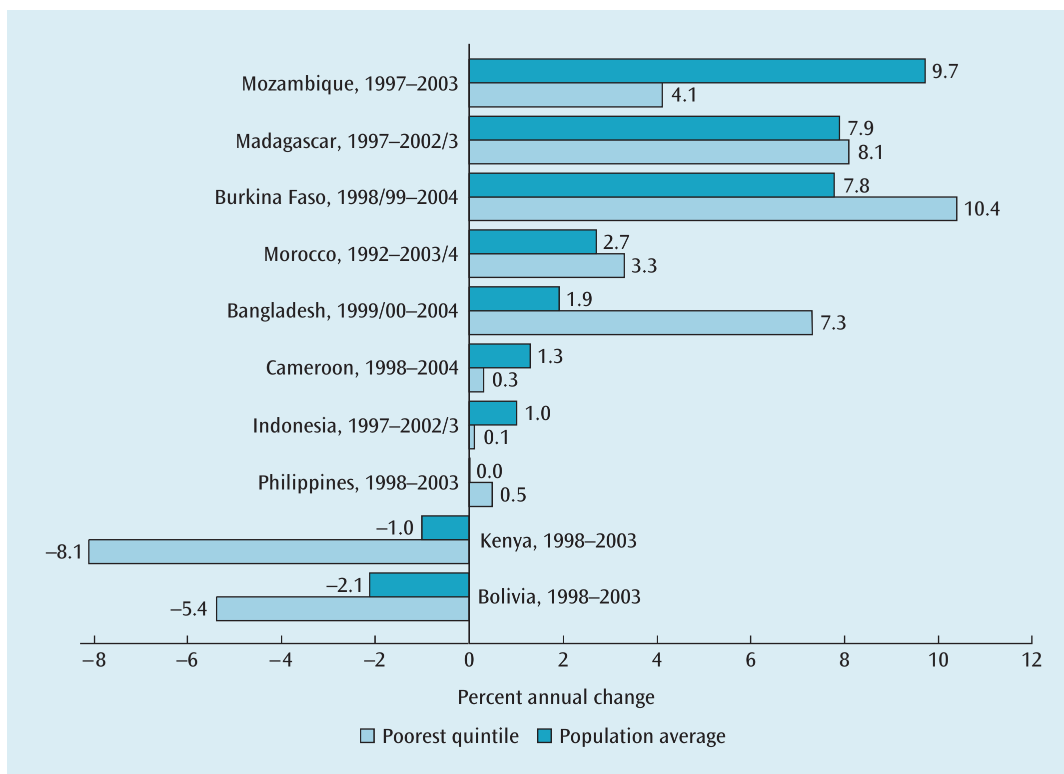
year-old cohort of the population. The five countries with modest annual improvements are, with the exception of Cameroon, countries that have already achieved close to universal primary enrollments and relatively high primary completion, so it is logical that marginal changes should be lower. In half of the countries, the poorest quintile improved more than the average. Mozambique and Burkina Faso were exceptionally progressive in reaching the poorest children over this period.

Finally, the recent surveys provide clear evidence that awareness of HIV/AIDS has become almost universal in Sub-Saharan Africa, but far less so in other regions. In Bolivia, Indonesia, and Bangladesh, less than 33 percent of women in the lowest-income quintile have "heard of" HIV/AIDS. In Bangladesh there was improvement from 1999 (only 8 percent of low-income women had heard of AIDS) to 2004 (29 percent), but there is clearly a long way to go. And in both Indonesia and Bolivia, awareness did not increase over the period.

Investing Smartly across Sectors

Water supply and sanitation investments have important effects on health, especially child health. Nearby water and school latrines can dramatically change mothers' ability to care for their children and girls' school attendance. Roads improve school attendance and use of health facilities. And health and education investments have clear complementary effects: mothers' education is a strong correlate of child survival, and school attainment is affected by family illness, especially HIV/AIDS. There is no single route to MDG progress.

FIGURE 2.9 Share of 15–19-year-olds who have completed primary school



Source: World Bank estimates from Demographic and Health Surveys.

Research on what infrastructure investment means for human development outcomes shows that effects can be large. In Zimbabwe a carefully controlled study of preschool children found that those living in households that used wood-burning stoves for cooking were more than twice as likely to suffer from acute respiratory infections (ARIs) as children in homes with natural gas or electrification (Mishra 2003). ARIs are one of the leading causes of childhood illness and death in Africa, and it is not clear that any direct health intervention could produce a 50 percent drop in their incidence.

In Coahuila, Mexico, the "piso firme" program has upgraded dirt floors to cement floors in slum housing, benefiting more than 34,000 people since 2000. An impact evaluation found clear health benefits for children under age five: 20 percent less diarrhea and anemia and 12 percent less infection with parasites. The improved health also translated into better brain development (children in the treatment homes scored 8 percent higher on cognitive tests), and older children missed fewer days of school.

Donors and governments concerned about making money work need to give priority to establishing careful baseline studies and robust control groups wherever possible before launching innovative programs. Donors also need to recognize that the knowledge that comes from rigorous impact evaluation is a global public good and needs to be heavily supported, especially in low-income countries. Developing-country policy makers can provide

a demand-side stimulus to good impact evaluation by asking, "Where's the evidence?" when considering new policies and programs.

Priorities for Global Action

Evidence of tangible progress toward the MDGs is greater today than one year ago. Many low-income countries have accelerated progress on primary completion. Childhood immunizations have increased greatly and are reducing needless child deaths. National malaria campaigns are getting visibility and distributing bed nets and treatment on a larger scale than ever before. HIV prevention programs are beginning to work, and the extension of effective drug therapies to AIDS victims in the developing world has been rapid.

Development assistance for the MDGs has increased sharply, and donor support appears to be more targeted than ever to the lowest-income countries with country-owned poverty reduction strategies and commitment to these goals. Countries have made progress in expanding service coverage while managing unit costs. But the world is still far from achieving the human development MDGs; donors and countries must keep working on ways to speed the pace of progress. The analysis in this chapter points to six priority areas for global action:

- *Accelerate harmonization in health.* Global health partners need mechanisms for aligning policies and programs and for harmonizing procurement, disbursement, and reporting at the country level, as well as a mechanism for coordination and intermediation at the global level. The education sector through the EFA FTI has made notable progress in developing both global and country coordination mechanisms that are improving donor alignment and lowering transaction costs. A parallel mechanism is urgently needed in health.
- *Increase the flexibility and predictability of ODA for social sectors.* Where sector policies are sound, fiduciary conditions are adequate, and the capacity to measure sector outcomes and intermediate indicators is in place, donors should shift assistance as much as possible to budget support. This shift will permit countries to scale up health and education coverage most efficiently and lower the costs of attaining the MDGs. Donors and countries should plan multiyear expenditure programs on a disbursements rather than a commitments basis, and the schedule for donor disbursements should be clear over at least a three-year horizon, extended annually.
- *Improve measurement of results, performance, and impact.* Developing countries seeking flexible aid need to demonstrate adequate public expenditure management. But they also need the ability to track education, health, water and sanitation sector performance on a timely and reliable basis, so that donors can have real-time data comparing spending and results. These data include data on key outcomes, as well as intermediate indicators, and accurate financial reporting at all levels of the system. Countries should insist on rigorous evaluation of pilot programs to guide decisions on where to increase spending. Because such evaluations can be expensive and have a high element of global public good, donors need to increase their support for them.
- *Monitor outcomes of the poorest groups.* Extending basic health, education, water and sanitation to the poorest segments of the population can be difficult and costly. Donors should support country policy choices that make investments more pro-poor, even at the risk of slowing overall progress on reaching the MDGs. These choices will hinge on countries' ability to track outcomes by income group, gender, ethnicity, and region. Regular household surveys are essential.
- *Strengthen the accountability of health, education, and water and sanitation systems.* Achieving the MDGs depends above

all on more effective delivery of basic health, education, water and sanitation services in many countries. Countries will make the most progress if they find ways to strengthen sector management, the incentives for providers, and the voice of clients at the point of service delivery.

- *Develop a systematic cross-country database of public expenditures on social sectors*. The OECD DAC has made good progress over the past two years in upgrading the quality and timeliness of cross-country data on ODA, in part in recognition that these data are crucial for monitoring progress in implementing the Monterrey accords and donor commitments related to the MDGs. Sorely needed is a parallel effort by the Bretton Woods institutions to ensure shared standards and classifications in the collection of government expenditure data and to unify these in a single, standardized cross-country database.

Notes

1. Note that the data for 1990, 1995, and 2000 are not comparable to those presented in *Global Monitoring Report 2005* because of a change in the series.

2. The WHO Expanded Program of Immunization (EPI), which Bangladesh followed, vaccinated children against six diseases: diphtheria, measles, pertussis, polio, tetanus, and tuberculosis.

3

Delivering on Commitments for Aid, Debt Relief, and Trade

The "year of development" sharpened the international community's focus on aid and trade, providing an unprecedented opportunity to accelerate achievement of the Millennium Development Goals (MDGs). Reaffirming the Monterrey Consensus (United Nations 2002), donors promised a major expansion in official development assistance (ODA) and strongly backed efforts to enhance the quality of aid. They also agreed to provide wider and deeper debt relief to the poorest countries. While trade liberalization through unilateral reforms and regional agreements moved ahead, multilateral negotiations under the Doha process made only modest progress. By contrast, considerable momentum was built on aid for trade.

Donors are delivering more assistance, and the prospects for scaling up aid have brightened. At their summit in Gleneagles, the Group of Eight (G-8) leaders pledged to increase aid to Africa by $25 billion a year by 2010—more than doubling assistance to the region—and Development Assistance Committee (DAC) members have agreed to expand aid to all developing countries by about $50 billion. These commitments call for a much faster pace of ODA growth (when public budgets could be under pressure), introducing some uncertainty for future flows. Scaling up assistance and ensuring that more of the increment is available for pursuing the MDGs make it particularly important to strengthen monitoring of donor commitments and flows. Scaling up will also require more coordination among aid delivery channels—bilateral funds, multilateral funds, global funds, and private funds.

At the country level, a strengthened poverty reduction strategy (PRS) process and enhanced consultative group and roundtable (CG/RT) coordination mechanisms will be central to implementing the scaling up and results agenda. Drawing on the PRSs, enhanced CG/RT processes can provide a practical, mutual accountability framework for linking resources to results.

The Paris Declaration in March 2005 gave a boost to the aid effectiveness agenda. Building on the principles of ownership, alignment, harmonization, managing for results, and mutual accountability, the Paris Agenda specifies monitorable actions to improve aid quality. Broad-based support for this agenda has translated into progress at the global level, such as adoption of global targets (for 2010) for the 12 indicators in the Paris Declaration, and at the country level, such as customizing several indicators and targets to the country context. Much remains to be done, however, and vigorous implementation of the agenda is needed to deliver more effective development assistance.

Major progress was made in 2005 in extending and deepening debt relief to the poorest countries. The G-8 Proposal (now called the Multilateral Debt Relief Initiative) to cancel 100 percent of the debt that heavily indebted poor countries (HIPC) owe to the African Development Fund (AfDF), International Development Association (IDA), and the International Monetary Fund (IMF) will cut the external debt of these countries by another $50 billion. Nineteen countries have already received $3.4 billion in debt relief from the IMF under the Multilateral Debt Relief Initiative (MDRI); IDA's Board of Executive Directors has approved MDRI financing and implementation modalities for IDA, and those for AfDF are due for consideration and approval by the AfDF Board of Executive Directors in April. The MDRI initiative will greatly reduce the debt burden indicators in HIPC and create fiscal space for growth and human development objectives. To realize the potential benefits of debt relief, recipient countries need to strengthen their public expenditure management. They also need to manage postrelief borrowing so as not to undermine long-term debt sustainability.

The MDRI commits donor countries to providing additional resources to ensure that the proposed debt forgiveness does not undermine the ability of the three multilaterals to continue to provide financial support to low-income countries—or the institutions' overall financial integrity. IDA and the AfDF have established baselines for assessing the additionality of donor financing. Monitoring against these baselines is needed to avoid substitution between regular donor contributions and debt relief compensation and to improve mutual accountability.

The Doha Development Agenda has great potential to help reduce global poverty, but progress was modest at the Hong Kong ministerial meeting in December 2005. World Trade Organization (WTO) members face a challenge in concluding the Doha Round by the end of 2006: all must raise their sights to avoid losing a good opportunity to harness trade for growth. While multilateral liberalization struggled, bilateral and regional trade agreements (RTAs) continued to mushroom during 2004–5, and unilateral reform continued at a steady pace in several regions, reflecting reductions in tariffs for agricultural products entering high- and middle-income countries and liberalization by developing countries in manufacturing and agriculture. The level of protection in least developed countries (LDCs) remained essentially unchanged. Barriers to products originating in high- and middle-income countries experienced the greatest reduction.

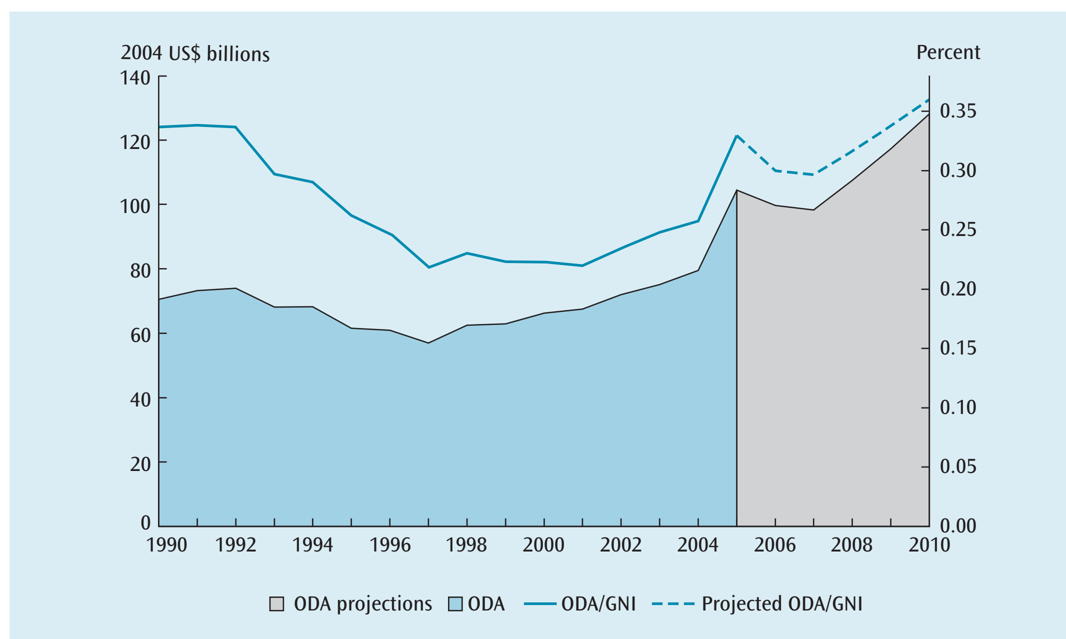
Following high-level political endorsement at the G-8 meeting in Gleneagles, proposals for significantly increasing aid for trade were endorsed by the governors of the World Bank Group and the IMF at their annual meetings. The Hong Kong ministerial created a task force to operationalize aid for trade and a consultation process to identify ways of increasing resources. Meanwhile, donors are substantially increasing the resources for aid for trade, continuing a trend over the last few years. The next year promises to be critical, as initiatives launched in 2005 begin to bear fruit, but challenges remain in ensuring that the increased aid is both additional and effective.

Aid Volumes and Quality

Rising Aid Levels

Assistance from DAC countries was nearly $80 billion in 2004, up from $69 billion in 2003, and it rose to an estimated $106 billion in 2005, boosted by $19 billion in debt relief to Iraq and Nigeria (OECD 2006a, 2006c). While nominal net ODA has risen by more than 50 percent from 2001 to 2004, the increase measured in real terms (at constant exchange rates and prices) is more modest at 18 percent—an average annual growth rate of 5.6 percent. But 2004 did see a strengthening in the pace of the ODA trend that continued in 2005 (ODA increased by 31.4 percent in real terms in 2005), partly in response to special factors.[1] Higher aid flows mirror an increase in DAC countries' aid effort; ODA as a share of gross national income (GNI)

FIGURE 3.1 DAC members' net ODA, 1990–2005, and prospects for 2006 and 2010



Source: OECD 2006a, 2006c.
Note: The data for 2005 are preliminary.

climbed from 0.22 percent to 0.26 percent in 2001–4 and to 0.33 percent in 2005 (figure 3.1). Only five donors have ODA/GNI ratios at or above 0.7 percent.

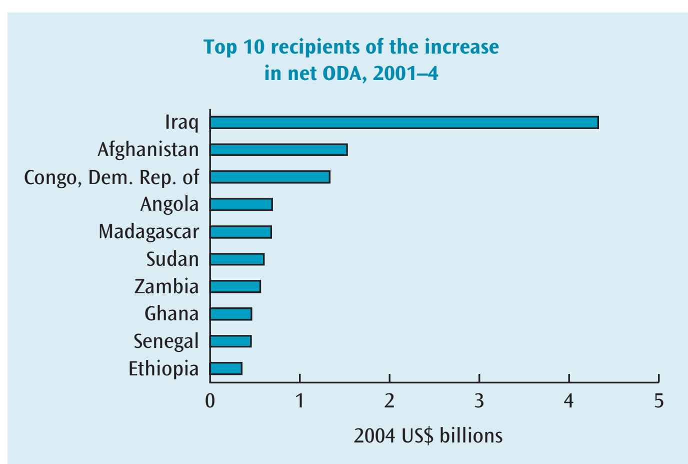
ODA from non-DAC donors that report flows to the DAC rose by 9 percent (in nominal terms) to \$3.7 billion in 2004.[2] Saudi Arabia continued to account for the largest share of assistance by this group. Other donors are beginning to emerge in importance, including Korea, Kuwait, Taiwan (China), and Turkey. New European Union (EU) members that are not DAC members are also beginning to provide larger volumes of aid.[3] Elsewhere, major emerging market countries, such as China and the Russian Federation, are playing an increasing role in development assistance. Data on so-called South-South assistance are incomplete, however, making it difficult to obtain comprehensive information on South-South aid volumes and prospects.[4,5]

Private giving is increasing. Grants from nongovernmental organizations (NGOs) grew at a brisk pace in 2004, providing over \$11 billion in assistance in 2004. Private giving surged in 2005 in response to a string of catastrophic natural disasters such as the Indian Ocean tsunami of December 2004 and the South Asia earthquake of October 2005. Global private giving for tsunami-related humanitarian relief was \$5.1 billion or 38 percent of the \$13.4 billion of total amounts pledged (Inderfurth and others 2005).

Rising ODA volumes offset the overall decline in official nonconcessional lending. Net nonconcessional lending by multilaterals slid further in 2004 because of less borrowing from the IMF and other multilaterals and because of prepayments (see chapter 4); large prepayments pulled down multilateral net lending in 2005. Nondebt private flows, by contrast, have shown a rising trend in recent years: foreign direct investment (FDI) flows rebounded in 2004 and continued to rise in 2005; inward remittances to developing countries continued to surge. However, for poor countries, especially in Sub-Saharan Africa, ODA continues to be the largest source of external financing.

Nearly half the increase in net ODA from 2001 to 2004 has been in the form of debt

FIGURE 3.2 ODA increases concentrated in a few countries



Source: OECD DAC database.

relief and technical cooperation, a quarter was for emergency assistance, and a tenth for flexible bilateral forms of financing (table 3.1).[6,7] Although there was a shift toward flexible forms of financing in 2004, the broad pattern observed over the past few years is likely to continue in the near term as debt forgiveness for Iraq and Nigeria are reflected in ODA flows and as humanitarian relief efforts remain high.

Much of the increment in ODA (from all donors) reflects global and regional security concerns, with Iraq and Afghanistan accounting for over half of the increase in net ODA from 2001 to 2004 (figure 3.2). Among other large recipients are the Democratic Republic of Congo and Madagascar, with additional aid mostly reflecting debt relief.

Brighter Prospects for ODA?

At their summit in Gleneagles, G-8 leaders committed to increase aid to Africa by $25 billion a year by 2010, more than doubling assistance to the region. Coupled with pledges by the EU, DAC members have also agreed to expand aid to all developing countries by about $50 billion. These promises would raise the average share of ODA to GNI to 0.36 percent in 2010. In May 2005, the 15 DAC EU members set an intermediate target for their collective ODA/GNI of 0.56 percent for 2010 and revised upward their target for 2006 to 0.42 percent from 0.39 percent.[8] They also reaffirmed their commitment to reach an ODA to GNI ratio of 0.7 percent by 2015. These pledges represent a $38 billion increase (in 2004 U.S. dollars) in ODA by

TABLE 3.1 Composition of net ODA: less reliance by donors on special-purpose grants in 2004
(all levels are in constant 2004 US$ billions)

	ODA level 2001	ODA level 2003	ODA level 2004	Increase in ODA in 2004	Increase in ODA from 2001 to 2004	Distribution of the increase in ODA from 2001 to 2004 (in %)
DAC ODA	67.4	75.1	79.5	4.4	12.1	
DAC ODA by type						
Special-purpose grants	29.6	40.6	38.4	–2.2	8.8	73
Debt forgiveness	3.5	9.1	7.1	–2.0	3.6	30
Technical cooperation	17.0	19.7	18.8	–0.9	1.9	15
Food aid + emergency relief	5.5	8.0	8.5	0.5	3.0	25
Administrative costs	3.7	3.8	4.0	0.2	0.3	2
Flexible bilateral ODA	14.8	13.2	16.0	2.8	1.2	10
Contributions to multilaterals	23.0	21.4	25.1	3.8	2.1	17
Non-DAC ODA	1.6	3.7	3.7	0.0	2.2	
Grants by NGOs	8.7	10.9	11.4	0.5	2.6	

Source: OECD DAC database.
Note: Flexible ODA is DAC members' ODA less special-purpose grants and contributions to multilaterals.

2010 for EU members that are DAC countries, a near doubling of assistance for this donor group. Several DAC members have also announced a timetable for achieving an ODA target of 0.7 percent of national income. If DAC countries' commitments are delivered, ODA measured in 2004 prices will be around $100 billion in 2006 and will rise to about $128 billion by 2010.

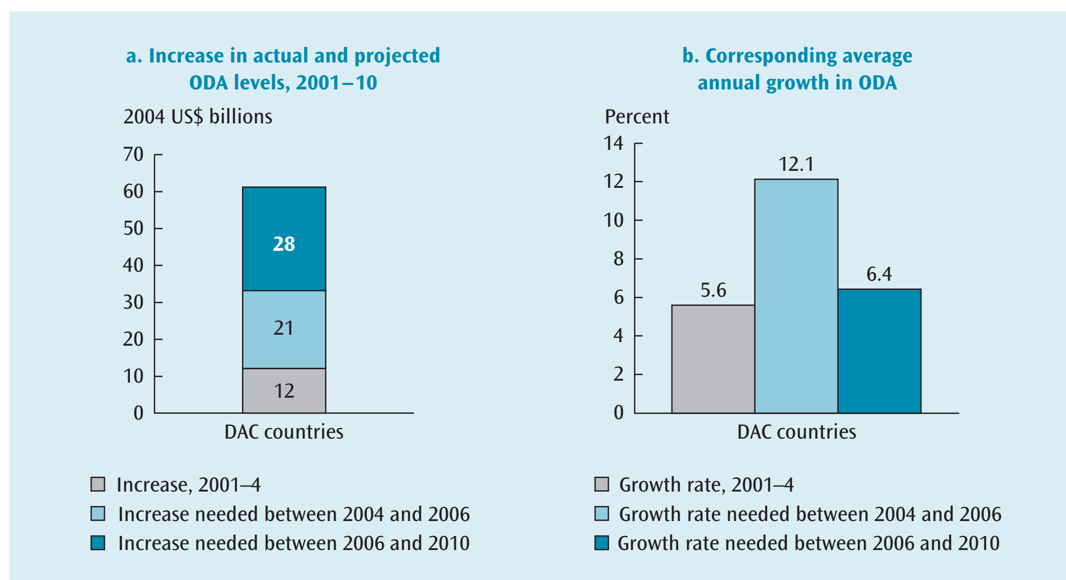
To achieve these targets, ODA will need to grow at an accelerated pace. Overall, real ODA will need to grow 50 percent faster from 2004 to 2010 compared with the average annual growth rate from 2001 to 2004 (figure 3.3); for EU members that are DAC countries, the pace of growth will need to triple. Implementation of Paris Club debt agreements for Iraq and Nigeria boosted aid volumes in 2005, and debt forgiveness grants will remain high in 2006. Beyond the near term, more of the increase in ODA will represent a transfer of resources; perhaps raising difficulties for donors that deliver a large share of aid through debt relief. For several countries—such as Italy and Greece—the acceleration in the growth of ODA required to meet commitments will be much greater. A faster pace of growth of aid (when public budgets are under pressure) could introduce some uncertainty in medium-term aid volumes.

Although much of the expansion in ODA has been delivered in the form of special purpose grants (table 3.1), beyond the near term, the proposed doubling of aid to Africa by 2010 and the completion of major debt workouts are expected to shift the pattern of aid delivery. Moreover, if donors deliver on commitments, the pattern of distribution of aid to poor countries could change as well.

Funding Development Assistance through Innovative Mechanisms

Innovative financing mechanisms could augment aid flows and development investment and improve the predictability and flexibility of aid. Several of these mechanisms are in early stages of implementation: the International Finance Facility for Immunization (IFFIm) is being established as a pilot IFF; a

FIGURE 3.3 Acceleration in ODA needed to meet commitments



Source: OECD DAC database.
Note: Prospects for ODA in 2006 and 2010 are based on DAC members' announced commitments. Not all DAC members have made commitments beyond 2006.

pilot advance market commitment (AMC) proposal is being developed; and an increasing number of countries are moving forward with airline departure tax legislation—one possible use for resulting revenues is the International Drug Purchase Facility (IDPF) proposed by France. These efforts will test key aspects of the proposed innovative mechanisms.

International Finance Facility and IFF for Immunization. The pilot IFFIm will channel funds pledged by France, Italy, Norway, Spain, Sweden, and the United Kingdom through the existing governance structure and country programs of the Global Alliance for Vaccines and Immunization (GAVI). Work to implement the IFFIm structure is ongoing, and a first bond issuance is expected in mid-2006. In addition, France and the United Kingdom plan to establish a joint working group to consider the implementation of a full IFF for health and education and partly funded by the airline departure tax.

Advance Market Commitments for vaccines. AMCs for vaccines could complement the IFFIm program to strengthen global immunization efforts. Under an AMC, donors would guarantee a set envelope of funding at a given price for a new vaccine that meets specified target requirements. G-8 finance ministers have agreed to consider a specific AMC pilot proposal in April.

Airline departure taxes. The proposed airline departure tax has gained steady support. France has passed legislation enabling collection of an airline departure levy, with revenues estimated at €200 million a year. Over a dozen countries have said they will implement the tax, and others plan to follow suit. The United Kingdom indicated its intention to use part of the revenue from its existing Air Passenger Duty to provide a long-term stream of finance to the IFFIm and the IFF. Many countries have welcomed France's proposal to use departure tax revenues and other contributions to fund the IDPF, which would provide long-term, predictable finance to purchase drugs used to treat the big pandemics affecting the poorest countries and to lower the prices for these drugs.

Blending arrangements. The World Bank has reached out to the multilateral development banks and development partners to develop more specific proposals for the use of blending arrangements in gap and middle-income countries as part of a larger work program. In IDA countries, an ongoing pilot program provides for the use of blended grants (from trust funds) and IDA credits to achieve global or regional public goods in health projects.

Enhanced Monitoring of Donor Commitments

Prospects of significant additional amounts of aid raise the importance of better monitoring of commitments and flows. The purpose of monitoring will be to assess progress in implementing promises and to build momentum for emulating best practice. Equally importantly, monitoring can be a useful tool to better understand the scale of resources that will become available over the medium term, and how this scaling up will translate into availability of resources at the country level. By providing reliable information on resource availability at the country level over the next few years, monitoring can facilitate improvements in transparency and coordination of aid and can help improve its predictability. While recognizing the challenge of providing three-year forward projections on aid at the country level, donors have agreed that the DAC undertake an effort to collect such information.[9,10]

Scaling up will also require better coordination among aid delivery channels—bilateral funds, multilateral funds, global funds, and private funds. The growth of global programs and funds and the emergence of new bilateral and private donors are increasing aid delivery channels. Better coordination among donors will be essential to delivering aid effectively (box 3.1). For example, global funds need to support country-led strategies and priorities and not undermine the capacity of national authorities for coherent planning, financing, and service delivery. Likewise, bilateral donors

need to shift toward delegated cooperation so as to make use of the comparative advantages of individual donors. The first step to achieving better coordination will be sharing of information on planned donor activities.

Delivering Aid More Effectively

Higher aid volumes need to be matched by improvements in the quality of aid. Several factors influence aid quality and, hence, its effectiveness. Chief among them are the harmonization and alignment of aid, the modality through which assistance is delivered, the allocation of aid, and the volatility and predictability of aid flows.

Progress on Harmonization, Alignment, and Managing for Results

Following the Paris High Level Forum last year, intensive work undertaken by the Working Party on Aid Effectiveness (WP-EFF)[11] resulted in an agreement and adoption of global targets (for 2010) for 11 of the 12 indicators in the Paris Declaration.[12] The preliminary baseline data suggest that the gaps to be bridged to reach the agreed global targets are quite large, indicating considerable scope for progress. For example, only 15 percent of donor missions are undertaken jointly with other donors, well below the 40 percent target set for this indicator, and only 9 percent of partner countries undertake mutual assessments of progress in implementing agreed commitments and more broadly their development partnerships, against a target of 100 percent (figure 3.4).

A distinct feature of the Paris Declaration is a mutual commitment undertaken by partner and donor countries to an international monitoring process. To advance this process, the WP-EFF has created a subgroup dedicated to work on developing technical guidance, survey instruments, and a methodology for collecting and reporting data. This work will draw on and be supplemented with available information from the DAC peer review mechanism, the New Partnership for Africa's Development (NEPAD), Strategic Partnership with Africa (SPA) surveys, and WP-EFF subgroups for public financial management and procurement.[13]

Progress in implementing the Paris Framework at the country level has been mixed. In a few countries, such as Mozambique, Tanzania, Uganda, and Vietnam, governments and development partners have made solid progress; this progress did not happen overnight but has been evolving over a number of years. Evidence of this progress can be seen in government-led efforts to address harmonization and alignment issues in program-based approaches (table 3.2). Four factors

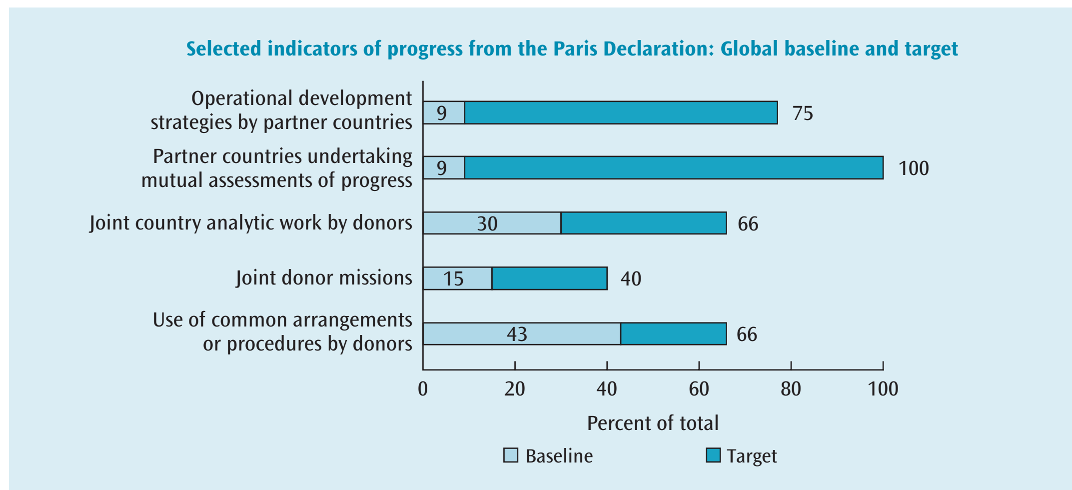
BOX 3.1 Africa Action Plan: an opportunity to coordinate aid flows to Africa

The implementation of the World Bank's Africa Action Plan will create opportunities to coordinate aid flows in Africa, ensuring that donor allocations reflect country priorities. Building on the IDA 14 base, the Bank will partner with others to increase both the volume and effectiveness of resources directed at Africa's development.

One example of this enhanced coordination is the Africa Catalytic Growth Fund, which will provide a new pilot mechanism to complement IDA resources while maintaining country ownership and integrated expenditure management systems supported by IDA. The UK government has pledged £ 200 million in funds. The first call for proposals under this fund was launched in March 2006.

The Bank is also collaborating with other partners, including the EU, the U.K. Department for International Development, France, the African Development Bank, and the government of Japan. In meetings with the Japan Bank for International Cooperation, a number of projects in transport, power, water, and urban sector were singled out for collaboration and potential cofinancing.

FIGURE 3.4 Indicators of progress: gaps between baselines (preliminary) and targets



Source: OECD 2005.
Note: Comprehensive baselines will be established in 2006.

TABLE 3.2 Country-level progress on selected harmonization and alignment actions

	Harmonization road map	Joint/ collaborative assistance strategies	Coordinated country-level monitoring and evaluation	Coordinated budget support	Sectorwide approaches	Joint analytic work	Country-specific efforts to harmonize procurement and financial management	Independent monitoring process
Substantive progress[a]								
Mozambique	❑	❑	■	■	■	■	▨	■
Tanzania	▨	■	▨	■	■	■	■	■
Uganda	▨	■	■	■	■	■	▨	▨
Vietnam	■	❑	▨	■	▨	■	■	▨
Moderate progress[b]								
Bangladesh	▨	■	❑	❑	■	■	▨	❑
Burkina Faso	▨	❑	▨	■	▨	■	❑	▨
Cambodia	■	■	▨	❑	▨	■	▨	❑
Ethiopia	▨	❑	▨	■	■	■	▨	❑
Ghana	■	❑	▨	■	■	▨	▨	▨
Nicaragua	▨	❑	▨	■	■	▨	▨	▨
Rwanda	❑	❑	▨	■	▨	■	▨	❑
Progress, but limited[c]								
Cameroon	▨	❑	❑	❑	❑	❑	❑	▨
Kyrgyz Rep.	▨	▨	▨	❑	▨	❑	❑	❑
Malawi	❑	❑	▨	▨	■	▨	❑	❑
Senegal	❑	❑	▨	❑	❑	▨	▨	❑
Zambia	▨	❑	❑	▨	▨	▨	▨	▨

Source: World Bank desk surveys.
a. Countries showing substantive progress (at least 4 black dots).
b. Countries where there is progress but not across a broad front (at least two black dots).
c. Countries where actions are being taken but progress is limited.
Note: ■ denotes substantive action; ▨ denotes moderate action; ❑ denotes little or no action.

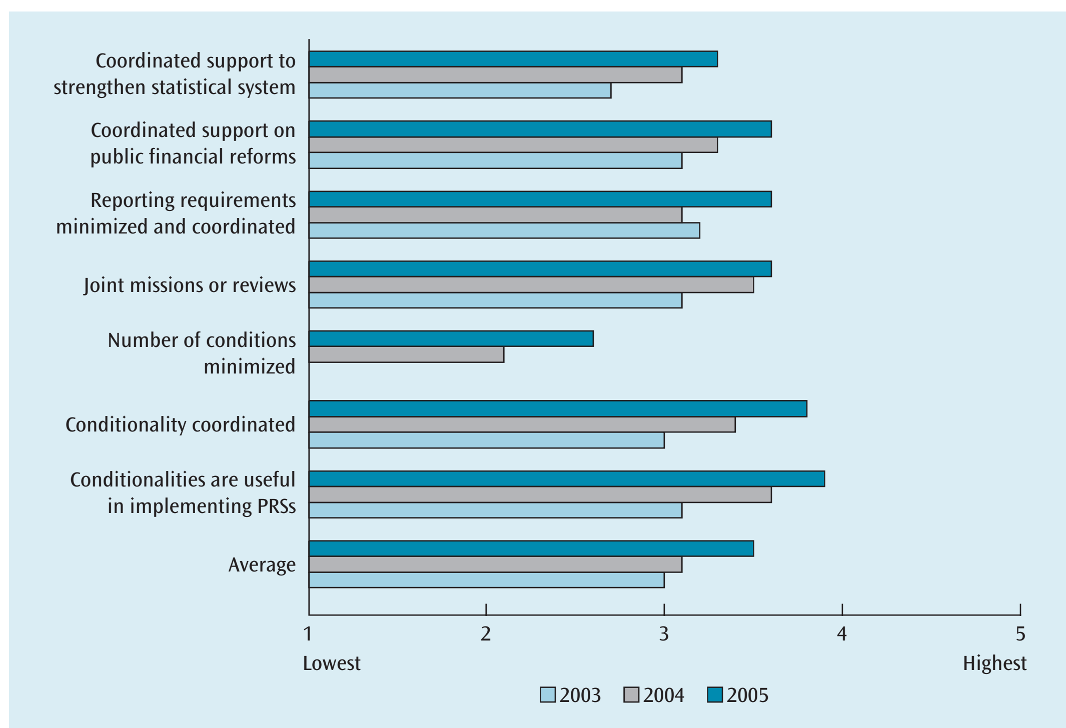
that appear common to this group of countries are strong government leadership in setting out priorities on development assistance, an effective implementation process for poverty reduction strategy, a mature government-donor aid relationship, and a well-functioning aid coordination mechanism focused on concretely addressing difficult operational issues. In other countries, such as Bangladesh, Burkino Faso, Cambodia, Ethiopia, and Ghana, there has been accelerating moderate and concrete progress, while in countries such as the Kyrgyz Republic, Malawi, and Senegal, there is progress, but it is still limited and does not yet cover a broad front. In countries not reflected in the table, harmonization and alignment actions are generally less advanced.

Over the past year countries and donors have made the most notable progress in five areas:

- *Customizing Paris indicators*. Examples are Ghana, Nicaragua, Uganda, and Vietnam.
- *Collaborative or joint assistance strategies*. In Nigeria the assistance strategy was undertaken jointly by DFID and the World Bank. In Cambodia, the Asian Development Bank, the U.K. Department for International Development (DFID), UN agencies, and the World Bank collaborated on the assistance strategy. In Uganda, a strategy was developed jointly with about 10 bilateral and multilateral partners.
- *Budget support*. The 2005 budget support survey by the SPA found that 28 percent of total aid to 14 countries is being provided as budget support, compared with 26 percent in 2004; 61 percent of these programs have made a multiyear commitment, with an average of 3.1 years; and 87 percent of such aid committed in 2005 was disbursed during the fiscal year when it was scheduled, compared with 75 percent in previous years.[14] Moreover, the surveyed governments were of the view that memorandums of understanding underpinning budget support operations have served to reduce transaction costs. Results from the SPA survey also suggest an improving trend in recipients' perception of donor behavior (figure 3.5). The survey responses show, for the second year in a row, an increase in satisfaction overall and in all the areas of donor practice. The survey responses indicate that in 2004–5, donor practices with lower scores tended to improve more.
- *Sectorwide approaches*. Sectorwide approaches (SWAPs), which initially focused on the health and education sectors, are now used in the areas of infrastructure, roads, water, agriculture/rural development, and justice in some countries. Recent SWAPs increasingly involve multidonor pooling, use of common procedures, and reliance on country systems.
- *Joint analytic work*. Increasingly, donors are undertaking analytic work jointly; for example, 2005 calendar year data from the World Bank indicate that 22 percent of its major economic and sector work was conducted with other partners (see chapter 4).[15]

The encouraging developments at the country, regional, and global levels do not provide grounds for complacency as there remain many obstacles to further broadening and deepening implementation. In donor countries, political factors as well as incentive structures within donor agencies are critical to progress. Politicians and civil society—especially NGOs and private groups, who could be affected by changes in aid modalities—might not attach the same commitment to harmonization and alignment as senior managers of aid agencies (de Renzio 2006). Thus, senior managers of donor agencies need to work with politicians and civil society to build broad and effective support for moving forward on the Paris framework. At the same time, the internal incentive systems—both at the institutional and individual level—need to be compatible with a sharpened focus on harmonization, alignment, and results (ODI 2004).[16] Although aid agencies are making progress on improving their internal incentive systems, more work is needed.

FIGURE 3.5 Satisfaction improving with donor practices, 2003–5



Source: SPA Budget Support Survey 2005.

Enhancing Aid Quality: Aid Modality, Allocation, and Predictability

Improving aid modalities. The modality (instrument) through which donors deliver aid matters. Donors tend to use a range of modalities; the choice of modality typically is influenced by political and other constraints on the donor side and by partner country circumstances. One issue that arises is whether the effectiveness of aid can be enhanced within current aid modalities. This is particularly so for technical cooperation (TC), which continues to be a key donor tool for supporting capacity building, although there are issues surrounding its effectiveness.[17] The DAC estimates "free-standing" TC (that is, cooperation aimed at capacity building and not related to investment) to be nearly $20 billion, or about a quarter of total net ODA. TC to Africa was around $4.5 billion in 2004, nearly a fifth of total assistance to the region.

To better support sustainable capacity development, technical cooperation needs to be aligned with the newer paradigm for capacity building (World Bank 2005a). This will require recipients to have more ownership and control over TC, so that assistance can be provided where it is really needed. In addition, the focus of technical assistance should be on building capacity at the level of institutions, organizations, and individuals. Mainstreaming technical assistance in programs and projects can also enhance its effectiveness. Finally, untying TC and providing it as budget support could yield savings through the competitive hiring of experts.[18]

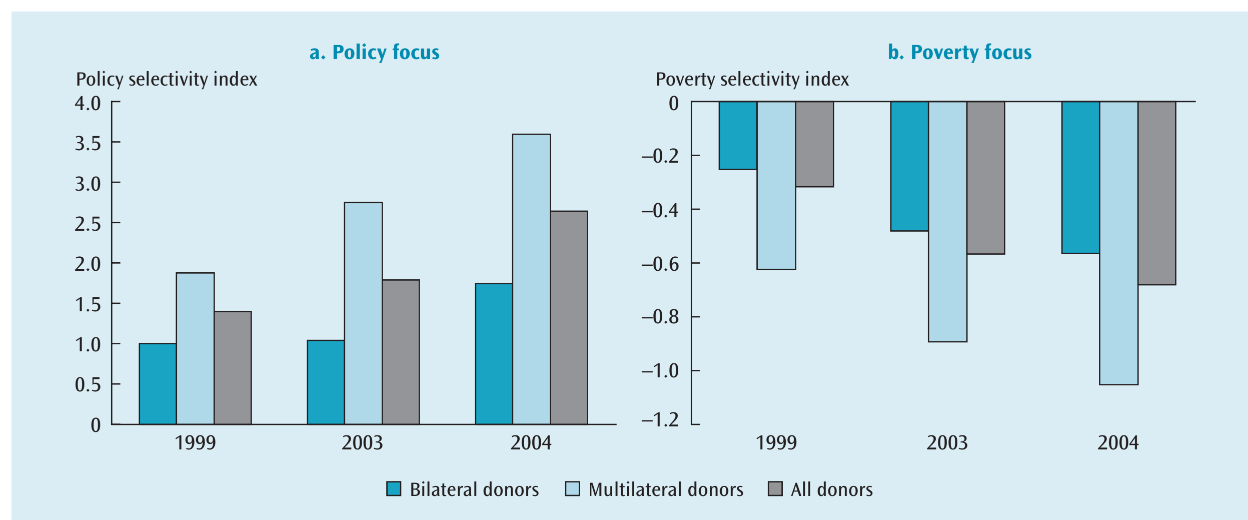
Although bilateral food aid is a small component of total aid (about 5 percent), it continues to be an important tool for providing emergency assistance and for addressing hunger and malnutrition.[19] Most food aid is tied, which raises the issue of whether untying

can lower the cost of providing assistance for food. A recent Organisation for Economic Co-operation and Development (OECD) study finds that providing direct transfers in kind are at least 30 percent more costly for donors than unrestricted financial assistance (OECD 2005c). Nor is tied food aid cost-effective for the recipient country: transfer of food in kind was found to be about 50 percent more costly than locally procured food and 33 percent more costly than food imports from a third country.[20] It appears that financial assistance or more flexible sourcing is preferable, except where local procurement might not always be an option, especially in areas with food shortages, or where well-functioning internal markets are lacking, and where weak trade linkages could hamper imports from third countries (also see box 3.2).

Improving allocations. Although the causal mechanisms through which aid has an impact on poverty reduction are not settled in the literature, it would appear that to achieve the MDGs, aid should be targeted to countries with poorer populations and governments committed to poverty reduction. Aid allocation patterns suggest that donors are paying more attention to poverty and to quality of recipients' policies and institutions. Results from the selectivity model of Dollar and Levin (2004) indicate that in 2004 over two-thirds of bilateral donors had a significant relationship between aid and poverty and that the poverty elasticity of aid had strengthened for most of these donors. The results for policy elasticity of aid likewise show a strengthening of the relationship between aid and the quality of policies and institutions (World Bank's Country Policy and Institutional Assessment); although some large bilateral donors are still not very selective (figure 3.6). Overall, these elasticities are much higher for multilaterals than bilaterals. Donors favor other criteria in aid allocation as well, including geostrategic considerations, vulnerability to shocks, and former colonial ties (Amprou, Guillaumont, and Guillaumont-Jeanneney 2005).

Fragile states. Fragile states present a special challenge for the donor community: *Global Monitoring Report 2005* highlighted the issue of "aid orphans" receiving much less aid and "aid darlings" receiving much more aid than can be explained by policy and poverty criteria. A set of principles for international engagement in fragile states gained broad support among donors in 2005. These principles are

FIGURE 3.6 Strengthening trend in donors' poverty and policy focus



Source: Staff estimates.

BOX 3.2 Measuring the "quality of aid"

Aid "quality" refers to the form and modalities of aid that make it more effective as a resource for advancing development objectives. One approach is that of the Center for Global Development, which aims to measure aid quality of donors in its Commitment to Development Index (CDI). The CDI adjusts for "selectivity" of aid flows to poorer and better-governed countries, for tax incentives that encourage charitable giving, and for discounts tied to aid and small average project size (Roodman 2005). The CDI methodology is under review for improvement. From the recipients' perspective, important aspects of aid quality include fragmentation across donor programs and aid volatility. Some of these aspects are to be monitored under the Paris Declaration on Aid Effectiveness, which may contribute to strengthening the future monitoring of aid quality.

now being piloted in nine countries.[21] Early reports suggest that the principles strongly complement the Paris Declaration, reinforcing messages on coordination—and, by extending the framework to include nonaid actors such as security and diplomatic actors—the pilots are helping to focus attention on some of the most difficult coordination challenges in fragile states. The pilots are also helping to focus attention on some of the more complex concepts identified in the principles, including the operational implications of the state-building objective. Experience from these pilots will be used to illuminate areas for further policy and operations work.[22]

Emerging experience points to the dynamic nature of fragile state environments, implying that strategies should aim to look ahead at the direction of reform dynamics, avoiding an oversimplistic design of assistance based on past performance.[23] Experience has also shown that careful attention to prioritization, harmonization, and results is critical in fragile states, particularly in situations of fast transition, which often suffer from fragmentation and a multiplicity of actors. The newly created UN Peacebuilding Commission will bring together key international actors to marshal resources and advise on postconflict peace-building and recovery strategies, focus attention on reconstruction and institution-building efforts to help lay a solid foundation for sustained development, improve coordination among actors (both within and outside the United Nations), develop best practices, and help ensure predictable financing for early recovery work.[24]

Improving the predictability of aid. The prospect of higher volumes and a shift from projects to general budget support could increase the volatility of aid (Bulir and Hamann 2005), even as ramping up and maintaining scaled up service delivery call for greater predictability in resource flows. A recent study (Gelb and Eifert 2005) shows that although predictability poses a special challenge for budget support, there are practical ways of addressing this issue. For example, applying performance-based allocation rules with a flexible precommitment rule, such that aid levels adjust sharply only in response to major performance changes, can allow for precommitment of aid in a multiyear framework while avoiding drawn-out periods of misallocations. In addition, donors could fund a country's reserve holdings—that is, a buffer reserve fund of two to four months of imports—so that the reserves could cushion a shortfall in disbursements arising from exogenous factors unrelated to country performance.

Issues in Managing a Scaling Up of Aid

With donors planning to boost aid to poor countries, the economic impact on recipients of substantially higher flows needs to be addressed. Some of the issues that need to be considered are the macroeconomic impact of

higher aid in terms of appreciation of the real exchange rate and consequences for external competitiveness; management of monetary and fiscal policy; budgetary management issues of higher and possibly more volatile aid flows; the implications of scaled-up aid for medium-term expenditure frameworks and the composition of public investment; and identification and management of the institutional, organizational, and skills constraints to scaling up aid (Heller 2005). Several of these issues, particularly absorptive capacity constraints and the need for appropriate sequencing of investment, were dealt with in detail in *Global Monitoring Report 2005*.[25] A discussion of macroeconomic management issues is presented in box 3.3.

At the country level, scaling up must be anchored in a strengthened Poverty Reduction Strategy process: ambitious country-owned and -led development plans linked to medium-term expenditure frameworks and focused on results. Drawing on the PRSs, the consultative group and roundtable processes can be used to identify the scope of scaling up on a country-by-country basis. The DAC and the World Bank are collaborating to enhance the CG-RT processes to provide a practical, mutual accountability-based framework for linking resources to results (OECD 2006b). The Bank's Africa Action Plan, as well as the recently approved Catalytic Fund, will promote the formation of results and resources consultative group meetings so as sharpen the results focus of alignment and harmonization efforts at the country level, and to improve the predictability of aid (World Bank 2005c). The framework for enhancing the CG-RT processes would entail various tasks, including specifying MDG-based results that are to be targeted and the actions by partner governments to achieve these results, identifying capacity constraints and the resources needed to build capacity, obtaining donor commitments for predictable and flexible financing consistent with the Paris Declaration targets, and monitoring progress on results and commitments of aid donors and partners.

Progress on Debt Relief for the Poorest Countries

The past year saw major progress in extending and deepening debt relief to the poorest countries. In June 2005, the G-8 proposed that three multilateral institutions—the AfDF, IDA, and the IMF—cancel 100 percent of their debt claims on countries that have reached, or will eventually reach, the completion point under the HIPC Initiative, thereby freeing up additional resources to help these countries reach the MDGs. The G-8 Proposal, now called the Multilateral Debt Relief Initiative, will deepen the debt relief provided under the HIPC Initiative by further cutting the debt of poor countries by about $50 billion (in nominal terms).

Progress on the HIPC Initiative

Overall, substantial progress has been made in the implementation of the HIPC Initiative. As of March 2006, 29 HIPC have reached the decision point and are receiving debt relief; these countries account for about two-thirds of the initiative's total expected debt relief in net present value terms. Progress toward reaching the completion point—when creditors provide the full amount of debt relief committed at the decision point on an irrevocable basis—continued in 2005; three additional countries reached the completion point, bringing the total number of countries to have done so to 18. Most of the 11 countries in the interim period between their decision point and completion point are on track with respect to their macroeconomic programs; others that experienced difficulties in program implementation are pursuing the necessary policy measures to bring their economic programs back on track (IMF-World Bank 2005).

In addition, a list of countries meeting the enhanced HIPC Initiative's income and indebtedness criteria at end-2004 was approved in April 2006. The Boards of the IDA and the IMF had decided, in September 2004, to extend the sunset clause of the HIPC Initiative to end-2006 and to ring fence its application to countries satisfying the enhanced HIPC Initia-

BOX 3.3 Macroeconomic management of surges in aid

Meeting the MDGs would require a substantial increase in resource inflows to low-income countries, implying the need for careful attention to macroeconomic management, particularly coordination of fiscal, monetary, and exchange rate policy in response to an aid surge.

Two related but distinct responses to aid increases—absorption and spending—help to analyze macro management options (IMF 2005). Absorption refers to the increase in net imports associated with an increase in aid, whereas spending refers to the widening of the fiscal deficit (net of aid) associated with that increase.

To absorb and spend is the textbook response to aid; the government increases investment, and aid finances the resulting rise in net imports. Even if the government spending is on domestic goods, the aid allows the resulting higher aggregate demand and spending to increase net imports without creating a balance-of-payments problem. Some real exchange rate appreciation may be necessary to enable this reallocation of resources.

In general, spending and absorbing aid is the only sensible long-run alternative to forgoing aid altogether. However, other responses to incremental aid may be justified under some circumstances and for a limited period.

To save incremental aid—that is, to neither absorb nor spend—may be a good way to build up international reserves from a low level or smooth volatile aid flows.

To absorb, but not spend, substitutes aid for domestic financing of the government deficit. Where the initial level of domestically financed deficit spending is too high, this can help stabilize the economy. Alternatively, it can reduce the level of public debt outstanding, crowding in the private sector. To spend and not absorb is a common but problematic response and usually reflects inadequate coordination of monetary and fiscal policies. This response is similar to a fiscal stimulus in the absence of aid. The aid goes to reserves, so the increase in government spending must be financed by the printing of money (which generates inflationary pressures) or by government borrowing from the private sector (which crowds out private investment). There is no real resource transfer from abroad, given the absence of an increase in net imports.

Dutch disease—the crowding out of exports through real exchange rate appreciation—is often seen as an unfortunate byproduct of aid. A permanent increase in the level of aid to a country may lead to some degree of real appreciation of the exchange rate. This appreciation draws domestic resources from the production of traded goods to the production of schools, hospitals, and other infrastructure deemed crucial to development. However, if aid-financed spending generates a strong supply response—for example, eases critical infrastructure bottlenecks to agriculture and manufacturing—and stimulates dynamic externalities, Dutch disease may be avoided. In both cases, aid finances the rise in net imports that comprise the counterpart to the reallocation of resources. In essence, this is the spend-and-absorb case discussed above.

In the long run, therefore, aid surges may well lead to some degree of real appreciation. Recent work suggests that this may have a significant adverse impact on labor-intensive and exportable manufacturing industries (Rajan and Subramanian 2005a and 2005b). It is therefore crucial that aid-financed investments be targeted so that the resulting gains in productivity more than outweigh any loss of export competitiveness. Moreover, the pace of aid absorption and spending could be adjusted if Dutch disease concerns are important and aid-generated increases in productivity are slow to materialize. In the short run, a country's circumstances should dictate the macroeconomic responses to a surge in aid inflows: weak investment opportunities or very low international reserves could indicate that aid should be temporarily saved, but over the long term aid should be both spent and absorbed.

tive income and indebtedness criteria using end-2004 debt data. The list of countries that meet these two criteria and might wish to be considered for debt relief under the Initiative includes seven countries previously identified as HIPC plus four new countries. Three additional countries that meet the required criteria indicated that they do not wish to avail themselves of the Initiative.

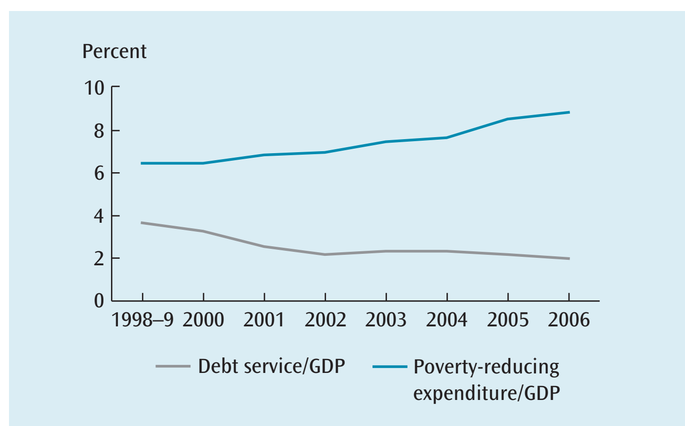
Debt relief under the HIPC Initiative is projected to substantially lower debt and debt service ratios for most HIPC that have reached the decision point. Net present value (NPV) of debt stocks in the 29 HIPC that reached the decision point by March 2006 are projected to decline by about two-thirds once they reach their respective completion points. The ratio of debt service to exports

and fiscal revenues for these countries is estimated to have declined from an average of about 16 and 24 percent in 1998–9 to 7 and 12 percent in 2005, respectively. These ratios are projected to decline further to less than half of the 1998–9 average by 2006.

For these 29 countries, poverty-reducing expenditures on average have risen from about 6 percent of GDP in 1999 to 9 percent of GDP in 2005, a level more than four times that spent on debt service (figure 3.7).[26] In absolute terms, poverty-reducing spending is estimated to have increased from about $6 billion in 1999 to $13 billion in 2005, and is projected to increase to $15 billion in 2006.[27]

Creditor participation under the HIPC Initiative remains an issue, in particular with respect to non–Paris Club bilateral and commercial creditors. Although commercial creditors account for less than 4 percent of the total debt relief due under the initiative, most have not provided their share. Moreover, the share of relief by non–Paris Club creditors has declined, as a number of them have withdrawn their participation from the initiative because of restrictive legislation, weak debt and asset management, limited understanding of the HIPC methodology, or lack of communication with debtors. In addition, the number of lawsuits initiated by commercial creditors against HIPC has increased. Moral suasion remains the principal measure for encouraging participation and discouraging litigation by remaining commercial creditors. The Debt Reduction Facility (DRF) for IDA-only countries has been an important instrument in reducing commercial debt owed by HIPC.[28]

FIGURE 3.7 Lower debt service, higher poverty-reducing expenditures, 1999–2006



Source: IMF-World Bank 2005 and staff estimates.
Note: Data for 2005 are preliminary; data for 2006 are projections.

Augmenting Debt Relief: The MDRI

The MDRI deepens the debt relief provided by the HIPC Initiative by canceling the debts of HIPC to the AfDF, IDA, and the IMF, and it provides dollar-for-dollar compensation for the costs of the MDRI debt relief for the AfDF and IDA. Through the MDRI, these countries will receive a further reduction in debt of around $50 billion—an average annual debt flow relief of over $1 billion over the next decade and close to $2 billion per year in the following decade.

Key features of the MDRI. The MDRI cancels 100 percent of the debt claims of the AfDF, IDA, and the IMF on countries that have reached, or will eventually reach, the completion point under the HIPC Initiative. Unlike the HIPC Initiative, the MDRI does not propose any parallel debt relief on the part of official bilateral or private creditors, or of multilateral institutions beyond the AfDF, IDA, and the IMF. Although the MDRI is an initiative common to three international financial institutions, the decision to grant debt relief is ultimately the separate responsibility of each institution, and the approach to coverage and implementation varies. There are three major variables when determining eligibility for debt relief under the MDRI. These variables include the cutoff date of eligible debt stock, the credit coverage of the debt to be cancelled, and the group of countries to be covered under the MDRI (table 3.3).

The MDRI implementation date is the beginning of 2006 for the AfDF and the IMF and mid-2006 for IDA; the actual delivery of debt relief occurs only when countries have been confirmed to qualify for such relief. Qualification for MDRI relief by HIPC that have

TABLE 3.3 Key features of the MDRI by institution

	IMF	IDA	AfDF
Implementation date	January 1, 2006	July 1, 2006	January 1, 2006
Cutoff date for debt relief	End-2004	End-2003	End-2004
Country coverage	All HIPC plus all non-HIPC with per-capita income of US$380 a year or less—Cambodia and Tajikistan	All HIPC	All HIPC in Africa
Timing of delivery of debt relief	For postcompletion point HIPC (plus eligible non-HIPC), once they meet the qualification criteria For precompletion point HIPC, once they reach the completion point	For postcompletion point HIPC, once they meet the qualification criteria For precompletion point HIPC, once they reach completion point, at the beginning of a quarter following confirmation of eligibility by the Board of Executive Directors	For postcompletion point HIPC, once they meet the qualification criteria For precompletion point HIPC, once they reach the completion point
Modality of debt relief	Stock cancellation	Stock cancellation and adjustment of gross assistance flows by amount forgiven	Stock cancellation and adjustment of gross assistance flows by amount forgiven

Source: AfDF, IMF, and World Bank staff.

already reached the completion point is contingent on satisfactory performance since the completion point in three key areas: macroeconomic performance, implementation of a poverty reduction strategy detailed in a Poverty Reduction Strategy Paper (PRSP) or a similar framework, and public expenditure management systems.[29] HIPC that have not reached the completion point will automatically qualify for MDRI relief once they reach the completion point.[30]

Twenty countries were assessed in 2005 and 19 were found to satisfy all the criteria and hence qualify for debt relief under the MDRI from the IMF.[31] Debt relief amounting to special drawing right (SDR) 2.3 billion (about US$3.4 billion) was delivered to these 19 countries in early January 2006.[32] Debt relief from IDA is expected beginning this July for 17 completion point countries.[33] Debt relief from AfDF is expected once donors finalize the MDRI implementation modalities for the AfDF.

Additionality of donor financing—establishing baselines for donor contributions. The MDRI also commits to providing additional resources to ensure that the proposed debt forgiveness does not undermine the institutions' overall financial integrity or ability to continue to provide financial support to low-income countries. The AfDF's estimated cost from debt cancellation is $9.06 billion (UA 5.84 billion) in nominal terms; the costs to IDA from the MDRI are about $37 billion (SDR 24.8 billion) in nominal terms;[34] and the estimated cost of full debt relief for the Fund is around $5 billion (SDR 3.5 billion) in end-2005 NPV terms, of which about SDR 1.3 billion is already being financed through the HIPC Initiative.[35,36]

Actual additionality of donor financing is required to ensure that IDA countries will benefit from the MDRI. There will be no additionality if donors' replacement resources to cover forgone reflows of IDA and AfDF were merely deducted from the regular financial

support of these institutions' donors. Thus, IDA and AfDF have established baselines on which the additionality of donor financing can be assessed:

Baseline for IDA contributions

- The contribution baseline has been set with reference to IDA14 regular contributions and assuming an inflation rate of 2 percent per year for the SDR basket of currencies, regular contributions in IDA15 would increase by 6.12 percent over each donor's regular contribution to IDA14 in SDR terms.[37] This would lead to an aggregate contribution baseline for regular contributions of around $16.3 billion (SDR 10.817 billion) in IDA15 (table 3.4).[38]
- Compensatory financing of IDA's forgone credit reflows due to the MDRI will be additional to this contribution baseline. In addition, the financing framework of future replenishments will also include special financing items, namely, compensation for IDA's HIPC-related costs and financing of forgone principal reflows due to IDA grants.
- The agreed contribution baseline would be indicative in nature and intended to demonstrate transparently the additionality of debt relief financing. The level of contributions, and therefore the size of successive IDA replenishments, will, as now, remain the sovereign decision of each government in the IDA donor community.[39] The agreed baseline for additionality will provide a basis for mutual accountability among donors, and an important public signal of the commitment to avoid substitution of regular donor contributions for debt relief compensation.

Baseline for AfDF contributions. To establish the additionality of donor replacement funds beyond AfDF-X, an inflation rate of 2 percent per year is assumed such that the

TABLE 3.4 Indicative donor commitments to IDA and AfDF over the next decade
(Baseline: constant regular donor contributions in real terms—US$ billions)

	IDA			AfDF		
	IDA 14 (FY06–08)	IDA 15 (FY09–11)	IDA 16 (FY12–14)	AfDF-X (CY05–07)	AfDF-XI (CY08–10)	AfDF-XII (CY11–13)
Regular donor contributions						
In current replenishment (net of supplemental, incentive, accelerated funds)	14.9			3.59		
In future replenishments (constant in real terms)[a]		**16.3**	**17.8**		**3.81**	**4.04**
Special financing commitments of donors	2.6	4.4	5.6			
of which: Financing of MDRI costs[b]	0.8	1.9	2.9	0.12	0.31	0.52
Total indicative financing commitments of donors	17.5	20.7	23.4	3.71	4.12	4.57

Source: AfDF and IDA staff estimates.
a. For IDA, based on regular donor contributions in IDA14, at the IDA14 foreign exchange reference rates, using a 3% per year USD deflator (equivalent to a 2% per year deflator in SDR terms). For AfDF, based on regular donor contributions in AfDF-X, at the AfDF-X foreign exchange reference rates, using a 3% per year USD deflator (equivalent to a 2% per year deflator in UA=SDR terms).
b. For IDA, based on disbursed and outstanding credits; cut-off date of 12/31/2003 and implementation date of 07/01/2006; includes 38 HIPC and 4 countries potentially eligible under the HIPC Sunset Clause. For AfDF, based on disbursed and outstanding credits at end-December 2004 as cut-off date, and implementation date of 01/01/2006; includes 32 HIPC and one country potentially eligible under the HIPC Sunset Clause.

aggregate nominal donor contributions of UA 2.454 billion in AfDF-X would increase at the compound rate of 6.12 percent to UA 2.604 billion in AfDF-XI.[40]

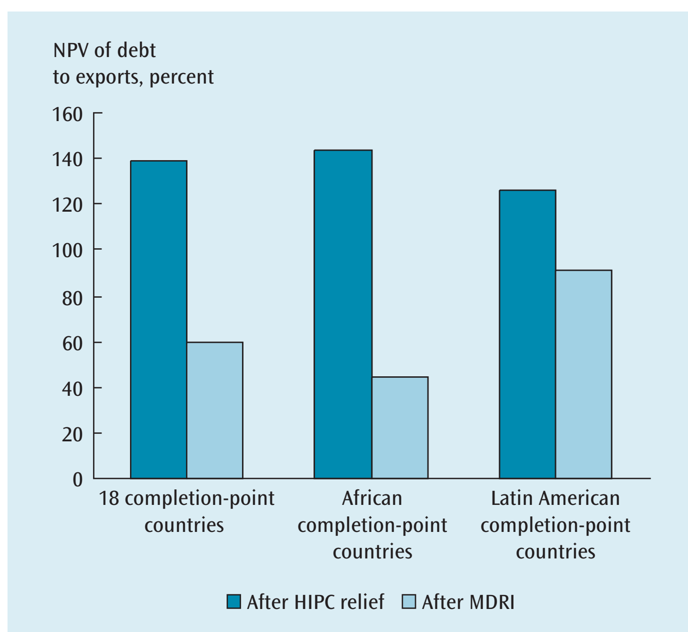
Impact on IDA/AfDF assistance. The MDRI will affect gross assistance flows from IDA and AfDF through a two-step process. First, 100 percent stock cancellation will be delivered by relieving eligible countries of repayment obligations and by adjusting their gross assistance flows by an equivalent amount. This feature helps allay moral hazard and equity concerns associated with debt cancellation. Second, additional resources provided to these institutions by the donors (to compensate for the forgone debt service from the country) will be reallocated to IDA-only and AfDF-only countries through the existing performance-based allocation systems of IDA and AfDF. This feature helps strengthen the link between resource transfers and country performance levels.

As a result of debt relief, *total* IDA assistance flows—the sum of new IDA commitments and forgone reflows—would be expected to remain at least intact for all beneficiary countries. Therefore, in terms of net resource transfers, no MDRI-recipient country would be expected to be worse off following debt relief. However, *new* IDA commitments may decline over time for some countries receiving debt relief, depending on the difference between future annual performance-based allocations they receive from IDA and forgone debt service at each period. Longer-term projections of future performance-based allocations are, however, subject to a considerable degree of uncertainty. A country's allocation in any given year will depend on a number of factors, including its performance relative to other countries; whether it is eligible for IDA grants and, consequently, subject to a volume discount under IDA's grant allocation system; the size of IDA's overall available resource envelope; and the extent of country graduations from IDA and reverse graduations back into IDA. Many alternative scenarios could therefore be devised, leading to diverse outcomes.

The challenge for countries receiving debt relief is to ensure that financial resources freed up by debt reduction are used for reaching the MDGs. Here, sound public financial management is key to achieving results; chapter 6 discusses the quality of public financial management in HIPC and suggests ways of improving performance. It is also critical that debt reduction does not undermine recipient countries' capacity to mobilize domestic resources for development.

Lower debt burdens and debt sustainability. The MDRI will significantly reduce debt burden indicators in HIPC. Debt cancellation, once implemented, would cause debt ratios in HIPC to be significantly lower than those for grant-eligible non-HIPC. For the 18 postcompletion point HIPC, about 80 percent of the debt outstanding after HIPC relief is owed to multilateral creditors; in these countries the average NPV debt/exports ratio would fall from over approximately 140 percent after HIPC relief to a projected 59 percent after implementation of the initiative (figure 3.8). This would put debt ratios in these countries at less than half the average in non-HIPC that are

FIGURE 3.8 Impact of MDRI on debt ratios in HIPC



Source: Staff estimates.

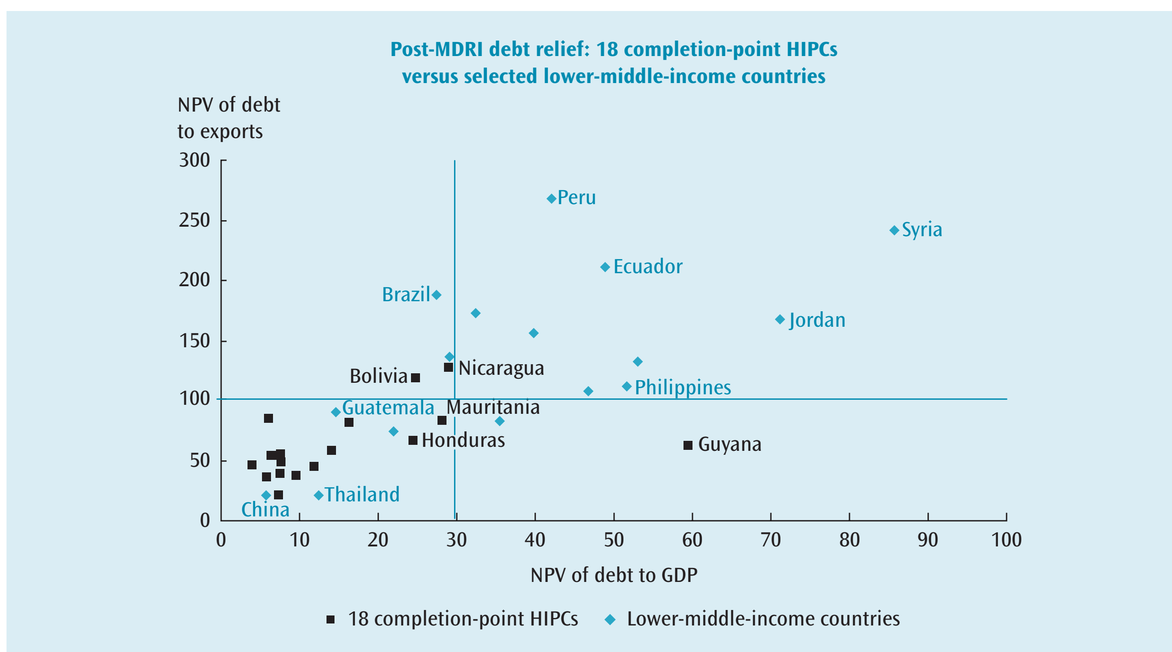
currently eligible for grant assistance from IDA due to elevated debt ratios.

The MDRI would leave African and Latin American and Caribbean (LAC) HIPC with different debt ratios. Among African completion point HIPC, the average debt/exports ratio would be about 45 percent, whereas among the LAC completion point HIPC it would be 92 percent. This is largely due to the fact that LAC HIPC would receive debt relief

BOX 3.4 The MDRI and "free-riding" risks

The MDRI provides for post-HIPC irrevocable debt stock cancellation and hence will significantly lower debt stock burdens for the debt relief recipient countries. This relief comes on top of HIPC debt relief already committed. After this debt relief, the debt stock ratios in most of the recipient countries will be significantly below that of many middle-income countries, which primarily borrow on nonconcessional terms. As a result there is an increased risk of "free-riding"—situations in which nonconcessional lenders may indirectly obtain financial gain from debt forgiveness, grants, and concessional financing activities of IFIs.[a] This situation could lead to an excessive buildup of debt if nonconcessional borrowing is not carefully managed. The figure below displays the new debt burden indicators for the 18 completion point HIPC after MDRI.

Post-MDRI debt relief: HIPC versus selected lower-middle-income countries



Source: Global Development Finance database and staff estimates.
Note: Debt data are public and publicly guaranteed debt and IMF credits at end-2003. The debt burden indicators for middle-income countries would be even higher than those for HIPC if the indicators were based on total external debt, because private debt is much larger in middle-income countries than in HIPC.

Lower debt ratios alone would not necessarily lead to changes in commercial risk ratings for these countries as other factors such as political risk would also be considered. However, credit rating agencies have been paying attention to this new reality, and Standard and Poors (S&P) announced its plans to assign sovereign debt ratings for many

(continued)

BOX 3.4 The MDRI and "free-riding" risks *(continued)*

post-MDRI countries. Following a 2002 initiative by the United States to encourage African countries to apply for sovereign debt credit ratings so as to boost African participation in capital markets, several Sub-Saharan African countries obtained ratings: Burkina Faso, Cameroon, Madagascar, Mali, and Mozambique were issued ratings by S&P in 2004 (other than Botswana, which has an S&P rating of A, the ratings for other sovereigns are less than BB and hence speculative). Ratings represent a move toward transparency, help markets evaluate risk, and can help attract private investors.

Although increased FDI would be welcome in MDRI countries, lower debt stock ratios may result in a higher risk in the next few years that the fiscal space freed up by debt relief could be filled with new nonconcessional sovereign borrowing. This raises concern for the long-term development of the MDRI recipient countries, as excessive amounts of nonconcessional borrowing could potentially erode the benefits of the debt relief provided by multilateral creditors, namely sustainable debt burdens and additional fiscal space to support achievement of the MDGs. Most MDRI recipients, especially the postcompletion point HIPC, have had low and infrequent nonconcessional borrowing, most notably since the original HIPC Initiative was announced. In addition to the discipline imposed by the IMF arrangement itself, a condition of HIPC assistance, continued high debt burdens, and the likelihood of countries benefiting from HIPC and future debt relief initiatives may have been strong deterrents for commercial creditors to extend nonconcessional loans.[b] This may no longer be the case after MDRI.

a. While the similarity to the classical "free rider problem" in public economics is not perfect, the "free riding" debate in the present context reflects a concern that nonconcessional lenders may be willing to finance even unproductive investments knowing that, as a result of MDRI and the potential for future grants, the country will be able to make its debt service payments.
b. The universal creditor coverage under the HIPC Initiative and the common reduction factor that applied to all creditors were meant to address some of the potential free-rider problems. Without such features, there is inherently a higher risk of free-rider problems from the MDRI.

only from IDA and the IMF (currently there is no agreement for LAC HIPC to receive debt cancellation from other regional development banks), while African HIPC would benefit from debt relief from IDA, IMF, and the AfDF, which together hold, on average, 80 percent of debt outstanding in these countries.

Continued measures are needed by HIPC and by creditors to ensure that debt sustainability is maintained after HIPC and MDRI relief, just as similar measures are needed for other low-income countries (box 3.4). A review of the framework for assessing debt sustainability in low-income countries is currently under way to address the issue of how to apply the framework to MDRI recipients to ensure that they do not rebuild unsustainable debt burdens while not unnecessarily constraining access to resources for development.

Trade

World trade, though strong in 2005, slowed slightly from 2004. Exports of merchandise reached $10.2 trillion in 2005, growing 14 percent. While this rate is lower than the 2004 growth rate of 21 percent, it is still above the average of 8 percent over 1995–2004. Fuel exporters experienced a 37 percent increase in exports in 2005, but global nonoil exports also performed well, with 121 percent growth.

Developing-country export growth, at 24 percent, continued to outpace the global average. Middle Eastern and North African countries reported the highest level of export growth at 37 percent, up markedly from 28 percent in 2004, reflecting higher energy prices. China continued to accelerate its exports, with a 28 percent increase in 2005. Merchandise exports from Sub-Saharan Africa slowed slightly from 2004, but still experienced a 27 percent increase overall. Least developed countries experienced a remarkable 32 percent growth, while industrialized countries expanded their exports at a more modest 9 percent.

In addition to cyclical factors, the trade performance reflects continuing unilateral trade reforms. Average tariffs in developing

BOX 3.5 Estimating the impacts of global trade liberalization

The global welfare gains from full liberalization of merchandise trade are estimated at $280 billion a year by 2015, of which $86 billion would accrue to developing countries. This is an underestimate as it does not take into account the gains from services liberalization, trade facilitation (each day that goods are delayed in ports and customs imposes a cost on consumers equivalent to 1 percent of the value of the shipment), or possible dynamic productivity gains. The size of global gains also depends on actions by governments to both liberalize trade and implement complementary measures to facilitate adjustment and job creation. Although developing countries and LDCs as a group stand to benefit, much depends on the depth and content of the associated reforms.

Recent analysis (see Hertel and Winters 2006, as well as *Global Monitoring Report 2005)* demonstrates that some countries, such as Brazil and China, would make immediate gains from an ambitious Doha Round, while others could experience losses in the short run. Contrary to popular belief, global trade reforms would improve the income distribution in countries such as Brazil and reduce poverty, because households in many of the poorest areas in such countries rely heavily on low-skilled labor employed in agricultural activities or related sectors. But poorer households in richer parts of the country could lose because of higher food prices.

That some poor countries may experience short-term poverty increases points to the need for assistance to address adjustment costs and to implement measures to stimulate growth and reduce poverty. The answer is not to preclude trade reforms from occurring, but to complement them by actions to reduce transactions costs and improve the investment climate. Without improved transport and market infrastructure, along with increased investments in training, extension services, new seeds, and the like, the gains from trade reform for the poorest countries will be reduced. Aid for trade is critical to enhance the overall gains from trade and manage the costs and downside risks in vulnerable countries.

Sources: Hertel and Winters 2006; Anderson and Martin 2006; Djankov, Freund, and Pham 2006.

countries have fallen from 16.3 percent in 1997 to 12.2 percent in 2005. Additionally, China's WTO accession-related reforms, along with the impact of the elimination of quotas on world trade in textiles and clothing on January 1, 2005, imply that some of the potential gains from global trade reforms identified at the launch of the Doha Round in 2001 have already been realized.[41] But multilateral trade liberalization can still bring significant gains to the world economy (box 3.5).

Multilateral Negotiations

After the failure of Cancun in 2003, the July 2004 framework put the Doha Round negotiations back on track, but progress remained difficult. The 6th WTO ministerial meeting in Hong Kong in December 2005 was originally expected to agree on negotiating modalities for agriculture and nonagricultural products, but it became clear that agreement would not be reached. Expectations for the meeting were recalibrated, avoiding an acrimonious collapse, but leaving little time to achieve an ambitious outcome.

The road map agreed at Hong Kong requires agreement on divisive issues in the first half of 2006 to enable the round to be finalized before the expiration of U.S. Trade Promotion Authority in July 2007. Negotiating modalities for agriculture and industrial products are to be agreed by April 30, 2006, and comprehensive draft schedules for liberalization, by July 31. A new round of revised services offers is to be submitted by the end of July and final draft schedules of commitments, by October 31, 2006.

Aside from the road map, the ministerial produced fairly modest outcomes.[42] First, agricultural export subsidies (modest in dollar terms, but highly distorting) will be phased out by 2013.[43] Parallel disciplines are to be developed on equivalent programs, including food aid.[44]

Second, developed-country members will (and those developing countries who can should) provide duty-free and quota-free

market access for products originating from LDCs by 2008 or no later than the start of the implementation period of the Doha Round. But because of sensitivities regarding clothing, leather, and rice, commitments may be limited to 97 percent of tariff lines, significantly undermining the value for LDCs. For example, more than 70 percent of Bangladesh's exports to the United States are covered by only 70 tariff lines, or less than 1 percent of all U.S. tariff lines.[45] Only 39 tariff lines account for 76 percent of Cambodia's exports to the United States. Moreover, the value of any preferential access will depend on the restrictiveness of the rules of origin.

WTO members now face a considerable challenge in concluding the negotiations this year. All members need to galvanize the political will to undertake necessary reforms—the EU on expanding agricultural market access, the United States on reducing agricultural domestic support, and key developing countries on further market opening in manufactures and services—to conclude an ambitious Doha Round. Failure to do so risks either a modest Doha Round outcome that results in little new liberalization, or that the Round enters a period of drift. As the first trade negotiation with development explicitly at its core, it is vital that the Doha Round deliver reforms with concrete benefits for developing countries.

Developing countries' own reform could account for half of their potential gains from global liberalization. Such reforms are particularly important for countries confronting possible preference erosion or higher food import prices from OECD agricultural reform (box 3.6). Countries should be supported in addressing the short-term adjustment costs of reforms with long-term benefits,

BOX 3.6 Africa and trade reform

Sub-Saharan Africa would see an increase in real incomes of $4.8 billion from deep global reform of merchandise trade, or 1.1 percent of GDP. Although small in absolute terms, this increase is significant relative to initial incomes and trade flows. Two-thirds of the gains come from reforms by other countries (including other countries in Sub-Saharan Africa) and one-third from countries' own liberalization.

Agriculture accounts for 78 percent of the total gain for Sub-Saharan Africa, of which 12 percent (if southern Africa is excluded) comes from cotton. Cotton contributes a negligible amount (0.5 percent) to the global gains of trade reform but is very important to Africa. Global cotton trade reform would boost Sub-Saharan Africa's cotton output by $2.2 billion per year by 2015, and cotton exports by $1.9 billion. Sub-Saharan Africa (especially non-LDCs without preferences) gains from increased agricultural market access and from higher prices for crop exports.

But while Sub-Saharan Africa as a whole gains, some countries lose from preference erosion or, in the case of net food importers, from higher food prices. Losses from preferences, as with benefits, are less than expected due to strict rules of origin and are highly concentrated among relatively few countries and products (mostly those with quota rents, such as sugar). But even relatively small losses can pose significant adjustment problems for some countries, underlining the need for increased aid for trade to support and complement trade reform.

There is a large domestic agenda to address the competitiveness problems that underlie Sub-Saharan Africa's poor trade performance. Aid for trade can help by supporting policy reform and infrastructure investments. A typical import transaction in Africa takes 58 days (versus 14 days in the OECD), and each day of delay reduces export volumes by 1 percent on average. Poor roads and ports, and poorly performing customs, mean that trade facilitation measures in Sub-Saharan Africa will have significant payoffs. Services liberalization, coupled with aid for regulatory capacity, could help to improve access to new technologies, finance, and other services and could strengthen trade performance.

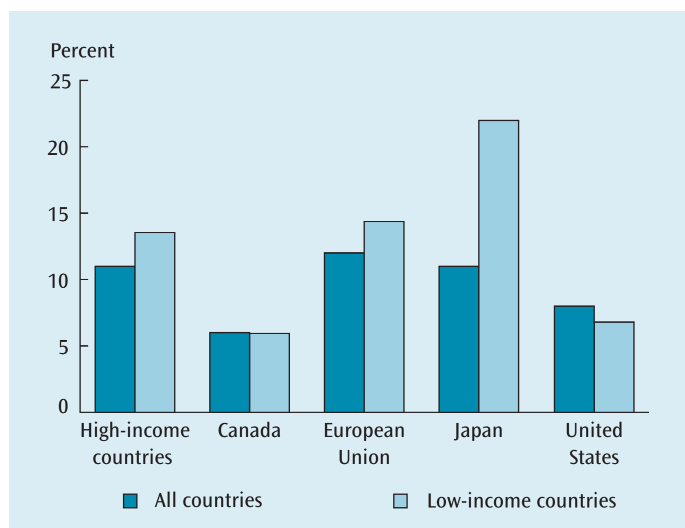
Sources: Anderson, Martin, and van der Mensbrugghe 2006; Djankov, Freund, and Pham 2006.

and in building capacity to expand their trade. More attention also needs to be paid to the distributional consequences of liberalization.

Regional Trade Agreements

Bilateral and regional trade agreements continued to mushroom during 2004–5 (annex table 3.1). As of January 2005, approximately 170 still active RTAs, up from 24 RTAs in 1990, had been notified to the General Agreement on Tariffs and Trade/WTO. Many more have not been notified: an estimated 250-plus RTAs cover one-third of world trade; 20 more await ratification, and another 70 are under negotiation. Although RTAs can include opportunities or issues not available multilaterally, from a development perspective, they are collectively inferior to nondiscriminatory liberalization. The benefits are often less than expected because of restrictive rules of origin (commonly a problem in North-South RTAs) or wide product exclusion (particularly prevalent in South-South agreements). As many as half of all RTAs may divert more trade than they create, according to *Global Economic Prospects 2005*, and bilateral "hub and spoke" RTAs benefit the hub (the rich country) disproportionately more than the spokes (developing countries). An ambitious Doha agreement would help to reduce discriminatory preference margins in all markets.

FIGURE 3.9 High-income countries' OTRI, overall and toward low-income countries, 2005



Source: Staff estimates.

Unilateral Policy Reforms

Tariff liberalization by OECD and developing countries caused a two-percentage point

TABLE 3.5 Developing-country OTRI by geographic region and changes, 2002–5

	OTRI for all countries[a]		OTRI for low-income countries		OTRI for least developed countries	
Importing income group/country	2005	change	2005	change	2005	change
East Asia and Pacific	16	–5.3	23	–3.0	24	–1.3
Europe and Central Asia	11	–1.2	13	–3.1	12	–3.0
Latin America and the Caribbean	17	–1.1	20	–0.8	20	–0.1
Middle East and North Africa	27	–4.3	38	–9.6	34	–13.0
South Asia	19	–4.0	27	–2.2	24	–2.6
Sub-Saharan Africa	23	0.0	24	–1.0	24	–0.8
Developing countries	18	–2.5	23	–2.6	22	–2.5
Least developed countries	20	–0.1	22	–0.1	22	0.0
Low-income countries	20	–1.6	24	–1.2	24	–1.1
Middle-income countries	17	–2.9	22	–3.5	21	–3.3

Source: Staff estimates.
a. High-income countries account for most of the OTRI for the "all countries" group.

reduction in the overall trade restrictiveness index (OTRI) for the world as a whole, to 14 percent on average.[46] The OTRI of high-income countries is 11 percent, down from 12 percent for 2002; much of this decrease is due to a reduction in agricultural tariffs underpinning market price supports (annex figure 3.1). These reductions mostly affected middle- and high-income country exporters; the trade restrictiveness confronting exports from low-income countries continues to be above the world average (figure 3.9), preferences notwithstanding. In part this trend reflects the importance of nontariff measures (NTMs) as a source of trade restrictiveness (annex figures 3.1 and 3.2). For low-income countries as a group, agricultural NTMs are as important as tariffs.

Agriculture is still much more protected than manufacturing, particularly in middle- and low-income countries. While LDC and Sub-Saharan exports face low barriers in manufacturing, their agricultural exports face a level of restrictiveness similar to, or higher than, that of products originating in high-income countries.

The changes in the OTRI between 2002 and 2005 (table 3.5) indicate that while world markets are now less restricted, the OTRI for LDCs has changed very little. The OTRI is still highest in the Middle East and North Africa, followed by Sub-Saharan Africa, South Asia, Latin America, and East Asia and the Pacific. Most of the decrease in the overall OTRI for developing countries is due to liberalization in middle-income countries. High-income countries are more open for Sub-Saharan Africa relative to low-income countries. But, this relative preference is lower now than in 2002, especially for Japan, where the OTRI against low-income countries has decreased substantially more than the OTRI against Sub-Saharan Africa.

Aid for Trade

The G-8 Summit in Gleneagles in July endorsed additional aid for trade[47] and requested detailed proposals from the international financial institutions, which were agreed at the September Annual Meetings. The main recommendation,[48] to enhance the Integrated Framework for Trade-related Technical Assistance for LDCs,[49] was subsequently taken forward by a task force of donors and LDCs in the WTO. The task force will report by April 2006; the enhanced Integrated Framework is to become operational by end-2006. The WTO Hong Kong ministerial also created an additional task force to provide recommendations by July 2006 on operationalizing aid for trade and asked the WTO Director-General to consult on appropriate mechanisms to secure additional resources for aid for trade.

Aid for trade has been steadily increasing. Between 2002 and 2003 trade-related assistance increased from 3.6 percent to 4.4 percent of total aid commitments; infrastructure accounted for a further 25 percent.[50] Assistance consolidated in 2004: commitments in trade policy and regulations declined from $934 million to $811 million, but assistance to trade facilitation and trade development rose sharply. Aid for infrastructure remained at $9.3 billion; Asia was the largest recipient, but Africa's share increased by 60 percent over 2002 to $3 billion in 2003. Assistance to Africa for cotton increased fivefold over 2002–3 to $63.5 million in 2004.

In July 2005 the European Commission announced an increase in trade-related assistance of €300 million a year to a total of €1 billion a year, which EU member states subsequently undertook to match by 2010. The United Kingdom alone will treble its aid for trade to £100m a year by 2010. Japan has promised $10 billion on aid for trade over three years, and the United States has promised a doubling of aid for trade to $2.7 billion a year by 2010.

The Bank's trade-related lending has almost trebled over the last three years, rebounding to $1.2 billion in 2004 from about $300 million in 2002, to account for 6 percent of portfolio, thanks largely to the resumption of lending for trade-related infrastructure. Africa is the priority target; it has

received some 60 projects and 30 percent of trade component lending.

Financial support from the IMF for potential adjustment costs of trade reform is generally met in the context of regular Fund arrangements. In 2004 the Trade Integration Mechanism was specifically designed to help members cope with the possible balance-of-payments impact of liberalization by trading partners. Up to $185 million (including potential augmentations under existing arrangements) has been made available thus far. Discussions are under way with selected members on incorporating floating tranches into Fund arrangements to provide flexibility on the timing of trade reforms associated with potential transitory balance-of-payments shortfalls.

There is a critical need to ensure that aid for trade is effective and that it is not viewed as a substitute for liberalization under the Doha Round, or as a bargaining chip as this is unlikely to result in decisions based on sound assessment of need. To ensure its effectiveness, aid for trade should be an integral part of national development programs. Developing countries have a better understanding of their needs and internal constraints, so local initiative and control over implementation is vital to the success of aid for trade projects. Aid for trade must be accompanied by necessary policy reforms to create a supportive investment climate and be additional, rather than a reallocation or redefinition of existing funds.

Notes

1. Not all ODA represents resources that can be used for long-term development.

2. In real terms non-DAC ODA was unchanged.

3. As part of the EU, these donors have also committed to meeting country-level targets of ODA/GNI collectively agreed to by the EU (see note 7).

4. The Forum on Partnerships for More Effective Development Co-operation (Feb 1–2, 2005) brought together DAC members and a number of non-OECD countries involved in furthering development in developing countries. The aim of the forum was to improve coordination and cooperation among the entire donor community—particularly through better information and knowledge sharing.

5. The World Bank is partnering with OECD-DAC and the United Nations Development Programme to gather information on South-South aid.

6. Both debt relief and technical cooperation declined in 2004. Contributions to multilaterals rose sharply, in part due to the increasing amounts of resources provided to the European Commission.

7. Debt relief represents additional financial resources if debt is being serviced, but amounts to an accounting exercise if it is not.

8. According to the Council of the European Union (2005), the individual objective for 2010 for the member states that are part of DAC is 0.51 percent and that for the 10 newest members of the EU is 0.17 percent.

9. Similar information on resources from non-DAC donors will not be collected.

10. DAC-World Bank–sponsored meeting on scaling up, December 6, 2005.

11. An international partnership hosted by the OECD DAC.

12. For the indicator on untying of aid, it was agreed in Paris that the target should be "continued progress."

13. The survey instruments were field tested in five partner countries in February and March 2006. Data collection is expected to begin in May to determine initial baselines. Early progress against the baseline will be measured, aggregated, and reported. A second survey to solidify these results will be undertaken in 2008, ahead of the next High Level Forum in Ghana later that year.

14. Budget support provided to survey countries increased 30 percent in 2005 to $3.3 billion. Bilaterals accounted for 29 percent of this increase. The United Kingdom disbursed 40.9 percent of its assistance in the survey countries as general budget support, and the Netherlands, 31.9 percent.

15. To promote collaboration, the World Bank, on behalf of an international partnership, hosts the Country Analytic Work Web site at www.countryanalyticwork.net, which carries major reports of more than 25 multilateral and bilateral donor agencies.

16. The OECD-DAC's Working Party on Aid Effectiveness is examining this issue with a view to identifying and disseminating best practice.

17. Technical cooperation is often criticized as being excessively costly because of the high cost of

international experts, as exacerbating the problem of brain drain by training the best and brightest but not being able to retain them, and as being too fragmented and uncoordinated (Berg 1993 and OECD 2006a).

18. An issue here is whether budget support is the appropriate way to provide technical assistance. In providing technical assistance as budget support, designated funds might need to be ring fenced so as to ensure their availability to support technical assistance activities.

19. Food aid is provided during emergency situations in which food supply has been disrupted or the local food market has been destroyed; for humanitarian purposes to prevent hunger in poor households; and sold in local markets with the proceeds providing budget support.

20. Timmer (2006) argues that during extreme emergency situations, such as immediately following an earthquake, tsunami, or hurricane, using the nearest supply source is usually faster and cheaper than procuring food supplies from far away and that it is likely to result in more timely relief.

21. The nine pilot countries and the convening donors are the Democratic Republic of Congo (Belgium), Guinea Bissau (Portugal), Haiti (Canada), Nepal (United Kingdom), Somalia (United Kingdom and World Bank), Solomon Islands (Australia and New Zealand), Sudan (Norway), Yemen (United Nations and United Kingdom), and Zimbabwe (European Commission).

22. Heads of agency will consider a synthesis report and refine the *Principles* at the end of 2006.

23. For instance, the LICUS Implementation Trust Fund provides small grants to support early reform, development service delivery, and harmonize approaches.

24. This will compliment the common results framework for governments and donors alike—the transitional results matrix—that brings together the political, security, economic, and social spheres into one simple planning tool. The transitional results matrix, which was developed by the Bank and other partners (notably the United Nations), has been used to guide transitions and as a precursor to a full PRSP in the Central African Republic, Liberia, and Sudan, among other countries.

25. Also see Agenor and others 2005 and Bourguignon, Sundberg, and Lofgren 2005.

26. The definition of poverty-reducing expenditures varies across countries. Commonly included are primary education, basic health, and rural development.

27. Country authorities are implementing public expenditure management systems that would ensure the efficiency of poverty-reducing expenditures. See IMF-World Bank (2005).

28. Since 1989 the DRF has assisted in retiring $4.1 billion in principal and $3.4 billion of associated interest owed to commercial creditors.

29. To receive MDRI relief from a participating international financial institution, countries must also be current on their obligations to the institution and must be compliant with existing reporting requirements on external borrowing to qualify for relief from IDA. If the boards find that these conditions have not been met, remedial measures would need to be implemented and qualification for MDRI relief would be reassessed.

30. In addition, to fulfill the principle of uniformity of treatment in the use of IMF resources, the Fund board decided that all members with per-capita income of $380 a year or less (HIPC and non-HIPC) will receive MDRI debt relief financed by the institution's own resources. Accordingly, Cambodia and Tajikistan are also eligible for MDRI relief from the IMF.

31. In the case of Mauritania, the board determined that it could qualify for MDRI relief only after certain remedial actions were taken.

32. Benin, Bolivia, Burkina Faso, Cambodia, Ethiopia, Ghana, Guyana, Honduras, Nicaragua, Madagascar, Mali, Mozambique, Niger, Rwanda, Senegal, Tajikistan, Tanzania, Uganda, and Zambia.

33. Mauritania will qualify for relief after implementing key public expenditure reforms. Cambodia and Tajikistan will only get debt relief from the IMF—see previous footnote.

34. The above cost estimate will be updated annually to take into account the expected time profile when HIPC would reach their completion points and become eligible for debt cancellation under the MDRI, the volume of debt relief to be provided under the current HIPC Initiative, and the foreign exchange rates to be used for valuing the USD-denominated HIPC relief in SDR terms (IDA's base currency).

35. This estimate excludes the potential sunset clause HIPC, and the protracted arrears cases (Liberia, Somalia, and Sudan). Additional contributions will be needed to cover the cost of debt relief for these countries.

36. Staff estimates that additional subsidy contributions of over SDR 200 million (over US$285 million) would be needed to allow the IMF to lend all remaining Poverty Reduction and Growth

Facility (PRGF) loan resources to low-income countries at the PRGF concessional interest rate.

37. In their letter of September 23, 2005, G-8 governments proposed that donor compensation for debt relief be additional to a contribution baseline for future IDA replenishments, set at the level of IDA14 contributions in real terms.

38. That amount would continue to increase by the SDR inflation rate for subsequent replenishments. The actual SDR inflation rate over the preceding three years would be used to determine the baseline volume of regular contributions in each future replenishment.

39. In the same vein, in their letter of September 23, 2005, G-8 governments state "that funding for IDA will continue to depend on donors' conviction of IDA's effectiveness in delivering development assistance; IDA reflows; and the performance, financing needs and absorptive capacity of poor countries."

40. To maintain donor contributions in real terms, that amount would continue to increase by the UA inflation rate for subsequent replenishments, using the actual average UA inflation rate per year over the preceding three years to determine the baseline volume of regular contributions in each future replenishment.

41. This is the major explanation why more recent estimates of the potential global gains from merchandise trade liberalization are lower than earlier analyses; see van der Mensbrugghe (2006).

42. Immediately before the ministerial, agreement had been reached on an amendment of the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding the use of compulsory licensing of pharmaceuticals for public health reasons (December 6) and an extension until July 2013 for LDCs to implement the agreement (November 29).

43. Although 2010 was proposed, the EU sought 2013 to coincide with the end of its forthcoming budget cycle.

44. The Ministerial Declaration introduces the concept of a "safe box" to ensure that *bona fide* food aid for emergency situations will not be impeded. Beyond that, commercial displacement is to be eliminated.

45. The total number of tariff lines at the eight-digit level is 10,500. The calculation was done at the eight-digit level.

46. While the tariff database has been updated to 2005, data on nontariff measures is essentially the same as for *Global Monitoring Report 2005*, reflecting the limited resources for tracking such policies. The OTRI measures overall restrictiveness, not just protectionism (for a detailed discussion see *Global Monitoring Report 2005*).

47. Aid for trade refers to technical and financial assistance to help countries address supply-side constraints to trade and transitional adjustment costs from liberalization (for a detailed discussion, see *Global Monitoring Report 2005*).

48. Others were that the Bank and the IMF will report by September 2006 on the adequacy of existing mechanisms to address regional or cross-country aid for trade and that they will strengthen the framework for assessing adjustment needs. The Bank will also better integrate trade-related needs into its country programs.

49. Information on the Integrated Framework is available at www.integratedframework. org.

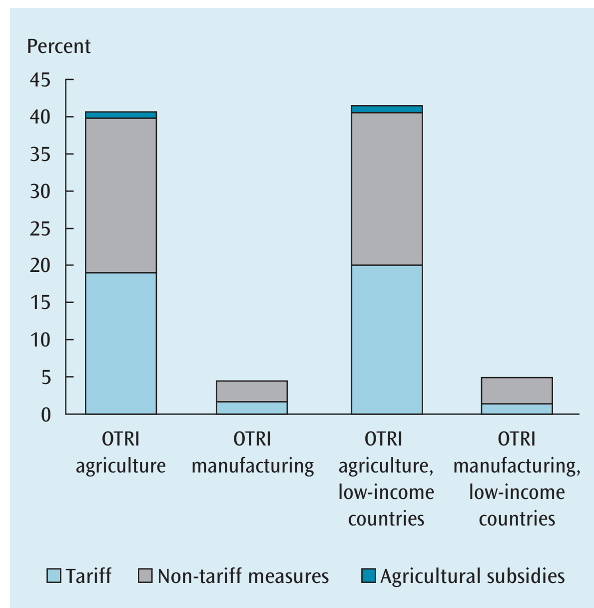
50. Definitions and figures are taken from the WTO/OECD DAC Trade Capacity Building Database.

ANNEX TABLE 3.1 New regional and multilateral trade agreements, 2004–5

Agreement	Year	Agreement	Year
Regional		**Bilateral** *(continued)*	
Central American Free Trade Agreement (CAFTA)	2005	China/Hong Kong (China)	2004
East African Community (EAC)[a]	2005	China/Macao SAR	2004
European Union Enlargement[b]	2004	European Union/Chile	2005
Greater Arab Free Trade Area (GAFTA)[c]	2005	European Union/Egypt	2004
		India/Thailand	2005
Bilateral		Japan/Mexico	2005
Albania/Moldova	2004	Japan/Thailand	2005
Australia/Thailand	2005	Romania/Serbia and Montenegro	2004
Australia/United States	2004	Singapore/United States	2004
Bulgaria/Moldova	2004	Turkey/Tunisia	2005
Chile/Korea, Rep. of	2005	Turkey/European Free Trade Association (EFTA)	2005
Chile/United States	2004		

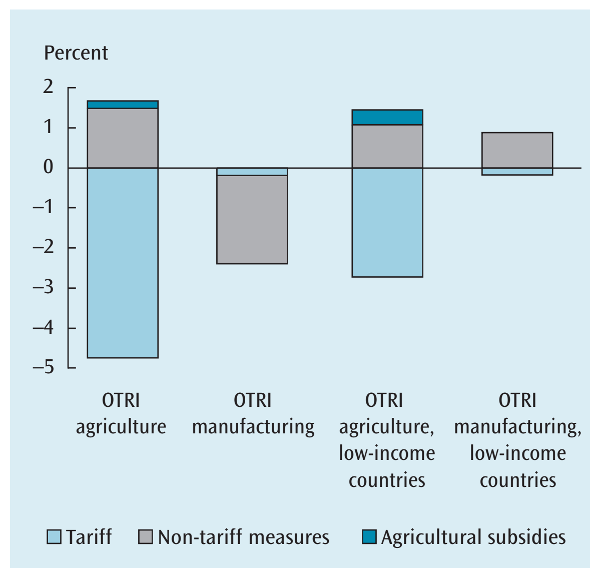
Source: IMF Trade Policy Information Database (TPID) and the World Trade Organization (WTO).
a. Introduced a common external tariff on January 1, 2005.
b. The European Union expanded by 10 Eastern European countries on May 1, 2004.
c. The free trade area came into effect January 1, 2005 among 17 Arab states.

ANNEX FIGURE 3.1 OECD restrictiveness remains high for low-income countries, 2005



Source: Staff estimates.

ANNEX FIGURE 3.2 Changes in OECD OTRI between 2002 and 2005: as tariffs fall, non-tariff policies become more important



Source: Staff estimates.

4

Strengthening the Performance of International Financial Institutions[1]

This chapter examines the performance of the international financial institutions (IFIs) in taking action to fulfill their responsibilities and accountabilities within the Monterrey compact and in providing financial and technical support to developing countries. Last year's report examined the mandate of individual IFIs; discussed their instruments of support to developing countries; and considered their performance in terms of standard indicators of lending shares and trends, support to regional and global programs, and progress with transparency and management for development results. This year's report selectively deepens this analysis by considering information specifically collected for it and by updating information drawn from standard indicators and evaluation reports. On the basis of this information, the chapter not only assesses the performance of IFIs but also identifies remaining challenges.

IFI Financial Resources in Support of the Development Agenda

In the past 15 years, external financing directed to developing countries underwent a fundamental shift. During that time the increase in private sector flows—now the most important source of external financing in developing countries—was unprecedented. In 2003 the financial support provided by multilateral development institutions was about 10 percent of total lending and grants from both private and public institutions. Financial support (loans and grants) from the five largest multilateral development banks (MDBs) represented almost half of the financial support provided by bilateral donors. In 2005 total lending disbursements by IFIs—the five MDBs and the International Monetary Fund (IMF)—amounted to $32 billion. Recent trends in these financial flows, their composition, and their selectivity are analyzed below.

MDB Lending to Low-Income Countries

Global Monitoring Report 2005 noted a sharp increase in concessional lending (commitments) to low-income countries over the period 1999–2004. This increase was driven by volumes from the International Development Association (IDA) of the World Bank Group. However, in 2005 total MDB commitments to low-income countries fell from the high levels observed in 2004. In the case of IDA, this reduction in commitments was on the order of one-third (after a 50 percent increase the previous year) and was in part

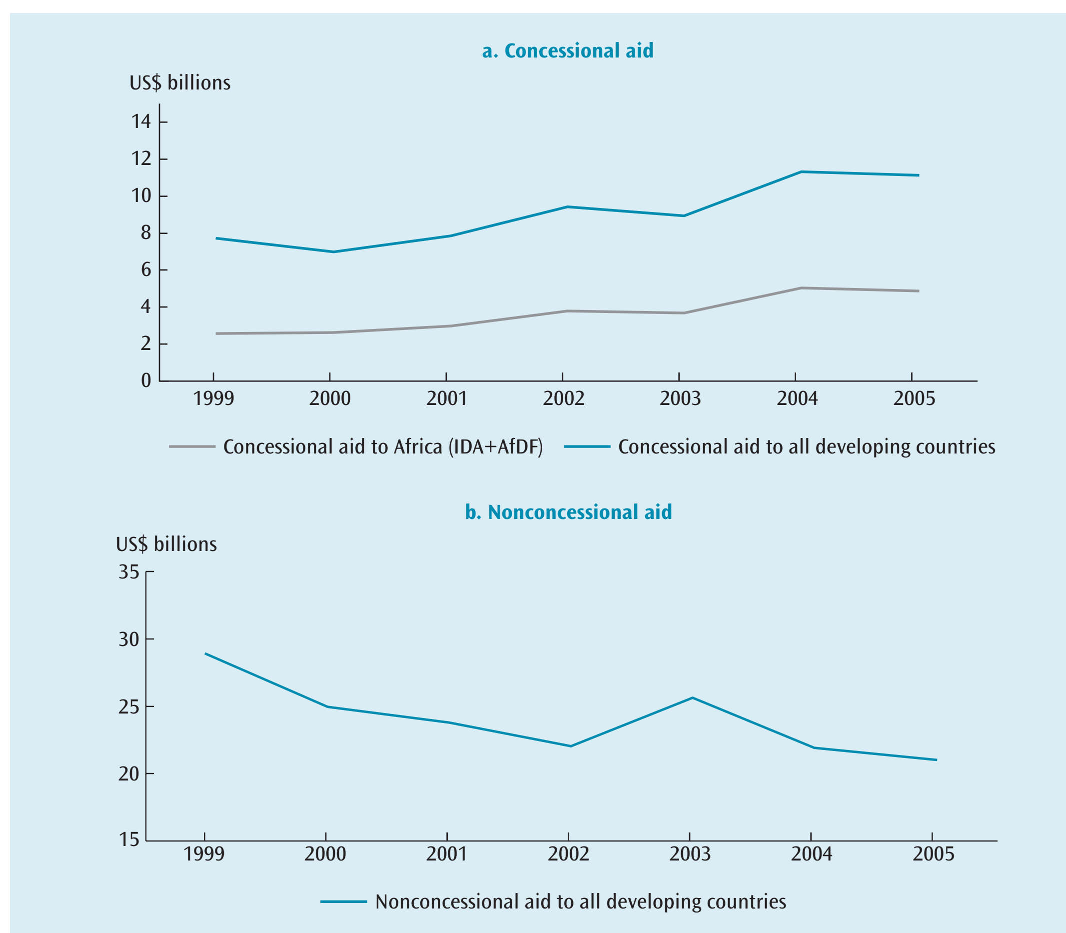
associated with resource constrains at the end of the IDA13 (13th replenishment of IDA) period.

To better reflect the trends in the flow of resources to low-income countries, this section focuses on actual disbursements rather than on lending commitments alone. Figure 4.1 shows a clear upward trend in disbursements by MDBs to low-income countries, and to Africa in particular, in the period 1999–2004. It also shows a drop in disbursements on the order of 2 percent (close to 4 percent for Africa) during 2005—a reduction much smaller than that observed in commitments, but a reduction nonetheless.

This slowdown in disbursements is common across MDBs. In the case of IDA, it is associated with a spike in disbursements for policy lending in 2004; in 2005 these disbursements returned to 2003 levels. On the other hand, disbursements under investment lending continue a clear upward trend, as illustrated in figure 4.2.

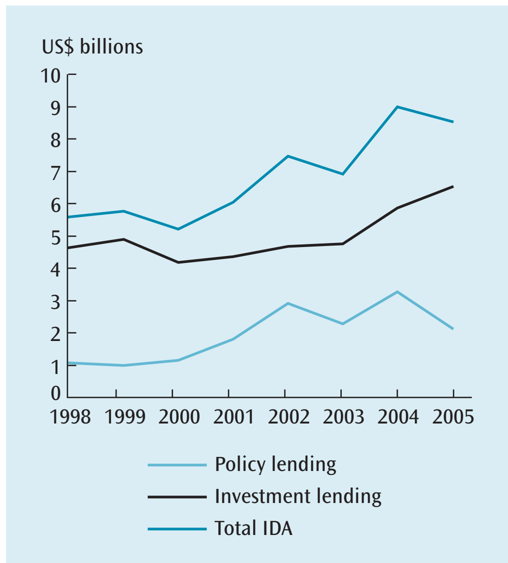
A striking trend in development financing is the increase in lending to fragile states by IDA. This trend is explained by lending to Afghanistan, the Democratic Republic of Congo, and Nigeria, to which total disbursements rose from around $27 million in 2001 to more than $950 million in 2005.

FIGURE 4.1 Gross disbursements by MDBs, 1999–2005



Source: Staff of the big five multilateral development banks.
Note: Data are for calendar years.

FIGURE 4.2 Trends in IDA investment and development policy lending, 1998–2005



Source: World Bank financial information.

MDB Lending to Middle-Income Countries

The disbursement volumes in figure 4.1 also confirm what appears to be a long-term trend toward contracting demand in middle-income countries (MICs). As a result, net disbursements to middle-income countries by MDBs continue to be negative, although less so than in 2003 and 2004.[2] Factors underlying this trend include improved middle-income-country creditworthiness and the associated reduction in interest rate differentials with commercial lenders, as well as strong fiscal positions in several large MICs. The trend may also reflect the "cost of doing business" with multilateral institutions, for example, increased compliance (safeguard) costs for borrowers.[3] This overall trend does not apply equally to all MICs. In the case of the International Bank for Reconstruction and Development (IBRD), for example, reduced demand by countries that have achieved investment grade accounts for an important part of the decline.

Composition of MDB Lending

The shares of investment and policy lending change significantly on a year-to-year basis—mostly because of sharp fluctuations in policy lending, as noted above. For the period 2003–5, policy lending, on average, represented approximately one-third of MDB disbursements. This share is the highest for Latin American and Caribbean countries and the lowest for countries in Asia. On the other hand, the sectoral composition of lending in 2005 does not show significant changes with respect to the overall trends noted in *Global Monitoring Report 2005*.

IMF Lending

IMF financial support to member countries experiencing protracted balance-of-payments difficulties is given on nonconcessional terms from IMF's General Resources Account (GRA) and through concessional loans to low-income countries under the Poverty Reduction and Growth Facility (PRGF). In general, GRA net flows are mainly dependent on the needs of large middle-income countries in the context of economic crises and are consequently erratic on a year-to-year basis. Net PRGF lending is less erratic but also substantially affected by the needs of larger low-income recipients. Although net GRA flows were negative overall in the period 1999–2005, positive net loans totaling $28.5 billion were made in the period 2001–3. These loans mainly reflected new borrowing by Argentina, Brazil, and Turkey. PRGF net lending in the period 1999–2005 amounted to negative $150 million, though disbursements in the period 2002–4 peaked with initiation of arrangements with Pakistan and Bangladesh and refinancing of the arrears of the Democratic Republic of Congo.

The IMF is continuing to refine and strengthen its support of low-income members in their efforts to achieve macroeconomic stability, growth, poverty reduction, and the MDGs. In this context, the Fund has recently taken steps to adapt its instruments and facilities:

- To improve the effectiveness of PRGF arrangements, the Fund is striving to ensure that design is consistent with the objectives laid out in Poverty Reduction Strategy Papers (PRSPs). Strong links among the PRGF, PRSPs, and the MDGs should make the Fund's low-income-country assistance more effective.
- The Exogenous Shocks Facility (ESF) was established within the PRGF to help low-income countries deal with temporary balance-of-payments needs that arise from sudden exogenous shocks such as natural disasters or export shocks.[4]
- As discussed in chapter 3, the IMF participates in the Multilateral Debt Relief Initiative (MDRI), which provides additional debt relief to low-income countries.
- The Policy Support Instrument (PSI) was established to address the needs of low-income countries that may not need Fund financial assistance, but seek the Fund's advice, monitoring, and endorsement of their economic policies. The PSI will help countries develop policy frameworks focused on consolidating macroeconomic stability and debt sustainability while deepening structural reforms in key areas that constrain growth and poverty reduction.[5]

Selectivity in MDB Lending

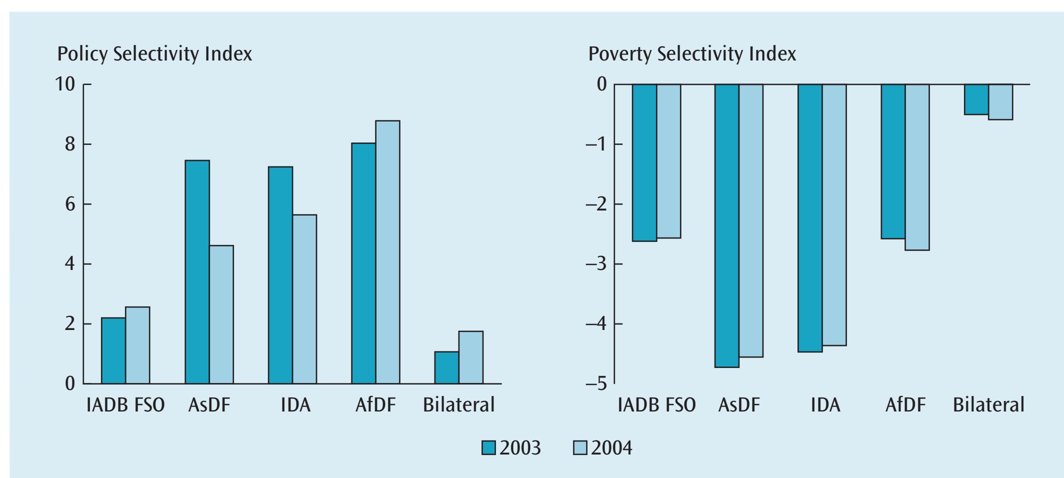
The concessional arms of the MDBs committed themselves to using more transparent and incentive-improving resource allocation systems. The goal of these commitments has been to maximize aid effectiveness and improve policies and institutions in recipient countries. At present the foundation of each of these systems is a formula that calculates the share of the resources that will be allocated to individual countries on the basis of their financial need (proxied by population, with a small correction for per capita income)[6] and performance. The performance factors include measures of the quality of policies and institutions, portfolio performance, and—at the African Development Fund (AfDF), Asian Development Fund (AsDF), and IDA—an additional governance factor derived from the same index of quality of policies and institutions. Each MDB combines factors somewhat differently in its performance allocation formula and uses different methods to accommodate exceptional circumstances, such as postconflict problems.[7]

Global Monitoring Report 2005 examined the policy and poverty selectivity of concessional assistance by MDBs. Although other criteria have been suggested, as noted in chapter 4, these criteria are two of the most widely used by donors to determine where aid will be most effective. Figure 4.3 updates those estimates[8] for 2004. It shows that MDBs continue to exhibit higher policy and poverty selectivity than bilateral aid agencies. Poverty selectivity remains at levels similar to those in 2003. Some convergence across MDBs in the extent of policy selectivity is evidenced. Naturally, measures of selectivity would be affected if different criteria (for example, vulnerability) or indicators (for example, nonincome dimensions of poverty) were to be used. Nevertheless, these estimates reflect that, according to the criteria currently recognized as dominant for aid effectiveness, MDBs are being selective.

Among the various measures of quality of policies and institutions considered for allocation of resources, governance currently has a preeminent role. As shown in box 4.1, the allocation of aid resources is very sensitive to changes in the indicators of governance. Part II of this report analyzes both issues of measurement of governance and its influence on the overall quality of policies.

In the past year MDBs have taken significant steps to harmonize their performance-based allocation (PBA) systems. IDA, African Development Bank (AfDB), and Asian Development Bank (ADB) now use nearly identical country performance and institutional assessments (CPIA) questionnaires. Harmonization of methods for calculating and using portfolio performance measures and standards to determine the grant versus loans composition of allocated resources is now under discussion.

FIGURE 4.3 Policy and poverty selectivity in 2003 and 2004



Source: Dollar and Levin 2004 and World Bank staff estimates.

BOX 4.1 The importance of governance in performance-based allocation formulas

A relatively recent innovation in the performance-based allocation (PBA) formula is the increased weight of governance in MDB allocations. Until 1998 the MDBs accorded governance nearly the same importance as performance factors measuring structural policies, economic management, equity and social inclusiveness, and portfolio performance. Several MDBs now give more importance to governance than to all other factors combined.

Governance and MDBs

	Effective weight of governance in the performance factor
African Development Fund	59%
Asian Development Fund	53%
IADB (FSO/IFF)	21%
World Bank, IDA	66% (IDA 14)

Sources: Information note from Multilateral Development Bank Technical Meeting on Performance Based Allocation Methods, ADB Headquarters, January 24-25, 2005; MDB staff.

IDA and the African and Asian Development Funds have placed such importance on governance because they understand that its quality has a very positive correlation with the effectiveness of aid. Moreover, it is hoped that PBA systems are generating the proper incentives for client governments to improve the quality of their governance.

A simple sensitivity analysis helps illustrate the importance of the governance factor. Using values for an average IDA-eligible country, a change in governance performance equivalent to half a standard deviation from the median score results in a 25 percent change in the allocation of resources to a country. Similar changes in indicators for economic management or social inclusion policies result in only a 3–4 percent change in resources.

Assessing MDB Results Orientation

The contribution of MDBs to the achievement of development results at the country level is heavily dependent on how they conduct their business. As discussed above, one aspect of this business is the size, composition, and selectivity of financial flows. Another aspect is the actions MDBs are taking to improve the results orientation of their own management practices and programs. The importance of adopting a managing for development results (MfDR)[9] approach has been recognized among MDBs for several years. Since the first joint progress report for the Marrakech Roundtable on Results, the World Bank's global monitoring reports have analyzed important initiatives in this area. *Global Monitoring Report 2005*, for example, reviewed experience with the interim results measurement system for IDA13 and noted the introduction of a refined system for IDA14, which was developed through extensive consultations with IDA donors. The IDA14 Results Measurement System (or RMS) uses a two-tiered approach, in which tier I monitors progress across 14 country-level and MDG-related outcomes and tier II uses existing internal indicators of IDA delivery and effectiveness to gauge IDA's contribution to those outcomes. The RMS includes a special focus on building statistical capacity, particularly in four sectors related to the tier I outcomes, and is now being implemented for all IDA countries. A Web site monitoring progress against all of the indicators has been launched.

The MDBs and global monitoring reports have not had the benefit of a shared framework for gathering information on initiatives in this area. The MDB Working Group on MfDR identified, and the MDB Heads endorsed, the need for a common source of information on MDB performance and developed the Common Performance Assessment System (COMPAS), which was identified as a key action for MDBs in *Global Monitoring Report 2005*. The full report from the first COMPAS exercise will be available later in 2006. Given the system's importance as a baseline to assess the performance orientation of MDBs, initial findings from the exercise are presented below.

The Common Performance Assessment System

The purpose of the COMPAS is to provide a common source of information on the results orientation of the MDBs as manifested by their internal practices and operational relations with country and development partners. The COMPAS is not designed to cover (and certainly not to substitute for) the entire performance system of each MDB. Rather, it focuses on those processes and results that are within the control of each institution and for which they are accountable. The focus is on emerging synergies as a group rather than on individual comparisons among institutions. The expectation is that a joint system will provide a basis for information exchange and lesson learning and that it will respond to MDBs' international commitments on performance and accountability.

The COMPAS draws on the MDBs' frameworks and action plans for implementing MfDR (see World Bank 2004; IADB 2004; ADB 2004; AfDB 2004). These frameworks and plans vary slightly among institutions, but in most cases they include three pillars that provide the structure for the COMPAS: actions to build MfDR capacity in developing countries (country pillar), actions to improve the results focus of MDBs' internal systems and instruments (agency pillar), and actions to improve cooperation among MDBs and with other development partners in attending to the "results agenda" (interagency pillar).

For each category, the COMPAS contemplates both process and results indicators.[10] Process indicators are largely descriptive and qualitative and refer to the institutional practices that are needed for an enhanced focus on results. Results indicators seek to provide a quantitative measure of the implementation of a common set of performance actions by

all MDBs. The recent introduction of the COMPAS implies that in its initial report there is a preponderance of process indicators. This preponderance reflects the fact that changes in institutional practices need to be introduced and implemented before results indicators become fully available. This initial phase of the COMPAS will also be helpful in identifying difficulties arising from varying definitions and practices across institutions. This information should be instrumental in facilitating further alignment of indicators.

Analysis of data in the first COMPAS report suggests overall progress in the implementation of the MfDR agenda. Awareness of results is increasing, and frameworks, systems, and procedures are being implemented in all the institutions. The degree of institutionalization of the MfDR agenda, however, varies across its dimensions and among MDBs. Although the design, approval, and implementation of new procedures and systems at the institutional level is likely to take time, a key challenge for all MDBs will be to go beyond the introduction of such systems and procedures and to establish an institutional culture of using the information on results to inform decision making. Below is a summary of the progress and challenges in each of the three pillars of the COMPAS.

ACTIONS TO SUPPORT COUNTRY CAPACITY TO MFDR (COUNTRY PILLAR)

The COMPAS seeks to measure implementation of actions by MDBs oriented to helping country partners develop the will and institutional capacity needed to manage for results. MDBs have developed and begun to apply various tools and approaches to help countries assess their capacity to manage for results. The Asian Development Bank, for example, recently developed a toolkit entitled "Tool for Conducting a Rapid Assessment of Country-level Capacity for Results-based Management" for that purpose. A sourcebook on the principles and emerging best practices in MfDR has been produced and discussed in international workshops and will be available online in 2006. All MDBs provide technical assistance to improve capacity for MfDR embedded in projects, although the absence of a systematic monitoring of such activities does not allow measurement of the magnitude or quality of the support offered. The Inter-American Development Bank (IADB) has been particularly active in its efforts to sensitize countries to the need for capacity building for MfDR and, through its PRODEV initiative, has reached most of its client countries that now qualify to receive financial support for capacity-building initiatives.

Weak statistical systems constitute a key bottleneck to the implementation of MfDR approaches. Many countries lack basic demographic data—for example, about 53 percent of the population in Sub-Saharan Africa live in countries that have not undertaken a population census in the last 10 years. Similarly, 62 percent live in countries that have not conducted a poverty survey in the last five years, and no country in Sub-Saharan Africa has a functioning vital registration system. The international development community has agreed on a specific plan to help improve statistical systems and remedy such gaps: the Marrakesh Action Plan for Statistics.[11] Estimates of the level of resources needed to close these gaps are relatively modest (on the order of $120 million per year above current levels of official development assistance).

The MDBs have a series of ongoing initiatives to help build statistical capacity in partner countries. The AfDB, for example, has provided support through a $22 million program to build statistical capacity for country-level results and economic statistics reporting. The AfDB is also playing an important role in helping its regional member countries improve the quality of their poverty-related statistics within the framework of the International Comparison Program (ICP) providing financial and technical assistance. The Trust Fund for Statistical Capacity Building (TFSCB)—a multidonor trust fund established at the World Bank in 2000—has invested over $20 million in more than 80 statistical capacity-building projects across the world. The World Bank has

also developed an umbrella lending program, the Statistical Capacity Building Program (STATCAP), which promotes a sectorwide approach to statistical capacity building.

Yet experience shows that governments of many developing countries are often reluctant to borrow for statistical and management capacity. A vicious circle appears to be in operation: when policies and programs are developed and implemented without evidence of their effectiveness, decision makers find it difficult to appreciate the value of "buying" tools, including those for producing statistics that would enable them to improve the effectiveness of policies and programs. Breaking this vicious circle will require growing demand (including by citizens) for evidence-based policy making and, consequently, the production and dissemination of better data. A recent review of experience with Poverty Reduction Strategies (PRSs), along with assessment of institutional arrangements for poverty monitoring in 10 countries, reveals the large extent to which this agenda remains unfinished. Neither the donor community nor partner countries have fully internalized the importance of governments' accountability for results to their own citizens, and not only (or mainly) to donors. Transforming the vicious circle into a virtuous one, whereby citizens demand evidence of results and governments have the systems to provide it, will most likely require a combination of changes at various levels (see box 4.2). As indicated above, additional aid resources will be required to support national efforts: MDBs and bilateral donors also have a critical role to play in providing financial aid to support the statistical capacity without which evidence-based policy is not feasible.

ACTIONS TO IMPROVE THE RESULTS ORIENTATION OF INTERNAL SYSTEMS (AGENCY PILLAR)[12]

The ability of MDBs to support the development of capacity to manage for results at the country level depends strongly on how well the banks' own internal systems and instruments are adapted to achieve results. The COMPAS considers many systems, including those for country programming, project design and management, and staff training and incentives.

All MDBs are in the process of strengthening their performance orientation by moving to a more strategic approach to country programming. MDBs have issued guidelines for preparing country assistance strategies (CASs) with a results focus (that is, identifying specific

BOX 4.2 Conditions for evidence-based policy: lessons from the PRS experience

- *High-level leadership*. Monitoring systems need to be placed close to the center of government and have strong links to the budget process.
- *Demand for information on results*. Resource allocation systems must require information on results; otherwise, there is no incentive to collect or use such information. The PRS experience shows the important role of political and legislative bodies in expressing a demand for information that promotes accountability for results in the policy process. Some countries are in the early stages of developing systems for and approaches to increasing transparency and public accessibility of information on results.
- *Line ministry capability*. Effective use of information requires the availability of sufficient analytic capacities, within government or the local academic community, to ensure that raw data are collated, subjected to quality review, analyzed, and interpreted.

Source: Bedi and others forthcoming.

outcomes to be influenced). These new guidelines have been used for most country strategies approved during 2005. Mechanisms are also being implemented to assess the result frameworks of these strategies.

Nevertheless, many challenges and tensions remain. For example, the experience with results-based CASs in the World Bank revealed difficulties in linking the results of individual projects and knowledge services to the CAS results framework; a lack of baselines and targeted performance measures (most often reflecting lack of capacity and systems at the country level) that limit the effectiveness of the results matrix as a monitoring, management, and evaluation tool; the need to customize the results framework to country circumstances; and the need for further behavioral and incentive changes on part of the staff and management.[13] Furthermore, although all MDBs have a system of independent ex-post review of country programs, they will need to change the nature of these reviews as they move to results-based country strategies. As the new results-based strategies will take many years to mature, MDBs will face the challenge of evaluating older country strategies, which were not designed to be evaluated, during the transition period. The implication is that even as MDBs move aggressively to base their country strategies on results, they will continue struggling with the transition from traditional, input-oriented country strategies over the next few years.

The information collected under COMPAS offers clear signs that MDBs are making substantial progress in adopting results frameworks for individual projects. For example, information about relevant project-level baseline data is available for all projects in EBRD, for most projects in IADB, and for projects in IDA. Similarly, recognition that speed of project delivery is important (because delays can generate transactions costs for country partners and slow realization of project or program outputs and outcomes) has led MDBs to simplify disbursement procedures and other operational policies.[14] There is some evidence that disbursement ratios have increased since introduction of these changes. Similarly, World Bank data on project processing time show an almost 40 percent improvement in fiscal 2005 compared with fiscal 2004. Although there is no evidence so far that faster delivery of financial support to clients has come at the expense of quality, internal reviews at the World Bank find that the results orientation of projects may be negatively affected. For example, some staff members have encountered difficulties in developing satisfactory baselines at the time of project appraisal.

All MDBs now have monitoring systems through regular project supervision of all active projects. These systems are periodically improved. The World Bank, for example, recently upgraded its monitoring system (the Implementation Status and Results, or ISR), which now has a special focus on results frameworks, including the reporting of baseline, target, and result data. All MDBs have or are developing an arms-length review of self-assessed reporting. EBRD's system, for example, includes an arms-length review at all stages for all of its projects. The World Bank's independent quality review system covers both projects—at entry and during supervision—and analytical and advisory services (see box 4.3). IADB has a system in place for quality at entry review for projects and is developing one for supervision. AfDB has established a system to review projects at entry and is planning to launch one for supervision.[15] The ADB has an established procedure for review of projects at entry, as well as an improved project performance monitoring system.

The challenge of establishing and strengthening information and monitoring systems is compounded by the need to help staff using those systems. MDBs have begun to provide training to their staff in the use of MfDR approaches. But they have not yet established clear and comprehensive training plans that clarify definitions and concepts as well as explain how the many elements of the results agenda fit together and how they relate to the roles of various staff. Furthermore, although

BOX 4.3 Independent quality review of analytical and advisory activities at the World Bank

A recent report by the World Bank's Quality Assurance Group (QAG) reviewed the effectiveness of the Bank's Analytical and Advisory Activities (AAA). It found that although the quality of individual activities is good, a stronger focus on the strategic relevance of the overall program of country AAA is necessary, and that this calls for strengthening its links with the strategic assessments embedded in the Country Assistance Strategies. The report emphasizes the critical importance of stronger outreach and dissemination efforts within countries. Practice in this area, including translation into local languages, is found to be variable across countries. To increase transparency and raise the quality of policy discussion, reports should be accessible, not only to government agencies but also to academics, civil society, and the private sector.

Source: Quality Assurance Group, Country AAA Assessment.

MDBs apply MfDR dimensions in annual performance reviews of all staff, they are still creating a results culture in which the incentive and rewards structure is aligned with the results agenda.

Developing learning organizations is a complex process. A key challenge is to establish the systems and work practices that allow learning from practice to improve the quality and relevance of programs. The systems discussed here provide information that MDBs are, increasingly, distilling and making available to staff as "best practice" material. Many of these systems are limited in their capacity to provide, independently of one another, robust evaluations to inform MDBs and their country partners of the effectiveness of alternative approaches to development interventions. Progress in the area of evaluation is reviewed below.

ACTIONS TO IMPROVE INTERAGENCY COOPERATION FOR RESULTS (INTER-AGENCY PILLAR)

The COMPAS seeks to monitor how the MDBs are working with one another and with other donors to support the MfDR agenda. Given the extent of MDBs' operational presence, these cooperative ventures could heavily influence implementation of the Paris Declaration framework.

Cooperation among MDBs has moved from ad-hoc consultation to cooperation across a broad field of issues, and the MDB heads have articulated and published joint positions on most major global development challenges. Key ongoing collaborative efforts related to the results agenda include development of the *Sourcebook on Managing for Results*, continuing development and implementation of the COMPAS, support of the new Mutual Learning Initiative (which will identify practical lessons in managing for results in "early mover" countries and share them with countries just beginning to implement the MfDR principles), and fostering of development of regional MfDR communities of practice. The Third Roundtable on Managing for Development Results (see box 4.4) is expected to be the major result of these collaborative endeavors.

The challenge is to translate these activities into concrete implementation at the country level through country action plans, joint strategies, and joint work (operational missions, analytical work, and so on). Progress is being made. Coordinated country strategies and analytical work have now seriously entered MDB cooperation, after a slow start,[16] and inter-MDB cofinancing makes up the majority of development cofinancing.[17] Continued progress will require proactive

BOX 4.4 Third roundtable on managing for development results

As part of their mutual commitment to joint work and cooperation on the MfDR agenda, all MDBs participate in the Joint Venture on Managing for Development Results and the MDB Working Group. A key product of these collaborative arrangements is the Third Roundtable on Managing for Development Results. Roundtable participants will

- Assess progress since the Second Roundtable (in 2004) and the Second High-Level Forum (in Paris in 2005).
- Discuss the capacities needed to manage for results and ways to assess these capacities and foster their development, as well as follow up on the recommendations of the Marrakech Action Plan for Statistics and Paris 21 efforts by identifying ways to accelerate investments in statistical capacity at the country level.
- Develop a common capacity assessment tool to be used by both partner countries and development agencies.
- Commit to specific actions for the year ahead with a view to the Third High-Level Forum (in 2008).

Because the Third Roundtable will promote establishment of effective institutional and countrywide systems and processes to manage for results, its expected outcome is a broader, accelerated, and more rigorous implementation of the results agenda in partner countries and development agencies. Achievement of this outcome will be assessed through the Paris Declaration monitoring mechanism (specifically, indicators 1, 5, and 11).

measures in each MDB. For example, the latest MDB Roundtable on Harmonization, Alignment, and Results (held at EBRD Headquarters in London in June 2005) identified the need for further changes in the way MDBs attempt to make greater use of joint missions, joint analyses, and common approaches as required for adequate implementation of the Paris Declaration.

Those changes may prove complex to the extent that they ultimately require strong managerial and staff incentives, as well as work practices in which collaboration is not merely a corporate mandate but an effective device for helping staff achieve results. The adoption of monitoring systems that track the extent of MDB harmonization should help call attention to this challenge and create incentives for implementation of the necessary changes. The World Bank, for example, has already adopted two central Paris indicators as "key performance indicators" of joint economic and sector work and lending using programmatic ("harmonized") approaches. These indicators will help Bank management track implementation and results.[18]

Establishment of the COMPAS is a major step in MDBs' effort to coordinate implementation of the MfDR agenda. Indicators may need to be added or changed over time. As noted above, the initial results are heavily biased toward process indicators. However, the mere existence of this innovative instrument and the lessons learned in its development should, with continued effort, lead to a solid system of collective performance monitoring for MDBs.

Evaluation: A Critical Component of MfDR

Achieving results (improvements in outcomes) at the country level depends on actions by many actors, including service providers, citizens, donors, and different levels of government. Disentangling the contributions of these actors and attributing results to actions of individual actors is often difficult, if not

FIGURE 4.4 Evaluation and the results chain

Source: Authors.

impossible. Figure 4.4 shows a simplified results chain linking actions by external actors that influence government policies and interventions, which in turn affect development outcomes. Establishing the links along this results chain is complex, but understanding the relationship between specific government interventions and policies on the one hand and outcomes on the other is often possible. Although attributing changes in outcomes to specific actions by external actors may remain an elusive goal, evaluating the impact of specific government interventions is not only important but often also feasible from a methodological point of view.

Efforts to manage for development results depend crucially on the strength of the understanding of the relationship between interventions (policies and programs) and outcomes (for example, MDGs). In those areas in which that evidence base is strong, a system that focuses on monitoring implementation and tracking outcomes often may be sufficient. By providing empirical evidence on the effectiveness of specific policies and programs to achieve development outcomes, evaluation efforts enhance IFIs' ability to provide robust evidence-based advice to partner countries and to define the type of interventions or approaches they should support. *Global Monitoring Report 2005* reviewed the critical role played in that regard by the evaluation offices at the IFIs. Special studies released during 2005 include evaluations of health and nutrition interventions by ADB's Operations Evaluation Department, on trade facilitation and delivery mechanisms for small- and medium-size financing by EBRD's Evaluation Department, and trade and pension reforms by the World Bank's Independent Evaluation Group (IEG). Since publication of *Global Monitoring Report 2005*, the IMFs Independent Evaluation Office has produced two reports: *Evaluation of the IMF's Approach to Capital Account Liberalization* (May 2005) and *Evaluation of IMF Support to Jordan, 1989–2004* (December 2005). The key findings of some of these evaluations are summarized in box 4.5.

Within the multiple evaluation approaches available and effectively used by IFIs, impact evaluations play an important role. Their goal is to assess the specific outcomes attributable to a particular intervention by using a counterfactual that represents the hypothetical state the beneficiaries would have experienced without the intervention. From that perspective, impact evaluations are an important instrument to test the validity of specific approaches to addressing development challenges, such as reducing infant mortality or increasing productivity of poor farmers. They are a powerful instrument for determining what works and what does not work and thus constitute a fundamental means of identifying effective development interventions. At the same time, impact evaluations—particularly when conducted in comparable and consistent ways across countries—can provide the necessary benchmarks for program design and monitoring.

The development community is increasingly recognizing the value of impact evaluations, and MDBs are positioning themselves to play a more active role in this area. The World Bank launched the Development Impact Evaluation (DIME) initiative to promote and coordinate its impact evaluation activities. In its first year, DIME started two dozen evaluations of education interventions (focused on alternative arrangements for service delivery using the conceptual framework described in *World Development Report 2004*), conditional cash transfers in low-income countries, and slum upgrading initiatives. Regional units, with support from DIME, are building on the growing number of opportunities for useful evaluations in the

BOX 4.5 Independent evaluation at the IFIs

The shift to a more results-oriented focus in development has led to greater emphasis on evaluation of and learning from experience. Sector/thematic reports by the evaluation offices at the IFIs play an important role in this area. The following are examples of reports produced in 2005:

ADB's Operations Evaluation Department prepared a study on the Bank's policy for the health sector. The study found positive trends associated with the 1999 health policy, such as increased attention to supporting governance through health sector reforms and institutional capacity building and more systematic use of economic sustainability analysis in all projects. The study identified, among other challenges, the need for more coordination within ADB to integrate different aspects of the health agenda (for example, communicable and noncommunicable diseases, water, and sanitation) and for a strategy for good governance and prevention of corruption in the health, nutrition, and population sector.

AfDB's Evaluation Department (OPEV) carried out several sector reviews for its 2005 Country Assistance Evaluations (CAEs) for Ghana, Mali, Mauritania, and Tanzania. These country evaluations focused mainly on the development effectiveness of the Bank Group's assistance over the period covered by the previous three country strategy papers (1996–2004) and provided lessons for the next round of the papers' preparation. OPEV found that AfDB's strategies in all four countries were relevant, focusing on areas that were priorities for the governments. The CAE identified the need for more quantifiable, time-bound, and realistic performance indicators to better track the performance of Bank actions, as well as country-level progress in meeting agreed development goals and targets.

Because of the centrality of country strategies to the evolving work of the IADB, in 2005 the Office of Evaluation and Oversight (OVE) conducted a review of the extent to which country strategies prepared in 2004 and 2005 could be evaluated. The review found evidence of improvements over time in the results focus of country strategies but noted the persistence of several major shortcomings. In particular, country strategies generally provided a weak treatment of risk, paid insufficient attention to issues of institutional quality, and tended to define goals for the program in broad and largely unmeasurable terms.

EBRD's Evaluation Department conducted a study to synthesize the lessons learned from the Bank's experience with operations targeting micro, small-, and medium-size enterprises. The study identified the need for more attention to institutional aspects in project design and the importance of selecting intermediaries with sufficient institutional capacity. It found that financing projects should be embedded in a broad framework that addresses legal and supervisory issues.

The IMF's Independent Evaluation Office (IEO) produced an evaluation of the Fund's approach to capital account liberalization. IEO concluded that there is a need for more clarity on this approach. It suggested that the IMF could sharpen its advice on liberalization issues on the basis of solid analysis of the particular situation and risks facing specific countries. It also recommended that IMF surveillance should give greater attention to the supply side of international capital flows and to ways of minimizing the volatility of capital movements.

IEG reviewed the World Bank's experience in supporting a wide variety of pension reforms through lending operations and analytical and advisory activities in 68 countries over the past two decades. The World Bank's basic approach was to recommend the establishment of a multipillar pension system, provided sound macroeconomic conditions and an adequate financial sector were in place. A major finding of this evaluation is that Bank reforms often contributed to fiscal sustainability but that in many countries with multipillar systems, pension funds are poorly diversified and coverage has not increased. Secondary objectives of funded pillars—to increase savings, develop capital markets, and improve labor flexibility—remain largely unrealized.

There is increasing demand for looking across individual development organizations to evaluate and learn from the results of the development system. For the past decade the major multilateral development banks, recently joined by the IMF, have been working together through the Evaluation Cooperation Group (ECG) to harmonize their evaluation standards, in part to permit such cross-cutting analyses. This work is beginning to pay off. ECG is launching an effort to synthesize lessons on the interactions of infrastructure and environment and on the effect of their cross linkages on overall development and poverty alleviation. This effort is intended to be the first of a series that will address major development issues.

Source: Staff from the IFIs.

context of Bank-supported operations. The Bank's Africa Region Office, for example, has started work on 20 impact evaluations of projects in the areas of early childhood development, education, health, infrastructure, social protection, agriculture and environment, and private sector development.

The OVE at the IADB has also begun a program of ex-post program impact evaluations, typically through the use of nonexperimental methods.[19] In 2005 OVE initiated activities to generate ex-post evaluations in three areas: youth training, rural roads, and science and technology. This new exercise will lead to production of individual working papers for each evaluation, less technical ex-post project reports that address process and institutional aspects of a project in addition to the impact evaluation, meta-evaluations (in the three areas mentioned above), and an annual ex-post report.

The success of initiatives such as the ones described above is closely linked to efforts to strengthen developing countries' statistical and evaluation capacity. The effectiveness of these initiatives would be greatly enhanced through close coordination of MDB and donor efforts and regular sharing of information.

Alignment, Integrity, and Transparency: Progress and Challenges

IFIs are increasingly adapting their policy and operational practices to respond to the challenges of a new aid architecture that requires stronger alignment with country systems in the context of strong fiduciary integrity, as well as expanded transparency concerning their actions. This section reviews progress in these important areas.

Alignment with Country Systems

The Paris Declaration places considerable importance on the use of country systems for aid delivery and management. It calls for increased coordination of donor capacity-building support, support of national system development through increased reliance on national systems, and reduced reliance on parallel structures (such as project implementation units) when national systems have been deemed to have satisfied high standards of quality. Strengthening of fiduciary systems is integral to the development mission of MDBs, which are adopting various approaches to meet these goals. For example, the ADB and the AfDB will apply their technical assistance to enhance country systems and, with the World Bank, will test use of country systems in selected countries. Both these institutions intend to strengthen efforts to fully integrate project implementation units (PIUs) with national executing agencies and to encourage use of joint or common PIUs with other donors. The IADB sees reliance on country systems as a consequence of its work to assist borrowing countries to enhance the effectiveness and transparency of their procurement, public expenditure, and financial management systems. The IADB is working with the World Bank to develop a fiduciary capacity assessment and monitoring tool based on generally accepted practices and on baseline and performance indicators. This tool will be tested in selected countries.

The monitoring process to measure progress toward meeting these and other commitments (described in chapter 3) is at an early stage. The World Bank has identified the use of country systems as one of three key performance indicators to be tracked but has not yet established an internal process for data generation or for quality control of this indicator. Analysis of project appraisal reports for the World Bank indicates that use of public financial management systems (which are associated with development policy operations in IDA countries and with sectorwide approaches in both low-income and middle-income countries) is more frequent than use of national procurement systems. Use of environment management systems is only at the testing stage and therefore cannot be reported on until next year. A good example of alignment under firm fiduciary controls is the IMF's system of safeguard assessments (see box 4.6).

BOX 4.6 Safeguards assessments by the IMF

When the IMF lends to a member country, it does so exclusively for general balance-of-payments support, and the funds are transferred to the central bank. Thus, the Fund does not have the same procurement concerns as the MDBs; its procurement is limited to its administrative expenses. However, in 2000 the IMF introduced safeguards assessments of central banks that borrow from it. These assessments somewhat resemble the MDB practice of ascertaining the capacity of a domestic procurement agency. The safeguards were a reaction to misreporting and allegations of misuse of IMF resources involving the Russian Federation and Ukraine in the late 1990s. The primary purpose of the assessments is to provide assurance to the IMF Board that central banks have adequate financial control systems to manage their resources, including IMF disbursements. An important secondary purpose is to promote international good practices in accounting, auditing, transparency, and governance.

By the end of 2005, the IMF had completed 120 assessments of some 70 central banks, most of them in low-income countries, as reflects the orientation of the Fund's lending. The assessments, which are not published, contained, on average, seven recommendations for improvements. When the recommendations are serious, their implementation may become a condition for the IMF loan being considered. Central banks generally act on the recommendations; the overall implementation rate is about 80 percent.

Source: IMF staff.

There has been limited progress in use of country systems, in spite of the broad consensus on the significant role such use plays in improving aid effectiveness and development impact. This lack of progress is heavily influenced by fiduciary concerns and the consequent risks associated with the use of country systems. Management processes for these risks are evolving, and as a result tensions and concerns remain. Indeed, mounting international attention on fraud and corruption—as reflected in the international legal initiatives and conventions described in chapter 7—is also producing intensified scrutiny of MBDs' anticorruption efforts, both in-house and in their country operations. Sharpening of donor requirements (such as those under IDA14), the Sarbanes-Oxley Act of 2002, and the UN Oil-for-Food scandal (see box 7.1) have heightened pressure on MDBs to demonstrate progress in anticorruption efforts.

Institutional Integrity

MDBs' concerns about corruption range from controlling their own resources and preventing fraud and corruption in MDB-financed projects, to promoting better governance throughout country programs, to helping client countries fight corruption and money laundering (see chapter 7), to supporting international efforts to reduce corruption (such as conventions against bribery or the Extractive Industries Transparency Initiative). Preventing abuse of funds in MDB-financed projects is the focus of many rules and procedures aimed at ensuring high standards of integrity, transparency, and accountability. Concern about governance and corruption are incorporated into normal safeguards on lending—the MDBs' fiduciary, procurement, and disbursement procedures.

MDBs are taking decisive actions to strengthen their ability to fight corruption in the use of institutional funds:

- **AfDB** reorganized its Internal Audit Department (AUDT) and created the Anticorruption and Fraud Investigation Division (ACFD).
- **ADB** clarified the 1998 Anticorruption Policy, an important extension of the bank's governance policy.

- **EBRD's** office of the Chief Compliance Officer, responsible for integrity matters, will publish in 2006 a report of its anticorruption activities.
- **IADB** created the Office of Institutional Integrity (OII) as an independent unit within the Office of the President.
- **The World Bank** launched its Voluntary Disclosure Program to encourage companies to volunteer information about their involvement with fraud and corruption on Bank-financed projects in exchange for reduced sanctions and assurances of confidentiality.

Despite progress, numerous challenges remain in fully tackling the corruption issue. The risk of corruption can never be entirely eliminated. In some instances there may be a trade-off between tightly containing corruption risks through projects and increasing use of country systems, but since ring fencing of projects can only constitute a temporary substitute for strengthening the overall country environment, this more challenging and lengthy task cannot be avoided. In addition, increasing flexible forms of lending in weaker governance environments may lead to a corresponding increase in allegations of corruption, sharply augmenting risk to MDBs' reputation. A proactive and systematic management of risks has yet to be developed to avoid ad hoc reactions to instances of corruption.

Transparency

Although solving the above challenges will remain difficult, improving transparency in MDBs is within the banks' control and widely recognized as a must. New transparency initiatives are making it easier for MDB partners to scrutinize the policies that affect them and to participate more meaningfully in the development process. These new initiatives include more open policies regarding country performance assessment ratings, records of MDB board meetings, country strategies, policy papers, and project evaluations.

One of the most substantial changes over the last two years has been approval of release of country performance assessments. In the case of IDA, CPIA quintile rankings had been disclosed but not the actual scores for each criterion. In 2006 the Asian Development Bank, the African Development Bank, and the World Bank will join the IADB in disclosing country performance assessment ratings, which largely determine the allocation of those banks' concessional funds. Additionally, the banks are working to maximize understanding of the country ratings by disseminating knowledge about how scores are determined and by releasing country ratings on the criteria that determine the overall score.

In 2005 the same MDBs introduced policies mandating much broader disclosure of the information on which they base decisions that have major consequences for stakeholders. In April the Asian Development Bank approved a new public communications policy that provides easier access to board minutes and meeting summaries, country strategy documents, economic and sectoral studies, and project evaluation reports throughout the life of the project, from preproject environmental impact studies to postproject impact evaluations. The World Bank and the African Development Bank substantially amended previously approved disclosure policies in 2005. The World Bank is testing disclosure of draft operation policies when they are first circulated to the board. If such disclosure is adopted as a regular practice, the World Bank would be the first MDB to release such documents. The Bank will also now disclose minutes from formal board meetings. The African Development Bank publishes summaries of board discussions. In early 2006 EBRD will introduce new elements to its public information policy, such as disclosure of Board minutes and draft country strategies.

In 2005 the IMF conducted a review of its 2001 transparency policy. The report noted, in particular, that publication rates for country reports had increased markedly since the last review; 77 percent of all Article IV and Use of Fund Resources staff reports are made

public (up from 67 percent in the previous review). Regional differences in publication rates also declined sharply. But the review also highlighted a lengthening in the lag between board discussion and publication of country documents (from one month to one and a half months). The review explored various operational aspects of the publication policy, including the use of corrections and deletions, implementation costs, impacts on candor, and the timeliness of publication. The IMF Board agreed to staff recommendations to address those concerns.

Conclusions

A key theme of this chapter is that the contribution of MDBs to development results at the country level depends crucially on how the banks manage themselves. The evidence reviewed clearly indicates that the MDBs have recognized this challenge and are implementing a variety of monitoring and assessment systems—a trend that should continue.

The question, however, is how and whether those systems are being used. This chapter provides some indication that the efforts have not sufficiently permeated the fabric of MDBs. Early assessment suggests the difficulty of switching from input-driven to outcome-focused practices (for example, difficulty in linking individual project results and CAS results frameworks, a strong culture of focusing on deliverables rather than on measurable results, and slow feedback from monitoring and evaluation systems to managerial decisions). Not surprisingly, it is still much easier to systematically report on the number of projects approved or moneys disbursed than on achievements at the country level. Moreover, application of these new results-focused management systems is unequal within each institution.

Time may be part of the answer: some processes will require more time to be fully developed and implemented. But as this chapter suggests, MDBs will need to make further efforts: apply result frameworks at the country and project level, provide staff training and incentives, build statistical capacity, increase harmonization, and so on.

The complexities of the next steps should not be underestimated, not only because they may be technically hard, but because they will, by their own nature, create tensions. Achieving results at the country level will most likely require changes in resource allocation and internal decision making, and even stronger incentives to staff and managers. Furthermore, progress in the implementation of the results agenda depends crucially on efforts to strengthen partner governments' MfDR capacity. But capacity is at a nascent stage in many countries, and MfDR is likely to be a long-term endeavor, requiring an enhanced MDB focus on actions over a period longer than that traditional in the institutions' programs. Similarly, harmonization and alignment—two key dimensions of the MfDR agenda—will create tensions—for example, fiduciary concerns associated with use of country systems.

The implication is not that pursuit of the agenda should be abandoned or that "undue realism" should lead to conformism. Instead, the implication is that strong leadership will be needed to continue moving forward. In other words, the message of this chapter is that doing a little bit more of the same thing will not be sufficient. The good news is that all MDBs have begun valuable initiatives—many of which this chapter reviewed. In particular, the COMPAS is a valuable exercise that needs to be improved and deepened. Its usefulness will remain limited unless performance indicators are regularly updated and assessed. Moreover, new dimensions—for example, impact evaluation and transparency—may need to be added. Each MDB is likely to face different bottlenecks in implementing the MfDR agenda. A common assessment system will not, per se, address them. Each institution will need to define the set of instruments (incentives, rules, practices) best suited to its own characteristics. But a systematic, transparent, and clear monitoring of performance indicators should help all MDBs continue moving in the right direction.

Notes

1. This chapter is the result of a collective effort by staff from the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, International Monetary Fund, and the World Bank.

2. This trend is in part explained by repayment of large and fast-disbursing loans issued during the late 1990s in the context of the Asian financial crisis.

3. The Inter-American Development Bank, the African Development Bank, the Asian Development Bank, and the World Bank have responded to this trend by developing action plans to engage more effectively with middle-income countries.

4. The ESF is available to PRGF-eligible members that have no PRGF arrangement in place. The ESF provides the same degree of concessionality as a PRGF arrangement, but policy adjustments are only those needed to adapt to the shock, rather than the broader structural measures required by the PRGF.

5. Countries with a PSI should have a Poverty Reduction Strategy (PRS) in place. The PSI is intended to be a complement to, and not a substitute for, the PRGF. To date, PSI programs have been approved for Nigeria and Uganda, and discussions with other countries are ongoing.

6. Progressivity is largely achieved outside the performance-based allocation formulas by making only the poorest countries eligible for concessional funds. For example, IDA provides resources only to countries with annual per-capita incomes of less than $965. Exceptions include small island economies and Iraq.

7. For example, AfDF introduced its Post-Conflict Enhancement Factor, as a result of which the six postconflict countries received an average of 35 percent more funding than under the normal PBA formula. In the case of IDA, the adjustments result in a doubling of the allocation to postconflict countries.

8. The selectivity results in the figure are based on log regressions with the log of aid (gross ODA-emergency aid) on the left side and the logs of population, GNP per capita (PPP), and country performance and institutional assessments (CPIA) on the right side. The numbers shown are the coefficients on the latter two variables. For MDBs other than IDA, the regression includes only the clients of the relevant IFI. For IDA the regression includes all ODA recipients.

9. MfDR is an adaptation of the terms "performance management" or "results-based management" (RBM) with emphasis on managing *for* rather than *by* results, and on *contribution to* outcomes rather than *attribution from* them. Thus, managing for development results implies a results focus on all aspects of management, not just monitoring, and includes accountability and learning lessons.

10. The current set of indicators in the COMPAS results matrix is presented in an annex to this chapter.

11. Better Data for Better Results: An Action Plan for Improving Development Statistics, Second International Roundtable for Managing for Development Results, Marrakesh, February 4–5, 2004.

12. Pillar II of the COMPAS includes the use of performance-based resource allocation mechanisms for low-income countries as its first category. This use was reviewed in the first section of this chapter.

13. See "Results Focus in Country Assistance Strategies: A Stocktaking of Results-Based CASs," World Bank, February 24, 2005.

14. ADB, for example, has adopted an innovation and efficiency initiative that is focusing on several areas including consulting, procurement, safeguards, cost-sharing, business processes, and new financial investments. The IADB's New Lending Framework calls for increased reliance on national systems and greater harmonization with other donors working in a country, which will simplify disbursement procedures. The World Bank has adopted changes that include increased scope of coverage for expenditures eligible for financing from Bank loans (including recurrent operating costs and taxes).

15. AfDB revised its field supervision report formats to enhance the focus on progress in achieving outputs and outcomes, risk mitigation, and quality of monitoring.

16. Recent examples of joint strategies include Bangladesh, Cambodia, Ecuador, Ethiopia, Honduras, Malawi, Tanzania, Timor-Leste, and Uganda.

17. Recent examples include AfDB-WB aids operations in Democratic Republic of Congo, Malawi, and Mali; financial sector in Mozambique; agriculture and roads in Zambia; water and sanitation in Ethiopia; post and telecoms in Algeria; and

adjustment lending in Morocco. ADB-WB: education in Bangladesh, hydropower in Laos, poverty reduction support in Laos and Vietnam. IADB-WB: education in Honduras and roads in Peru.

18. The World Bank has adopted a third indicator: use of country systems. The internal process for data generation and quality control of this latter indicator is in development.

19. Ex-Post Evaluation of Operations, GN 2254-5, and Background Policy Document Ex-Post Evaluation of Operations, GN 2254-6, Inter-American Development Bank, September 2003.

ANNEX TABLE 4.1 COMPAS master matrix of categories and indicators

Performance category	Subcategories to be monitored	Process indicators	Results indicators
1. Capacity building (CB)	1a Public and private sector CB needs assessment	CB needs assessment tools available	% of countries with needs assessments completed % country strategies with analysis of capacity for MfDR
	1b MfDR sensitization and knowledge sharing	MfDR knowledge-sharing mechanisms established (workshops, networks, etc.)	% target audience in developing countries covered
	1c MfDR CB programs	CB programs launched where relevant	% of target countries with CB programs under way or completed
2. Financing	2a Performance-based resource allocation for low-income countries	Country performance indicators in place for eligible countries	% concessional resources allocated to countries with high scores according to each MDB's PBA formula
3. Strategies (country, sector, regional)	3a Outcome focus, evaluability	Revised guidelines issued to enhance results focus of strategies Mechanisms in place for reviewing the results focus of strategies	% of borrowers with MDB strategies based on revised guidelines % of country strategies with independently reviewed evaluability
4. Projects and programs	4a Outcome focus, evaluability	Project results frameworks reviewed and improved where necessary	% with satisfactory results frameworks as defined by each MDB % with satisfactory baseline data % of projects whose evaluability is independently reviewed
	4b Project and program delivery (speed of disbursement and implementation)	Simplification of disbursement procedures Simplification of operational procedures	Actual annual disbursement as % of amount available for disbursement at beginning of the year % of projects under implementation whose implementation is delayed beyond their original date of completion
	4c Quality of design and supervision	Increased arms-length scrutiny of project quality at entry Quality of supervision reviews in place or under development	QAE % satisfactory or better Quality of supervision satisfactory or better
	4d Management of project risk	Early warning system in place Proactive management of projects at risk	% projects at risk or on alert status % projects at risk actively managed

(continued)

ANNEX TABLE 4.1 COMPAS master matrix of categories and indicators *(continued)*

Performance category	Subcategories to be monitored	Process indicators	Results indicators
5. Monitoring and evaluation	5a Monitoring instruments, procedures, practices	Active project monitoring system in place with appropriate levels of information	Monitoring/supervision compliance rates
	5b Quality assurance systems	Arms-length review of self-assessed reporting	Arms-length review reports
	5c Independent evaluation	Ex-post evaluation of country programs Ex-post evaluations of projects and programs	% active borrowers that have a country program evaluation % projects and programs with satisfactory outcomes
	5d Results reporting system	Adequate resourcing of M&E activities Regular and extensive reporting of M&E data	% admin budget allocated to internal M&E
6. Learning and incentives	6a Capturing and using good practice	Good practice materials collected, field tested, and made available online	Management uptake of evaluation recommendations as reported to executive boards
	6b Staff training and guidance	MfDR training packages developed and field tested On-the-job help lines established	% operational staff participating in MfDR training
	6c Staff incentives	Formal and transparent use of MfDR dimensions in annual personal performance reviews	% operational staff covered by results-focused incentive system
7. Working with other donors on the MfDR agenda	7a Information sharing	Participation in MDB MfDR working group DAC JV on MfDR	MfDR Sourcebook put online and updated regularly
	7b Harmonization	Areas for MfDR harmonization identified by working group	Number of MfDR products and processes for which common principles are agreed
	7c Cooperative/joint ventures	Procedures developed for joint country, sectoral, and regional programming COMPAS developed	Number of joint MfDR activities/programs Annual COMPAS reporting

Source: COMPAS.

Part II
Governance as Part of Global Monitoring

The emerging global architecture to support poverty reduction rests on the principle of mutual accountability. Donor countries are to be accountable for providing aid in ways that support country development strategies. Developing countries are to be accountable for using aid and other resources effectively. But, as this Global Monitoring Report (GMR) will detail, accountability with regard to aid resources is only a small part of the governance agenda. Both donor and developing countries are to be accountable more broadly for enhancing the checks and balances fundamental for development.

Part II of this GMR will spotlight these governance facets of the new architecture. The objective is to consider how to approach a satisfactory monitoring framework in the field of governance that is relevant for the scaling up of aid. This requires some analysis of relevant aspects of governance, a review of available data, and the use of some simple typology to allow for the wide differences in country situations.

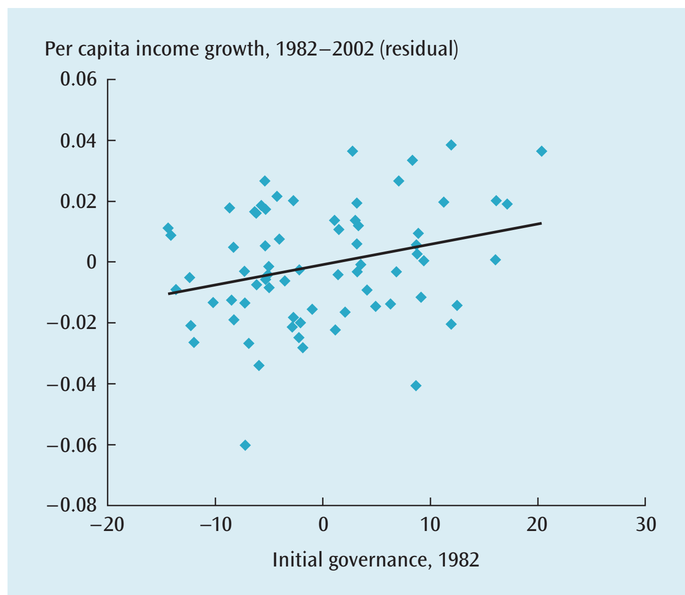
There is strong evidence of a link between the quality of a country's governance system and its development performance: Empirical evidence links governance to growth, over time—as, for example, in the thousand-year evolution of governance systems that underpin today's developed countries—and across countries, though some debate persists as to causality.

Statistical evidence suggests that the causality between growth and governance is two-way—implying that gains in either can give momentum to a virtuous spiral of development improvement. Figure II.1 provides evidence of the causality from governance to growth: it illustrates the statistically robust partial relationship (controlling for initial income and schooling levels) between the quality of governance across developing countries in 1982 and income growth over the subsequent two decades.[1]

Econometric studies show that the benefits of public health spending on child and infant mortality rates are greater in countries with better governance—and that, as countries improve their governance, public spending on primary education becomes more effective in increasing primary education attainment (Swaroop and Rajkumar 2002).

The scale of corruption has also posed extraordinary costs on some countries. A conservative estimate is that the former president of Zaire looted the treasury of some

FIGURE II.1 Governance and growth, 1982–2002



Source: Steve Knack, 2005.
Note: Governance measure is an index from the International Country Risk guide (ICRG). The growth estimates are the unexplained residuals after controlling for the impact of initial levels of income and education.

US$5 billion—an amount equal to the country's entire external debt at the time he was ousted in 1997. The funds allegedly embezzled by former presidents of Indonesia and Philippines are estimated to be two and seven times as high, respectively.[2] Micro-level studies reveal the ubiquitous daily impact of corruption—and the benefits of scaling it back. In health care, for example, during the first nine months of a 1996–7 crackdown on corruption in Buenos Aires, Argentina, the prices paid for basic inputs at public hospitals fell by 15 percent. In customs, the use of private international firms to conduct preshipment inspection of imports has been associated with increases in the growth rate of import duties of 6 to 8 points annually.[3]

Many elements of the "development checklist" are governance related. Are there mechanisms in place to ensure that public resources reach their intended purpose with little leakage? Is the investment climate supportive of growth and reductions in income poverty? Can countries develop plans and do they have the institutional capacity to execute them? Is there adequate information and transparency in government to foster the active civil society to build greater accountability? Are the incentives and accountabilities of teachers and health care workers adequate to ensure low absenteeism and shirking? Does the rule of law protect the rights of citizens? The answer to these questions depends on the quality of national governance systems.

Getting governance of a quality needed to meet the Millennium Development Goals (MDGs) is not simply a matter for aid recipients. The global milieu has powerful influences on the governance system in developing countries. Global markets can be the source of virulent, corrosive corruption—or a powerful disciplining device, helping to strengthen developing-country governance. Donors and international institutions can provide aid in ways that can impose practices and reporting requirements that fragment and overwhelm already fragile governance systems, or in ways that help strengthen governance. Many of the areas noted in chapter 3 and addressed in the Paris Declaration are relevant for the governance agenda. Beyond aid, global check and balance mechanisms can provide new governance instruments for helping poor countries meet the MDGs. Recent work on standards and codes provides sources of good practice for all countries, and is increasingly being used to benchmark performance. Part II of the GMR therefore considers both national governance systems and the emerging global framework to support good governance.

Notes

1. The relationship remains robust with and without the inclusion of developed countries in the sample. It remains statistically significant, though somewhat weakened, when nations in the East Asia and Pacific region also are excluded from the sample.

2. Svensson (2005), quoting Transparency International's 2004 report.

3. Svensson (2005), reporting results from Di Tella and Schargrodsky (2003); Yang (2005).

5

Monitoring Developing-Country Governance

Governance is central in development, so it is natural that many stakeholders want to monitor it. Also natural is that these stakeholders use governance measures in different ways:

- Citizens in developing countries can use measures of governance to hold governments accountable for their actions—at the micro level for the quality of service provision, at the aggregate level for the responsiveness of government action to the public interest, at all levels for the probity of using resources.
- Governments in developing countries (and development partners seeking to provide technical support) can use governance measures to improve the design of policy—for example, by providing "actionable" guideposts for operational efforts to improve governance.
- Donors in their role as funders can use governance measures for cross-country comparisons (focusing on "levels" at a point in time) or to monitor the trends within individual countries over time.

Cross-country comparisons of the level of governance are useful if the intent is to calibrate donor support according to the quality of a country's governance. Measures of trends are useful if the intent is to support "turnaround" countries making serious efforts to transform their governance systems. Monitoring trends can signal whether these turnarounds are on track—or have stalled or gone into reverse.

This chapter addresses the challenge of monitoring developing-country governance. First, it presents a framework for monitoring. Second, it identifies indicators that are useful for monitoring the different parts of the framework. Third, it highlights some of the opportunities—and perils—that confront the governance monitoring exercise. Together, the framework, the indicators, and the overview of governance monitoring set the stage for more disaggregated analysis in chapter 6.

A Framework for Monitoring Governance

Monitoring developing-country governance has become a growth industry. A recent publication of the United Nations Development Programme (UNDP 2004), *Governance Indicators: A Users' Guide*, details 33 data sources and lists a further 33 that did not meet UNDP standards for inclusion. This focus on measurement has led to some important advances, but it has also underscored some difficulties.

Governance is more complex than it seems. While the word is often used as a euphemism for corruption, a country's governance system

BOX 5.1 Governance and corruption are not the same thing

Governance and corruption often are used synonymously. But they are quite different concepts—and conflating them can be very damaging.

Public sector governance refers to the way the state acquires and exercises the authority to provide and manage public goods and services—including both public capacities and public accountabilities. Viewed from the perspective of this report, the relevant aspects of governance are those for achieving the Millennium Development Goals (MDGs). This narrows the terrain somewhat, but perhaps less than it might seem at first sight, given the relationships between transparency, participation, and accountability on the one hand and performance in reducing poverty on the other.

Corruption is an outcome. It is a consequence of the failure of any of a number of accountability relationships that characterize a national governance system—from a failure of the citizen-politician relationship (which can lead to state capture) to a failure of bureaucratic and checks and balances institutions (which can lead to administrative corruption). Aggregate measures of corruption thus offer a useful overview of the degree to which the national governance system as a whole—rather than any part—is dysfunctional.

Perceptions of corruption can have a profound impact on a country's prospects. At home, they can break (or make) the reputation of political leaders—and affect civic perceptions of the legitimacy and trustworthiness of the state. Globally, these perceptions influence decisions on private capital flows and aid. Estimates of corruption raise awareness and attention, including through media focus on rankings. Even if these estimates have a high margin of error, with movements of a few points in one or another direction too small for any robust implication, they can still be useful. Yet, an exclusive focus on this outcome of a governance system has caused some countries to emphasize simple-minded (and largely failed) anticorruption initiatives—to the neglect of the complex challenge of strengthening national governance systems themselves.

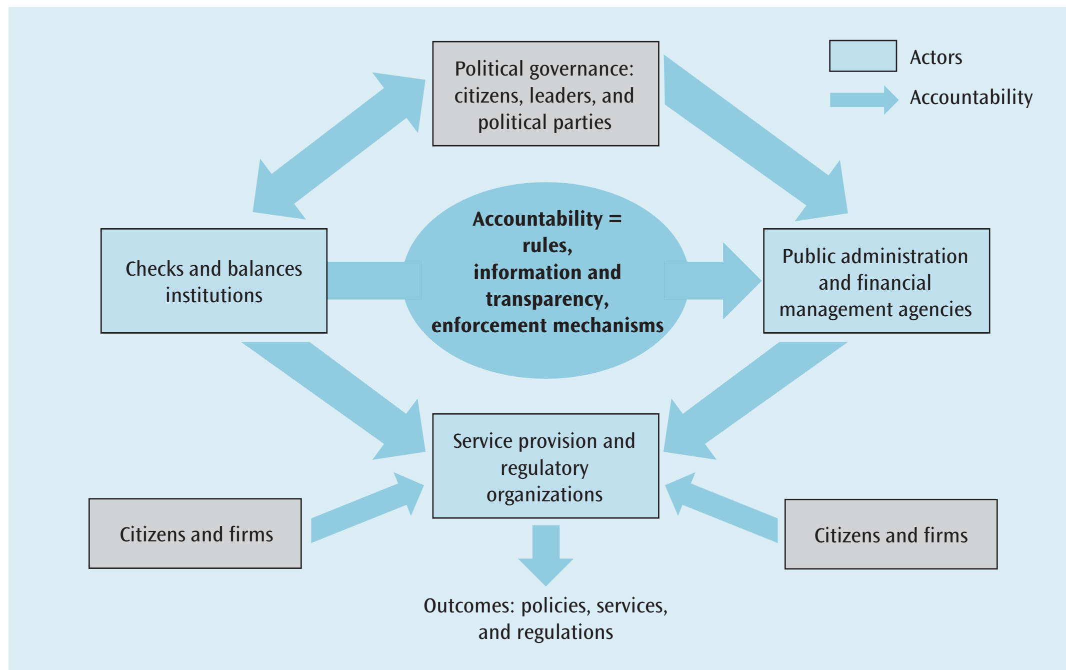
comprises the full array of state institutions and the arrangements that shape the relations between state and society (box 5.1). Measurement can explore the broad consequences of how the governance system functions (with corruption as a major example). It can also focus more narrowly on the quality of the different institutions that make up a country's governance system. Conceptual clarity is needed to draw the distinctions among these different types of measures.

A national governance system includes many institutions and actors, including judges, legislators, tax inspectors, teachers, and accountants. Each needs the capacity to perform his or her function effectively. Effective governance also calls for the players to be accountable, often in complex ways. A school, for example, is potentially accountable to parents, to officials in departments of education (at local and central levels), to courts, and to politicians (again, both national and local).

To monitor governance—and to improve it—a framework is needed to cut through the complexity. Figure 5.1 illustrates one approach. It shows the key *actors* in a national governance system, and the key *accountability* relationships that align the incentives of the principals at each level with those of the agents delegated to act for them. As the figure suggests, transparency is an essential cross-cutting aspect of the governance system, contributing to the efficacy of both the actors and the accountability relationships.

For each actor the relevant capacities comprise the skills adequate to the task at hand, the organizational management systems capable of deploying human and other resources, transparent provision of the information needed for action, and the leadership to organize the various parts of the system and motivate its participants from the inside. Each accountability relationship rests on the following:

FIGURE 5.1 National governance systems: actors and accountabilities



Source: Authors.

- Rules to delegate authority and indicate constraints and expected results.
- Information flows to enable principals to monitor how well agents are performing. *Transparency* of information flows increasingly is becoming the norm—on the principle that citizens always are the ultimate principals—even where the immediate principal-agent relationship might be among different parts of the state. As table 5.1 highlights, transparency's role potentially is pervasive—from the political apex of a national governance system, all the way to the service provision front line—creating plentiful opportunities for engagement.
- Enforcement mechanisms that reward successful performance and sanction those who fail to perform well.

Development outcomes depend on the operation of the national governance system as a whole. Sustained good results imply that the capacities of the players and the accountabilities among them are strong.

Turning to the five sets of actors identified in figure 5.1, the first comprises citizens, leaders, and political parties in the political governance subsystem—that is, the mechanisms for citizens to select their political leaders at national and subnational levels and the ways organized groups of citizens influence politics and government.

Politics is the prime influence on governance. Political leaders set the objectives for the rest of the governance system. Sometimes politicians work to address the general interest. Other times, their behavior is clientelistic, in the sense that "even though the average citizen is poor, politicians . . . shift public spending to cater to special interests, to core supporters, or to 'swing' voters" (World Bank (2004a: 80). What shapes whether politicians behave in developmental rather than clientelistic ways? Only rarely can they decide themselves—usually they are constrained by having to maintain their support base. Skillful, farsighted politicians, especially those at the head of political movements rooted in a

TABLE 5.1 Nodes of transparency in national governance systems

Transparency node	Specific examples of transparency
Node 1: Transparency in political governance	■ Disclosure by political candidates and public officials of assets, education, and criminal record ■ Widely available public information on the performance of government
Node 2: Transparency in public administration and financial management	■ Open competitive system of public procurement ■ Meritocratic recruitment of public sector employees ■ Transparent in-year financial reporting
Node 3: Transparent oversight of public administration by checks and balances institutions	■ Participatory budget formulation process, including cabinet-level and parliamentary discussions ■ Timely, comprehensive, high quality, and publicly available audit of budget by independent institutions
Node 4: Checks and balances institutions ensure open flow of information	■ Free press ■ Freedom of information act ■ Publication of judicial and administrative decisions ■ Open decision-making processes ■ Publication of parliamentary debates
Node 5: Transparency in relationship between citizens/firms and service providers	■ Independent service delivery scorecards/surveys ■ Public information on results by provider organizations (monitoring and evaluation data, annual reports, and so on) ■ Service charters issued by provider organizations ■ Publicly posted information on financial and other resources provided to provider organizations

Source: Authors.

broad social vision, may be able to shape the objectives for their supporters. But the process is often driven more by responding to the interests of key allies, and sometimes these powerful interests may capture the state. Note that a democratic electoral process does not guarantee that politicians will focus on the general interest, and that the general interest can also guide the action of some politicians in nondemocratic societies.

A second set of actors consists of checks and balances institutions, including parliaments, independent oversight agencies (supreme audit institutions, ombudsmen, anticorruption commissions), the judicial system, a free press, and democratically accountable local institutions. These institutions have at least three distinct functions. They establish the rules of the game for political competition. They provide the rules of the game for the broader working of civil society and for the operation of the private market economy. And they limit the influence of politicians on the bureaucracy. Checks and balances institutions are a ubiquitous feature of polities—not only of liberal democracies—though their specific forms can vary with the mode of political organization.

The third set of actors comprises the cross-cutting control agencies responsible for public administration and financial management, including those responsible for budget formulation, execution, and reporting systems; procurement systems; monitoring and evaluation systems; intergovernmental systems; and civil service management systems. The fourth set includes service provision and regulatory organizations, including sectoral line ministries, autonomous public or private frontline providers, and regulatory agencies. These two sets of players make up the public

bureaucracy, which follows objectives set by political leaders within a framework set by checks and balances institutions. The justice system plays a dual role, as a checks and balances institution and a provider of dispute resolution services to society.

Within the bureaucracy, cross-cutting bureaucratic control agencies oversee service provision and regulatory agencies. This is where options for prioritization and resource allocation are developed—and where the responsibility lies for establishing and enforcing the rules and accountabilities (for example, the financial management and personnel rules) within which service provider and regulatory agencies operate.

The fifth set of actors comprises citizens and firms—as users of public services, including regulatory services and service providers. Citizens and firms can be depicted as principals, holding providers (agents) accountable for the efficiency and effectiveness of service provision. The extent to which they can do this depends on the quality and transparency of information flows. In markets with both public and private providers, competition can be a powerful disciplining influence on all providers—including those in the public sector.

To illustrate the relevance of the framework, one might consider two very different configurations along a spectrum of governance quality. The first pattern—sometimes termed *good enough governance*—summarizes the attributes of consistently stronger governance.[1] For governance to be good enough, the public bureaucracy need not perform at the highest levels of efficiency. More important is that the accountability arrangements built into the national governance system be mutually reinforcing, so that the system can self-correct. Failure in one part of the system (such as corruption in the use of public funds) generates pressures from other parts (parliament, courts, or citizen groups) to refocus on the public purpose.

The contrasting pattern—*clientelist governance*—characterizes countries with much weaker governance performance. In clientelist countries, formal and informal systems of authority work at cross-purposes, and the latter dominates the former.[2] Political leaders use their control over patronage resources to maintain their power base; at the limit, they are captured by powerful private interests. Leaders can bypass or override checks and balances institutions and the public administration when these get in the way of their political goals. Systems are not transparent. Levels of corruption are generally high. Informal norms are, of course, also a reality in better-governed settings; however, they do not conflict as egregiously with the formal arrangements.

Clientelist systems may limit development, but they can be stable if political leaders choose to exercise sufficient restraint to enable the formal system to operate, however imperfectly. This is more likely when they take a long-term view and recognize the importance of sustaining the institutional capacity to govern. The result—as observed in Africa in the 1970s and 1980s, for example—may be a seemingly long-term clientelist equilibrium. But this equilibrium can turn into an accelerating downward spiral if the time horizon of leaders is short. Bureaucratic decay deepens as organizations lose resources and competent staff. Economic decay deepens as public services weaken and policy becomes more capricious. Investor confidence evaporates and political decay deepens as the leadership finds itself trying to buy off constituencies with fewer and fewer resources. At the limit (as in Sierra Leone) the endpoint of this downward spiral of decay can be the collapse of the state.

For many low-income countries, improving governance means breaking out of the trap of clientelism. Because clientelism (as is the case with all governance arrangements) is deeply intertwined with the structure and exercise of political power, this can be enormously difficult. Different societies find different ways to break free. As a result, their trajectories of governance reform vary—with corresponding differences across countries as to which actors and accountabilities improve rapidly, and which lag. As will become evident, these variations have important implications for both governance monitoring and reform.

Indicators of Governance

Even with greater clarity about the relevant institutions, measuring their quality is difficult. Formal systems can be categorized and rated—but the gap between formal arrangements and realities on the ground is often very wide. Institutional processes are difficult to observe and measure systematically. Some outcomes can be measured, but these can have multiple causes and are often remote from the quality of governance. There are ways of responding to these measurement difficulties, but all are imperfect—and often subject to large margins of error.

The framework suggests two distinct approaches to monitoring the quality of governance. The first is to monitor at a disaggregated level, using specific measures of the quality of key governance subsystems—and to use the results as "actionable indicators" to identify specific strengths and weaknesses in individual countries, and thus to guide reforms and track progress. The second is to monitor governance at more aggregate levels, using broad measures. Broad measures have different uses from their specific counterparts. They can help reveal some systematic patterns underlying the complexity and diversity across individual subsystems. And they can provide some basis for monitoring overall trends across countries and over time.

Broad measures of governance can be derived in two ways. First, they can be composite measures built up from disaggregated indicators. Sometimes, such measures are constructed in a way that makes it possible to drill down from aggregate to disaggregated levels, and thereby identify strengths and weaknesses in an action-oriented way. In practice, governance measurement has not yet advanced to the point that this is routinely feasible—despite some advances in this direction. Second, broad indicators could be derived by focusing on the outcomes produced by national governance systems.

This report reviews and applies both broad and specific governance indicators. Irrespective of the level of aggregation, few governance data sets are objectively measurable indicators: multiple attempts reveal how difficult it is to construct them.[3] The data mostly reflect subjective perceptions—sometimes expert assessments, other times survey-based measures of the perception of citizens or firms. Some surveys, however, do ask questions that produce "objective" data—for example, the share of household income or sales revenues used to pay bribes. While the use of expert assessments and perception-based data is ubiquitous in the social sciences, caution—and careful attention to the likely margins of uncertainty—is needed in the interpretation of results. Indeed, as the next sections will illustrate, some measurement error is inevitable, regardless of the type of governance measure used.

The Variety

Few of the 33 data sources listed in *Governance Indicators: A Users' Guide* (UNDP 2004), can be used straightforwardly in this report. Some fall short of the requisite comprehensiveness of country coverage—particularly that of low-income countries. Others are collected irregularly, weakening their ability to measure trends. This report focuses on a subset of 14 measures that offer comprehensive country coverage and, among them, cover each of the diverse facets of national governance systems in the framework. (See table 5.4 at the end of this chapter.) Three sets of indicators—the World Bank's Country Policy and Institutional Assessments (CPIAs), which account for 5 of the 14 indicators; the Kaufmann-Kraay aggregate governance indicators, which account for 3 additional indicators; and 3 selected indicators from the Doing Business database and the Investment Climate Surveys—are examined in this chapter. Other indicators are examined in chapter 6.

The CPIA

In the late 1970s the World Bank began using systematic country assessments to

guide the allocation of International Development Association (IDA) resources. By the late 1990s the CPIA had evolved to something close to its current format. A further round of fine-tuning came in 2004, to implement suggestions by an independent panel of outside experts. The 2005 CPIAs will be the first publicly available detailed scores for IDA countries.

CPIAs examine policies and institutions, not development outcomes, which can depend on forces outside a country's control. The CPIA looks at 16 distinct areas grouped into four clusters (box 5.2). For each criterion, very detailed guidelines are provided to help Bank staff score individual countries along an absolute 1–6 scale.

For monitoring governance systems, the CPIA indicators can be used in three ways:

- At the most disaggregate level, scores for individual criteria in the public sector management and institutions cluster can be quite specific, and actionable. The analysis of public budget and administrative management systems in the next chapter will draw on CPIA criteria 13 and 15.
- The average score for the public sector management and institutions cluster (cluster D) can be an aggregate indicator of the quality of a country's governance system. Table 5.2 places 66 low-income, potential IDA-recipient countries into five groups, according to their CPIA cluster D scores for 2004.[4]
- The average score for clusters A, B, and C can be an aggregate measure of the quality of a country's economic and sectoral policies—viewed as an outcome measure of the quality of a country's governance system.

As with all indicators, the CPIA has its limitations. The assessments are made by World Bank staff. Even if expert in their field and well informed about individual countries, staff sometimes may not be aware of the intimate details as to how things really work in a country. Some of the criteria do not lend themselves readily to an ordinal scale of quality—even though "the criteria were developed to ensure that, to the extent possible, their contents are developmental neutral, that the higher scores do not set unduly demanding standards, and can be attained by a country that, given its stage of development, has a policy and institutional framework that strongly fosters growth and poverty reduction" (World Bank (2004b: 5). Policy expectations in some areas, such as social protection, are different for low- and higher-income countries. Staff assessments can be affected by the fact that the CPIA forms the basis for allocating IDA resources. There are risks of ideological bias—for example, on the merits of low tariffs versus an export-neutral combination of tariffs and subsidies. To address these limitations and ensure consistency across countries, the World Bank goes through an elaborate multistage process for scoring the CPIAs. The process includes an initial round of benchmarking by a global

BOX 5.2 The 2004 CPIA's 16 criteria

A. Economic management
1. Macroeconomic management
2. Fiscal policy
3. Debt policy

B. Structural policies
4. Trade
5. Financial sector
6. Business regulatory environment

C. Policies for social inclusion/equity
7. Gender equality
8. Equity of public resource use
9. Building human resources
10. Social protection and labor
11. Policies and institutions for environmental sustainability

D. Public sector management and institutions
12. Property rights and rule-based governance
13. Quality of budgetary and financial management
14. Efficiency of revenue mobilization
15. Quality of public administration
16. Transparency, accountability, and corruption in the public sector

TABLE 5.2 2004 country scores for the CPIA public institutions cluster

CPIA institutions cluster score	Countries
Above 3.5	Armenia, Bhutan, Ghana, India, Mali, Senegal, Tanzania
3.3–3.5	Benin, Bosnia and Herzegovina, Burkina Faso, Ethiopia, Georgia, Honduras, Indonesia, Kenya, Lesotho, Madagascar, Malawi, Nicaragua, Pakistan, Rwanda, Serbia and Montenegro, Sri Lanka, Uganda, Vietnam
3.0–3.2	Albania, Azerbaijan, Bangladesh, Bolivia, Cameroon, Eritrea, Guyana, Moldova, Mauritania, Mongolia, Mozambique, Nepal, Niger, Papua New Guinea, São Tomé and Principe, Zambia
2.6–2.9	Burundi, Chad, Rep. of Congo, Côte d'Ivoire, Djibouti, The Gambia, Guinea, Kyrgyz Republic, Nigeria, Sierra Leone, Solomon Islands, Tajikistan, Uzbekistan, Republic of Yemen
2.5 or below	Angola, Comoros, Central African Republic, Dem. Rep. of Congo, Guinea-Bissau, Lao PDR, Sudan, Togo

Source: World Bank.

team drawn from across the World Bank, subsequent rounds within operating regions using the benchmarked countries as guideposts, and a further round of validation by central units. The results are discussed with national governments, but final scoring rests with the Bank.

Given the above, it is appropriate to interpret CPIA scores as estimates, with some margin of error. Estimates place the standard error at about 0.24 for aggregate measures on the 1–6 scale (see Gelb, Ngo, and Ye 2004). High-, middle-, and low-performing countries can thus be distinguished, but attempts to position countries on a fine scale will likely result in some being misclassified. Small annual changes may not be easy to assess with confidence but CPIA-type estimates are able to distinguish trends—for 1999–2004 the correlation between the CPIA and the similar index produced by the African Development Bank is 0.8, with changes moving in the same direction for 43 out of 51 countries. Ultimately open debate offers the best way of uncovering and addressing remaining weaknesses in the CPIA. The decision to make public the detailed 2005 CPIA scores for IDA-recipient countries is an important step in the ongoing process of enhancing the transparency of this potentially important indicator.

Kaufmann-Kraay

The Kaufmann-Kraay (KK) indicators, published on the Web site of the World Bank Institute, are the product of research conducted by World Bank staff. But unlike the CPIAs, they are not a formal World Bank product, and they are not used in any systematic way in World Bank decisions. They are one response to the problem of aggregation. They generate a set of six composite aggregate indicators from a proliferation of loosely connected disaggregated measures by using a technique for statistical aggregation, the unobserved components model. The six aggregate governance indicators are as follows:

- Voice and accountability
- Political stability and absence of violence
- Government effectiveness
- Regulatory quality
- Rule of law
- Control of corruption

These indicators, available for every second year from 1996 to 2004, are an amalgam of 352 variables, culled from 37 data sources produced by 31 organizations. Three of these indicators—voice and accountability, rule of law, and control of corruption—will be used as part of governance monitoring in this and the next chapter.

Kaufmann and Kraay explain the aggregation approach as follows:[5]

> *The premise [is that] each of the individual data sources provides an imperfect signal of some deep underlying notion of governance that is difficult to observe directly . . . that, within each cluster, each of these indicators measures a similar underlying basic concept of governance . . . [The challenge is to] isolate the informative signal about governance from each data source, and to optimally combine the many data sources to get the best possible signal of governance in a country based on all the available data . . . The unobserved components model expresses the observed data in each cluster as a linear function of the unobserved common component of governance, plus a disturbance term capturing perception errors and/or sampling variation in each indicator.*

The aggregation procedure used by KK has some important strengths for empirical work on governance. The methodology enables very broad country and territory coverage—209 in the most recent version. The aggregation procedure generates, for each country, both point estimates and standard errors of these estimates.

By making explicit the standard errors of their estimates, the KK measures highlight how challenging it is to measure precisely the quality of governance—for both broad and specific measures. Specific measures often are based on sample surveys or on expert assessments—with the risk of sampling error in the former (although robust sampling and statistical methodologies can reduce the range of error), and of informant error in the latter (although robust peer review can limit this risk). By combining multiple sources into a single measure, KK helps reduce uncertainty of this type; their approach takes advantage of the well-known statistical property that the margin of error of a measure declines as the number of independently generated estimates increases.

The cost, though, is to introduce a different type of uncertainty. KK's gain in *precision* is offset by a loss of *specificity.* The KK composite variables combine sources that measure similar, but not identical, phenomena. A country's poor score on one of the aggregate indicators might reflect divergent performance among the underlying sources, making the indicators less useful as actionable tools. Further, the KK methodology both presumes that each of its sources is independently generated, and weights converging sources more heavily. But if in fact the converging sources draw on a shared underlying model, the methodology risks marginalizing sources that offer a view that is different—but not necessarily wrong.[6]

The example of corruption illustrates the use and limitations of aggregate indicators. Two sets of aggregate indicators—the KK "control of corruption" aggregate indicator and Transparency International's (TI) Corruptions Perceptions Index[7]—provide "best practice" broad measures, and so have dominated cross-country ratings of corruption. Both rank countries according to their perceived performance in controlling corruption, and both report margins of error of their estimates; the country estimates for both are included in the statistical annex. Each indicator draws on multiple primary indicators to produce country rankings. The KK indicator description indicates what is being measured, namely:

> *. . . perceptions of corruption, conventionally defined as the exercise of public power for private gain. The particular aspect of corruption ranges from the frequency of "additional payments to get things done" to the effects of corruption on the business environment, to measuring "grand corruption" in the political arena or in the tendency of elites to engage in "state capture . . .*

Although the KK and TI methodologies differ,[8] in practice their results are very similar, with a correlation coefficient of 0.97. Either indicator can be used for comparisons across countries and over time. Two conclusions:

- High-income Organisation for Economic Co-operation and Development (OECD) countries are usually in the least corrupt third of countries. The distribution of middle-income countries is mixed; at least 8, and (depending on the confidence interval used) up to 17 middle-income countries are in the bottom third. The majority of low-income, IDA-recipient countries are in the most corrupt third, though 20 countries in this group are in the middle third. This distribution reflects the well-known inverse correlation between per capita income and levels of corruption. But even within the general pattern, levels of corruption vary widely for countries at similar levels of per capita income—implying that corruption is not wholly tied to income.
- It is possible to position countries on a global corruption spectrum only in broad terms. Even if countries are organized into three broad categories—top, middle, and bottom thirds—only for about 40 percent of countries, and only for half of those in the bottom third, can one have at least 95 percent confidence that they belong in the third in which they have been placed.

Doing Business and the Investment Climate Surveys

The World Bank-sponsored *Doing Business* (DB) and *Investment Climate Surveys and Assessments* (ICS) were introduced in chapter 1. These surveys are designed to monitor the business environment, not governance. Some of the business environment measures can nonetheless be directly linked to governance, and therefore are useful for governance monitoring.

The DB and ICS methodologies are very different. The ICS captures business perceptions on the biggest obstacles to enterprise growth, the relative importance of various constraints to increasing employment and productivity, and the effects of a country's investment climate on its international competitiveness. DB indicators comprise detailed, objective measures of the time and cost of strict compliance with government regulations affecting private business across 10 topic areas—the number of procedures required to accomplish the task in question, the number of days necessary to accomplish the task, and the monetary cost in required fees. Input and verification is provided by government officials, lawyers, business consultants, accountants, and other professionals administering or advising on regulatory requirements.

Both the DB and ICS data are, of course, subject to measurement error. Also, differences in their methodologies generate different strengths and weaknesses, making them usefully complementary to one another:

- *De jure versus de facto*: The DB product measures the de jure business environment whereas the ICS product measures the de facto business environment. Both measures are useful, though it is important not to confuse changes in the de jure environment with actual changes on the ground.[9]
- *In-depth versus holistic perspective*: The DB product zeroes in on a narrow set of transactions, which it presumes to be illustrative of the business environment more broadly, whereas the ICS product provides a holistic view of the business environment from the perspective of firms themselves.
- *Cost and coverage*: DB covers 155 countries, and all country scores are updated annually. The ICS is a more effort-intensive product than the DB product. Its database contains information on about 60 countries; it aims to cover 20–30 countries each year and resurvey each country every three years or so. High costs somewhat limit the ICS' usefulness as a tool for ongoing governance measurement across a large number of countries.

A first potential use of these business environment indicators for governance monitoring is as overall outcome measures, complementing the CPIA and KK. Box 5.3 highlights three specific measures which can play this role: the ICS measures of corruption, plus two measures of transactions costs associated with bureaucratic red-tape.

BOX 5.3 Three aggregate governance Doing Business and Investment Climate Survey indicators

Unofficial payments for firms to get things done (percentage of sales) (ICS)

Average value of gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services, and the like. The values shown indicate a percentage of annual sales.

Dealing with licenses (DB)

The number of procedures, average time spent during each procedure, and official cost of each procedure involved in obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections (using construction of a warehouse as a benchmark example).

Senior management time spent dealing with requirements of regulations (percent) (ICS)

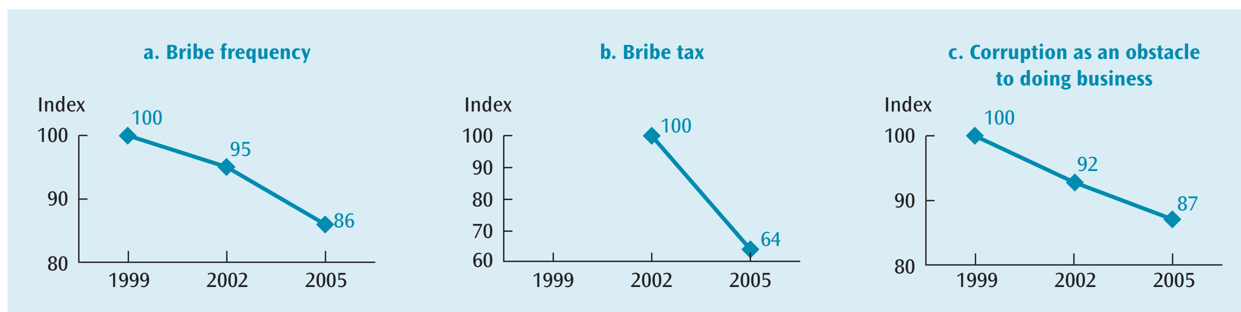
Average percentage of senior management's time that is spent in a typical week dealing with requirements imposed by government regulations (such as taxes, customs, labor regulations, licensing, and registration), including dealings with officials, completing forms, and the like.

Irrespective of how much business regulation a country judges to be appropriate, it always is developmentally desirable to minimize the time and hassle spent in complying. In general, high transactions costs signal some combination of an unresponsive bureaucracy, or a clientelistic environment geared to provide opportunities for informal rent-extraction by public officials.

A second potential use of the ICS data in particular is to distinguish among different types of corruption. Corruption sometimes is disaggregated into two basic forms—*state capture* and *administrative corruption*. State capture refers to the actions of individuals, groups, or firms in either the public or private sectors to influence the *formulation* of laws, regulations, decrees, and other government policies to their own advantage as a result of the illicit and nontransparent provision of benefits to public officials. State capture is commonly found in states that control important national assets, either through ownership (for instance, mineral rights, state-owned enterprises) or regulation (for instance, economic or environmental), but have limited political competition and weaker checks and balances. Administrative corruption refers to the provision of illicit and nontransparent benefits to influence how these established rules are *implemented*. Administrative corruption flourishes in states with weaker bureaucratic capacity and accountability. The ICS surveys conducted in Eastern and Southeastern Europe and the former Soviet Union (known as the BEEPS surveys)[10] framed their questions in a way that made it possible to distinguish among the different types of corruption. The surveys found that the relative balance between state capture and administrative corruption can vary widely from country to country.

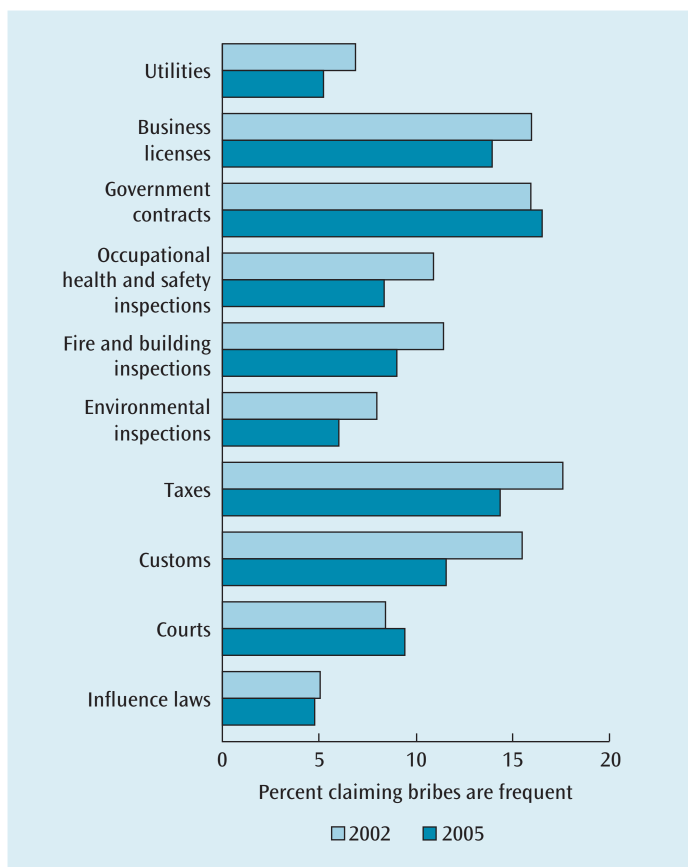
A third use of the DB and ICS data is to measure trends over time for specific features of the governance environment within individual countries. Where survey variables are narrowly defined, and the sampling and statistical work are careful, the resulting measures can have small margins of error, and so detect incremental changes over time. Figure 5.2 draws on the 1999, 2002, and 2005 BEEPS surveys to report trends in administrative corruption for the 26 surveyed countries.

FIGURE 5.2 Administrative corruption in Europe and Central Asia



Source: The World Bank and the EBRD Business Environment and Enterprise Surveys (BEEPS) 1999, 2002, 2005.
Notes: The charts depict 2002 and 2005 values relative to 1999, except in the case of bribe tax, where the 2005 value is shown relative to 2002. Due to a change in wording, the bribe tax is not comparable between 1999 and 2002. Values are based on the simple average of country means over all countries that were present in all years.

FIGURE 5.3 Corruption in specific sectors in Europe and Central Asia, 2002–5



Source: The World Bank and the EBRD Business Environment and Enterprise Surveys (BEEPS) 2002 and 2005.
Notes: The chart depicts the simple mean of the country averages of the percent of firms that said bribes were frequent.

The figure points to broad declines in administrative corruption—an important success, and one that needs careful and sustained survey analysis to become evident.[11]

Finally, the DB and ICS data also are useful as specific, disaggregated measures of the performance of individual public service provision or regulatory agencies or sectors. The annex table in chapter 6 highlights four categories of specific measures that are useful for governance monitoring: measures of corruption; measures of transactions costs associated with red tape; measures of the quality of provision of education, water, and telecommunications services; and measures of the quality of justice and the rule of law. Figure 5.3 illustrates the products' usefulness with data (again for the 26 BEEPS survey countries) on variations across sectors in the incidence of corruption.

Governance Monitoring—From Broad to Specific

Ten years ago, none of the Transparency International, KK, and Doing Business indexes existed; the CPIA was still quite rudimentary, and none of it was public; and ICS were not being done on a systematic basis globally. Over the past decade, there have thus been major advances in the development of broad indicators for monitoring developing-country governance.

Combining different indexes yields some striking patterns, additional to those described above. Table 5.3 combines the country results for two sets of broad outcome indicators—the KK control of corruption measure, and the quality of a country's economic and sectoral policies (as measured by the average score for CPIA clusters A, B, and C).[12] Three key lessons emerge.

First, the broad indicators offer a first approximation of the patterns of variation in governance performance among 66 IDA recipient countries. About one-third of countries generally are in the higher "good enough" quintiles of both broad governance outcome indicators. Another third are lodged firmly in the lower "clientelistic" quintiles of the indicator sets.[13]

Second, these consistent clusters aside, what is especially striking is the uneven mix of strengths and weaknesses for individual countries. Country performance is broadly similar on both dimensions for 34 of the 66 IDA-eligible countries. But (even making substantial allowance for the margins of error in measurement) in 17 countries the quality of policy and institutions is better than performance on corruption, and 15 countries show the opposite pattern. Bangladesh currently is perhaps the best known example of a country with relatively weak perceived control of corruption but strong performance on policies and on poverty reduction—though, as table 5.3 suggests, many other countries evince a similar pattern.

Countries can thus differ. Some with weak policies appear to be less corrupt. And others, stronger on the policy front, seem less successful in controlling corruption. This divergence raises some questions, both for governance monitoring and more broadly:

- If the divergence is not simply the result of measurement error (and the allowance for large margins of error in the construction of table 5.3 suggests that it mostly is not),

TABLE 5.3 Intermediate outcomes—corruption versus policy

	CPIA 2004 policy quintiles (cluster (a)–(c) average)				
Relative performance across governance outcomes	**Bottom quintile**	**4th quintile**	**3rd quintile**	**2nd quintile**	**Top quintile**
Control of corruption and policy performance are broadly similar[a]	Angola, Central African Republic, Comoros, Dem. Rep. of Congo, Côte d'Ivoire, Lao PDR, Nigeria, Solomon Islands, Sudan	Burundi, Cambodia, Rep. of Congo, Djibouti, Papua New Guinea, Sierra Leone, Zambia	Cameroon, Ethiopia, Kenya, Malawi, Moldova, Nepal, Rwanda, Mozambique, Niger, Yemen	Benin, Bosnia and Herzegovina, Mali, Serbia and Montenegro, Sri Lanka	Burkina Faso, Nicaragua, Senegal
Better policies, weaker control of corruption[b]		Chad, Haiti, Uzbekistan	Tajikistan	Bangladesh, Georgia, Kyrgyz Republic, Indonesia, Vietnam	Albania, Armenia, Azerbaijan, Bolivia, Honduras, Pakistan, Tanzania, Uganda
Better corruption control, less effective policies[c]	Eritrea, Guinea-Bissau, São Tomé and Principe, Togo, Zimbabwe	The Gambia, Guinea, Mauritania	Mongolia, Lesotho	Bhutan, Ghana, Guyana, India, Madagascar	

Source: World Bank CPIA Database.
a. Country percentile rank for the CPIA Policy Outcome and the Kaufmann, Kraay, and Zoido-Lobaton (KKZ) Control of Corruption indicator are less than 20 percentile points apart.
b. Country percentile rank for Policy Outcome is better than Control of Corruption by percentile rank of at least 20 points.
c. Country percentile rank for Control of Corruption is better than Policy Outcome by percentile rank of at least 20 points.

is it pointing to some underlying structural or social features, or to differences across countries in the relative importance ascribed to good policy on the one hand, and the fight against corruption on the other?

- How do differences in the relative importance ascribed to these different dimensions affect country performance on poverty reduction?
- How should donors respond to this divergence? Should they differentiate their support as between countries that fight corruption determinedly but have relatively weak policy, and countries stronger on the policy front than on reining in corruption?
- How do such differences reflect the performance of specific governance subsystems? Which are most relevant for containing corruption?

The third lesson on indicators (broad and specific) follows from the fact that they generally have large errors. Quantifying these margins of error has been an important advance over the past decade. The consensus among researchers is that, by and large, the broad governance indicators we have are what we will have to work with—no breakthrough capable of providing an overarching, yet precise measure of governance is on the horizon. This signals the limitations of efforts to classify countries according to their broad governance performance. Further, country-specific operational work also needs indicators that are specific, and identify "actionable" entry points for reform.

Governance monitoring thus needs to make balanced use of both broad and more specific indicators. The Global Monitoring Report (GMR) identifies 14 indicators—both broad and specific, all of which are italicized in table 5.4—as core for governance monitoring. (The CPIA, KK, DB, and ICS indicators have already been introduced; the others will be introduced in chapter 6.) Most come from sources that are updated every year or two, such as the CPIA, KK, and TI. Country coverage already is comprehensive for these and for Doing Business and Polity IV; many countries are also being included in periodic ICS. The exception is the PEFA indicator set, developed by the Public Expenditure and Financial Accountability global program. Effective monitoring of the

TABLE 5.4 Governance monitoring indicators

	Indicators with comprehensive country coverage	Other key indicators
Overall governance performance	*1, 2, 3. Control of corruption* (KK, TI, ICS) *4. Policy outcome* (CPIA cluster a–c average) *5. Aggregate public institutions* (CPIA cluster d) *6, 7. Business transactions costs* (DB, ICS)	
Bureaucratic capability	*8. Budget/financial management* (CPIA-budget) *9. Public administration* (CPIA-admin) Doing Business indicators Investment Climate Surveys Statistical Capacity	*14. PEFA indicators* Procurement "Actionable" public administration Service-provision-specific
Checks and balances institutions	*10. Voice and accountability* (KK) *11, 12. Justice and rule of law* (KK, CPIA-rules) *13. Executive constraints* (Polity IV)	Global Integrity Index

Source: Authors.
Note: Each indicator set is described in the text; the 14 italicized indicators are considered key by the GMR.

quality of public financial management is central to the new approach for scaling-up aid. *The GMR thus recommends that priority attention be given to more systematically applying the PEFA indicators in aid recipient countries.*

Along with the 14 core indicators, table 5.4 also identifies a variety of other (nonitalicized) indicators that are useful for global monitoring. All of these are specific "actionable" indicators. Of the specific indicators, the DB, ICS, and Statistical Capacity indexes already are available comprehensively. Using the others for monitoring remains a work in progress. The Global Integrity Index has been measured in 25 countries. The procurement index—the OECD-DAC [Development Assistance Committee] Baseline Indicator Set (BIS) for Procurement—has been proposed to be piloted in 10 countries. Specific "actionable" indicators measuring key aspects of public administration have been piloted in three countries. The number of service-provision-specific indicators potentially is large, though so far only one that is clearly governance related—teacher absenteeism—has been collected systematically, and so far for fewer than a dozen countries. Though the cost of developing and applying these indicators across a large number of countries is high, the PEFA and DB experiences suggest that the benefits can be higher still. *The GMR thus recommends that support be given for the further development of actionable indicators*. Once the PEFA indicators have been rolled out systematically, priority attention could be given to the expansion of coverage of the BIS procurement measures and the Global Integrity Index.

Work on these specific indicators is emerging as the frontier challenge for governance monitoring. They focus on a narrow target for measurement, so—if the indicators are carefully defined, and the methodologies for measurement robust—specific measures can provide quite tight margins of error, even if they cannot easily be used as proxies for broader governance outcomes. The narrow focus of specific measures also makes them actionable—in the sense that they can help identify specific governance weaknesses and monitor progress of reform efforts. The next chapter will focus on the monitoring of specific governance subsystems, highlighting the potential uses, both for monitoring and for governance reform, of actionable indicators.

Notes

1. For a detailed development of the term, *good enough governance,* see Grindle (2004).

2. For some theoretical and applied analyses of clientelism, see Bratton and Van Der Walle (1998); Carothers (2002); Levy and Kpundeh (2004); Lewis (1996); Migdal (1988); North (1990); Olson (1991); World Bank (2004a).

3. The Public Expenditure and Financial Accountability (PEFA) indicators incorporate a few objective measures of the quality of budget performance.

4. There are a total of 81 countries eligible for IDA in FY06 (excluding Iraq and Kosovo). Ten "small island economy exception" countries are excluded from the sample. Afghanistan and Timor-Leste do not have CPIA scores and are excluded from this sample. Liberia, Somalia, and Myanmar are inactive IDA countries, and do not have recent CPIA scores.

5. Kaufmann, Kraay, and Mastruzzi (2005: 7); Kaufmann, Kraay, and Zoido-Lobaton (1999: 9).

6. Note that, on average, composite variables do not change much with different weighting schemes.

7. For details about this index and annual results for 1995–2005, see www.transparency.org/policy_and_research/surveys_indices/cpi.

8. See, for example, Kaufmann, Kraay, and Mastruzzi (2005), which contrasts the methodologies used by the two indexes for calculating standard errors.

9. For an interesting analysis of the relation between de jure and de facto measures of the business environment see Kaufmann, Kraay, and Mastruzzi (2005). The authors find the correlation between de jure and de facto measures to be about 0.4. The gap is larger in countries with higher perceptions of corruption, signaling the power of informality in working around de jure constraints.

10. These surveys were conducted jointly by the World Bank and the European Bank for

Reconstruction and Development; they are known as the Business Environment and Enterprise Performance Surveys (BEEPS).

11. This forthcoming analysis is tentatively titled "Anticorruption in Transition 3." The second installment of the monitoring exercise, focusing on the period between 1999 and 2002, was presented in Gray, Hellman, and Ryterman (2004).

12. An alternative approach might have been to view corruption not as an outcome but as a proxy for the overall quality of public institutions. The correlation coefficient between CPIA cluster D and the KK control of corruption measure is 0.76, suggesting that it is indeed quite a good proxy. Consistent with the substantial dispersion evident in table 5.3, the correlation coefficient between KK corruption and the CPIA clusters A–C average is 0.53.

13. The location of countries in higher and lower quintiles is broadly similar to the patterns for CPIA cluster D, in table 5.2.

6

Monitoring and Improving Governance Subsystems

Bureaucratic Capability, Front-Line Provision, Checks and Balances

Governance being multidimensional, both reform and monitoring to support reform are best tackled through specific subsystems. The framework laid out in the previous chapter distinguished among three broad subsystems: cross-cutting public financial management and administrative control agencies that underpin bureaucratic capabilities; front-line service provision and regulatory agencies; and checks and balances institutions. This chapter deepens the focus on developing-country governance by considering for each of these subsystems some options for monitoring and improving performance—and links these to different approaches to scaling up aid. (The developed-country, multilateral, and global dimensions of the governance challenge are considered in depth in chapters 3, 4, and 7, respectively.) Inevitably, countries reforming governance differ from one another in the pace at which these different subsystems improve. A final section of the chapter examines some of the dilemmas this poses for the country and for its development partners.

Monitoring and Improving Bureaucratic Capability

An effective bureaucracy facilitates the scaling-up of aid. The bureaucracy formulates detailed policies that translate the goals of society and its political leaders into programs of action. It manages the implementation of these policies. And it reports on progress.

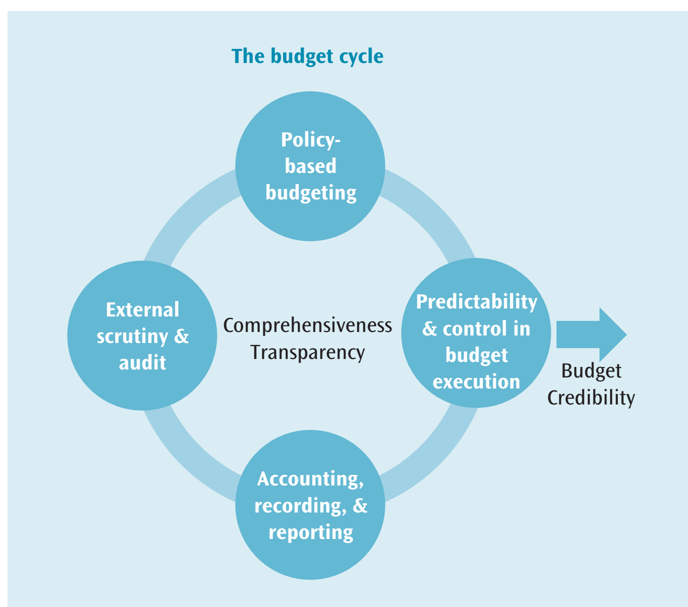
Helping to build bureaucratic capability has long been a focus of development assistance. Before 2000 it was viewed as principally technocratic, with a gradual accumulation of lessons and advice on good practice. Even as these lessons crystallized, the profile of the work remained low, because its focus on building country systems was at odds with the dominant approaches to providing aid and technical support through self-standing projects, hermetically sealed off from often dysfunctional public sectors. But with the new approach to aid placing increasing emphasis on mutual accountability, the profile of efforts to build bureaucratic capability has risen dramatically.

Better public finance and administration in developing countries is essential for the new approach, introduced in December 1999 with the Poverty Reduction Strategy (PRS) process. The PRS builds on a hard-learned lesson of development experience—that externally imposed conditionality generally fails to achieve its intended results (World Bank and IMF 2005: 1, 10). The national budget and the public bureaucracy that prepares and implements the budget and is accountable to its citizens are critical vehicles for ensuring country ownership and leadership (World Bank and IMF 2005: 12, 15, 19).

Budget support is the natural way to transfer resources to support a country's PRS objectives without undermining country ownership through excessive external oversight. But where governments focus less on poverty reduction and participation, are less constrained to be accountable to their citizens, and have less capacity, the combination of a PRS process and budget support does not offer a ready way of resolving the tension between country ownership and donor fiduciary obligations.

Countries are making progress in developing a long-term holistic vision for poverty reduction and translating that vision into a coherent, medium-term, sequenced strategy. But most have a long way to go. The PRS Review of 2005, reporting survey data covering 59 countries, concluded that only 7 had well-developed strategic programs (World Bank and IMF 2005; and World Bank 2005). The majority of the remaining countries had activity under way—though not yet advanced to the point that long-term visions could serve as a reference point for policy makers.

FIGURE 6.1 Public financial management: a performance monitoring framework



Source: www.pefa.org.

This section considers some aspects of country progress in moving from general assertions of development goals to the specific articulation, costing, and implementation of strategies for poverty reduction. It first reports on progress in monitoring the quality of public expenditure management and highlights some patterns across countries revealed by monitoring. It also highlights emerging lessons about how to strengthen public expenditure management systems in different country settings. The section then reports on efforts to monitor public administration, drawing on experience to offer practical guidance on how to improve administrative capability, both for developing countries on a path of improving governance and for their development partners seeking to monitor progress.

Monitoring and Improving Public Financial Management

Public financial management is particularly relevant to the new aid architecture. It is key for getting results on the ground and for assuring donors that aid resources are being used prudently. Setting the stage for the analysis here is a framework based on the 2005 report of the multiagency Public Expenditure and Financial Accountability (PEFA) partnership program (figure 6.1). That report synthesized the results of more than a half-dozen years of work by PEFA partners to develop a common platform for assessing the quality of public finance systems, including those in aid-recipient countries. The framework depicts four facets of the budget cycle:

- Policy-based budgeting—the formulating process for translating public policies, including policies that emerge from a PRS process, into specific budgeted expenditures
- Arrangements for predictability, control, and stewardship in the use of public funds (for example, payroll and procurement systems)
- Systems of accounting and recordkeeping to provide information for proper management and accountability

- External audit and other mechanisms that ensure external scrutiny of the operations of the executive (for example, by parliament)

Comprehensiveness of budget coverage and transparency of fiscal and budget information cut across these four facets. The framework also identifies credibility—that the budget is realistic and implemented as intended—as a key intermediate outcome, a result of the operation of the whole cycle.

There are many ways of measuring the quality of a country's public financial management system. As box 6.1 highlights, the International Monetary Fund (IMF) has developed some useful tools.[1] This section focuses on two measures at two different levels—an overall measure of the quality of public expenditure management, and measures of specific expenditure management subsystems.

An overall assessment. The results of Country Policy and Institutional Assessment (CPIA) criterion 13 (see box 5.2)—abbreviated here as CPIA-budget—can be used to assess overall patterns in the quality of budget management systems across countries. As a country improves its budget management system, its CPIA-budget score moves from weakest (1) to strongest (6). The scale is built from four dimensions of budget management, which broadly correspond to the facets of the PEFA performance management framework in figure 6.1.[2] A CPIA-budget score at or above 4 is consistent with the "good enough governance" pattern described in chapter 5.

As of 2004 only 10 of 66 low-income aid-recipient countries had the "good enough" (though imperfect) budget system implied by a CPIA-budget score of 4 (figure 6.2). These higher-performing countries are Azerbaijan, Benin, Burkina Faso, India, Indonesia, Mali, Serbia and Montenegro, Sri Lanka, Tanzania, and Uganda. Almost half the countries scored at or below 3. Of the 10 better-performing countries, Azerbaijan, Mali, and Tanzania

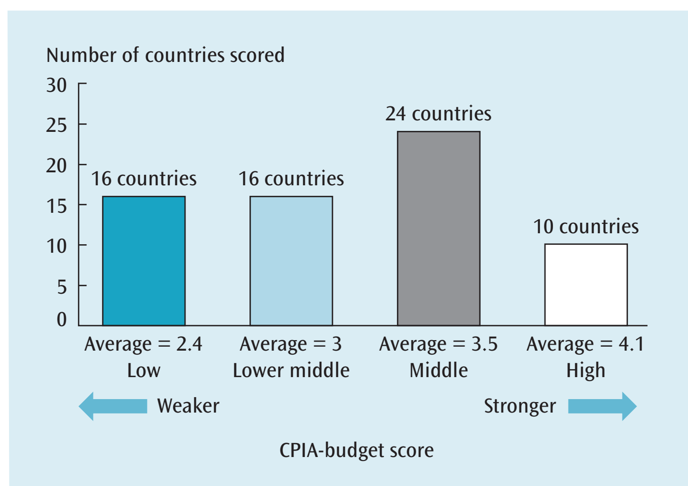
BOX 6.1 Two IMF tools to support fiscal management and transparency

The Code of Good Practices on Fiscal Transparency was developed in response to concerns that a lack of comprehensive information on fiscal activity made it difficult to properly assess the objectives of fiscal policy. Greater fiscal transparency was also believed to be linked to improved governance and fiscal outcomes more generally. The code contains 37 good practices that are organized according to four main principles of fiscal transparency: clarity of roles and responsibilities; public availability of information; open budget preparation, execution, and reporting; and assurances of integrity. These practices, when observed, are critical not only for holding leaders accountable, but also for preventing any mishandling of finances during budget execution.

The IMF regularly undertakes assessments of fiscal transparency called fiscal Reports on Observance of Standards and Codes (ROSCs) in its member countries. Participation in an ROSC is voluntary and the authorities retain the right not to publish the final report, although most have agreed to publish fiscal ROSCs.[a] As of the end of 2005, fiscal ROSCs have been completed for 80 countries, and 76 of these have been published. ROSC participation is distributed unevenly across regions, with most countries in Europe and the continental Western Hemisphere having completed ROSCs, while a much smaller share of countries in Africa, the Middle East, and Asia have agreed to participate. A number of countries, especially in Europe, have been working on improving fiscal transparency and have opted to undertake one or more ROSC updates to reflect this progress. In addition, a growing number of countries are undertaking full reassessments. Both reassessments and updates are published on the IMF Web site with the original ROSC.

Source: International Monetary Fund, Fiscal Affairs Department, Fiscal Transparency Unit.
a. All the published reports are available on the IMF ROSC Web site at http://www.imf.org/external/np/rosc/rosc.asp.

FIGURE 6.2 **Low-income aid recipient countries with CPIA 13 (quality of budgetary and financial management) scores, 2004**



Source: World Bank CPIA Database.
Note: CPIA 13 measures the quality of budgetary and financial management. The 66 IDA countries are divided into groups based on a CPIA 13 score.

raised their CPIA-budget scores by at least one point between 2001 and 2004.

Disaggregated public financial management indicators. The heavily indebted poor countries (HIPC) debt reduction initiative spurred a sustained effort to develop actionable indicators of budget quality. A first set of 16 indicators was developed jointly by the World Bank and the IMF and applied in 2001 in 23 HIPC through a joint assessment with recipient-country governments, with a follow-up assessment in 2004.

Building directly on the HIPC tracking process, seven donors (the World Bank, the IMF, the European Commission, the U.K. Department for International Development (DFID), France, Norway, and Switzerland) plus the Strategic Partnership with Africa embarked on a joint PEFA program to support "integrated and harmonized approaches to assessment and reform in the field of public expenditure, procurement, and financial accountability."[3] In 2005 PEFA issued its public financial management performance measurement framework, including 28 high-level monitoring indicators. PEFA participants have committed to harmonize their assessments of the quality of the public management systems of aid-recipient countries around the PEFA framework.

The HIPC tracking indicators score each question on an A–C scale, with detailed descriptions of how to score each question and an explicit benchmark of "good enough" performance for each question.[4] Table 6.1 aggregates the HIPC tracking results for 2004 for the 16 indicators into five categories aligned with the public financial management (PFM) framework laid out in figure 6.1.

Control of procurement and payroll was not part of the 2001 HIPC tracking indicators. In practice, procurement and payroll—plus cash transfers—make up the overwhelming majority of public spending, so strong controls in these areas are vital for good financial management. Recent advances in monitoring the quality of procurement highlight some emerging lessons (box 6.2).

Consider first the cross-country patterns for policy-based budgeting. Done well, policy-based budgeting can sharpen the focus on longer-term priorities, enable phasing in shifts in priority expenditures over time, and potentially reconcile capital costs and their recurrent cost implications (if capital and recurrent budgets are integrated). The HIPC tracking indicator reported in the third column of table 6.1, labeled "policy-based budgeting," focuses on medium-term projections. A score of A signals that medium-term projections exist and are integrated into the budget formulation cycle; a score of B that they exist but are not integrated; a score of C that they exist for only a few sectors or not at all. In 2004 only 7 of the 25 countries tracked had integrated medium-term projections into their budget cycles, but 13 of the remaining countries made projections (but did not integrate them into the cycle).

Now consider the cross-country patterns for budget implementation in the fourth, fifth, and sixth columns in table 6.1:

- The fourth column reports on measures of whether the budget is comprehensive, with no significant extrabudgetary funds

TABLE 6.1 Quality of budget management systems in 25 heavily indebted poor countries, 2004

CPIA-budget rating	Country	Policy-based budgeting (1 measure[a]: A–C ranking)	Budget comprehensiveness (4 measures[b]: # met)	Budget credibility (2 measures[c]: # met)	Budget Execution (5 measures[d]: # met)	External budget scrutiny (2 measures[e]: # met)
Best-performing group (both CPIA and HIPC)	Mali	A	2	2	4	1
	Tanzania	A	2	2	4	1
	Burkina Faso	A	2	2	3	1
	Benin	A	2	1	4	0
	Uganda	A	1	0	3	2
Middling group 1	Guyana	B	3	2	2	2
	Chad	B	3	0	2	2
	Rwanda	A	1	1	2	2
	Senegal	B	2	2	3	0
	Ghana	B	1	1	3	1
	Honduras	B	2	1	2	1
Middling group 2	Cameroon	C	1	1	3	1
	Ethiopia	B	3	1	1	1
	Sierra Leone	C	2	1	2	1
	Bolivia	B	4	0	0	0
	Niger	B	2	0	2	0
	Guinea	B	2	0	2	1
	Malawi	B	2	0	2	0
	Madagascar	A	2	0	1	0
	Mozambique	B	1	2	0	1
	Zambia	B	0	0	1	2
Weaker-performing group	São Tomé and Principe	C	2	0	1	1
	Congo, Dem. Rep. of	C	2	0	0	0
	Gambia, The	B	2	0	0	0
	Guinea-Bissau	C	0	0	0	0

Source: IDA and IMF (2005). For details of the individual HIPC indicators, see www1.worldbank.org/publicsector/pe/FinalHIPCAAPGuidance2003-04.pdf.
a. The measure is HIPC indicator 7.
b. The measures are HIPC indicators 1, 2, 4, and 5.
c. The measures are HIPC indicators 3 and 8.
d. The measures are HIPC indicators 9–13.
e. The measures are HIPC indicators 14–15.

(including unfunded contingent liabilities), and with donor funds also reported on budget. Only Bolivia, Chad, Ethiopia, and Guyana can be said to have comprehensive budgets in the sense that they met at least three of the four benchmarks. Seven countries met no more than one benchmark.

- The fifth column reports on budget credibility, as measured by the closeness of actual expenditure out-turns (both aggregate and sectorally) compared with the original approved budget, and limits on the extent of arrears. Six countries have fully credible budgets (meet both indicators), but 12 countries met neither of the credibility benchmarks.
- The sixth column reports on whether countries have a well functioning expenditure execution system, including an internal audit mechanism, and other in-budget-year controls. Only 8 of the 25 countries met three or more of the five budget execution indicators tracked in the HIPC process—and 9 countries met only one or none.

BOX 6.2 Recent advances in monitoring the quality of procurement

More governments and advisers have recognized that the mechanisms for the government to purchase goods, works, and services and the effectiveness of these practices influence the financial well-being of nations, the ability of citizens to access public services, and the competitiveness of domestic firms. Spending on procurement is at the core of discretionary government spending; even minor improvements in efficiency can yield substantial cost savings.

With greater visibility has come a profusion of efforts to monitor the quality of public procurement systems and enhance their functioning. Consider the Philippines, where in 2005 the government initiated work to measure public procurement performance in 10 of its largest agencies. The work complemented other procurement monitoring efforts in the country, which included the application of the Organisation for Economic Co-operation and Development–Development Assistance Committee (OECD-DAC) Baseline Indicator Set for Procurement (BIS) tool; the observance of procurement proceedings by civil society representatives; and the publishing of information on the award of procurement contracts and other relevant statistics on the government's e-bulletin Web site.

A robust approach to monitoring procurement and linking monitoring to improved performance is beginning to emerge. The simplest form is physical observation of procurement practices and outcomes.

A second form of procurement monitoring focuses on transparency: the publication of procurement opportunities and outcomes. In many countries electronic procurement systems have tremendously increased the visibility of public contracting and allowed government and nongovernment bodies alike the opportunity to review the distribution of contract awards as well as the price the government pays for its goods, works, and services.

A third form of procurement monitoring is assessing performance of public procurement systems using defined performance indicators. Work on developing tools suitable for monitoring public procurement has been undertaken jointly by donors and partner countries over a two-year time period. A procurement-specific indicator has been included in the PEFA Performance Indicators, and an entire tool, the BIS, has been developed as part of the OECD-DAC Working Party on Improving Aid Effectiveness.

The BIS has been applied in more than 10 countries in the first six months after it was finalized. The recommended action here is for the BIS to be used as a regular monitoring tool.

Source: World Bank.
Note: The BIS tool is available at www.oecd.org/dataoecd/12/14/34336126.pdf.

Overall, seven countries (Benin, Burkina Faso, Ethiopia, Honduras, Mali, Senegal, and Tanzania) can be said to implement their budgets reasonably effectively, in the sense that they met the benchmarks for half or more of the criteria in each of columns 4–6. Another seven countries (Bolivia, Democratic Republic of Congo, The Gambia, Guinea-Bissau, Mozambique, Uganda, and Zambia) met fewer than half of the benchmarks in at least two of the three categories, and so appear to have significant weaknesses in budget implementation.

The seventh column of table 6.1 reports on the quality of budget reporting and external scrutiny. Adequate accounts are a precondition for effective scrutiny. As of 2004, 14 countries met one of the two benchmarks—closing annual accounts within two months of the end of the fiscal year. Formal oversight of the budget is the responsibility of parliament, based on independent audits of the accounts, and is measured by the second benchmark. But not one of the HIPC-monitored countries submitted audited reports to its legislature within 6 months of the end of the fiscal year—

and only 7 countries submitted an audit within the benchmark of 12 months.

The results confirm that the quality of budget management systems of the 25 HIPC-tracked countries remains uneven. Only Burkina Faso, Mali, and Tanzania score in the top half of possible (absolute) scores in all five categories. Ethiopia, Ghana, Guyana, Honduras, and Rwanda avoid the bottom rung in all four categories. The remaining 17 countries had budget systems with at least one deep flaw.

This unevenness raises concern. The budget process is like a chain in the sense that it is only as strong as its weakest link. Even well-formulated budgets add modest value if there is little relation between the budget on paper and the way money is actually spent. And the impact of a well-prioritized and well-executed formal budget is undercut if much of the public spending is off budget.

Strengthening public financial management. Why is performance on public financial management so uneven? In some countries poor performance may be a consequence of clientelism, extended civil conflict, and the evasion of formal rules and external scrutiny. Serious improvement is unlikely without changes in a country's political dynamics. This is more likely for one-third or so of the low-income aid-recipient countries that have consistently been stuck in the fourth and fifth quintiles of all governance performance measures, with no improvement over the past five years, most of them with capabilities undermined by conflict.

But many countries have shown the capacity for quite rapid improvement in their public financial management systems:

- The CPIA and HIPC tracking assessments reveal that many countries strengthened their budget systems in just three years—some by significantly more than any plausible margin of error. Of the 66 International Development Association (IDA) recipient countries included here, 19 improved their CPIA-budget score between 2001 and 2004—7 of them by one or more points. A comparison between the 2001 and 2004 HIPC tracking assessments of 25 countries identifies 6 (Cameroon, Ghana, Mali, Niger, Senegal, and Tanzania) that improved their scores in a net of at least three categories.
- Even in a brief three-year time span, there were some countries that made substantial improvements for each of the five budget subsystems. For budget execution Senegal went from meeting none of the benchmarks in 2001 to meeting three in 2004, Ghana from one to three. Cameroon improved its score on both "external scrutiny" benchmarks (though in 2004 it still took more than two months to close its annual accounts). Guinea's score on policy-based budgeting went from C to A. And Bolivia and Guyana increased by two the number of "budget comprehensiveness" benchmarks met.
- As the sustained improvements in Ghana, Mali, Senegal, and Tanzania suggest, countries with stronger starting capacity (measured, say, by having more benchmarks met in 2001) may be better able to achieve rapid gains in the short run than countries with weaker starting points (see Dorotinsky, Kisunko, and Pradhan 2005). But Niger—which improved its ranking in a net of five categories[5]—suggests that significant gains also are possible where the starting point is weak.

These patterns suggest that heightened attention to budget management and strong incentives for better performance can result in quite rapid gains. For countries determined to improve their public financial management systems, achieving a "good enough" standard within, say, a 5- to 10-year period may be feasible. How budget reform is designed and implemented will be key.

The HIPC tracking results suggest that a few countries—those with committed developmental leadership, plus a preexisting baseline of capacity—appear able to adopt and rapidly implement a comprehensive program of budget reform, to the point that country systems can provide a robust platform for ensuring effectiveness in the use of resources.

But where capacity is weaker, there is a need to set realistic goals for what is achievable and implement them in a realistic sequence.

A first lesson for strengthening public financial management systems is that in most countries, the approach should be incremental. The reforms proposed for specific budget management subsystems have sometimes been very ambitious. Recent reviews by both the IMF and the World Bank have examined the experience with medium-term expenditure frameworks (MTEFs). The IMF review captures the shared conclusion, namely that "developing comprehensive medium-term expenditure frameworks can be effective when circumstances and capacities permit. Otherwise, it can be a great consumer of time and resources and might distract attention from the immediate needs for improving the annual budget and budget execution processes."

The IMF review also offers some useful guidance in noting that

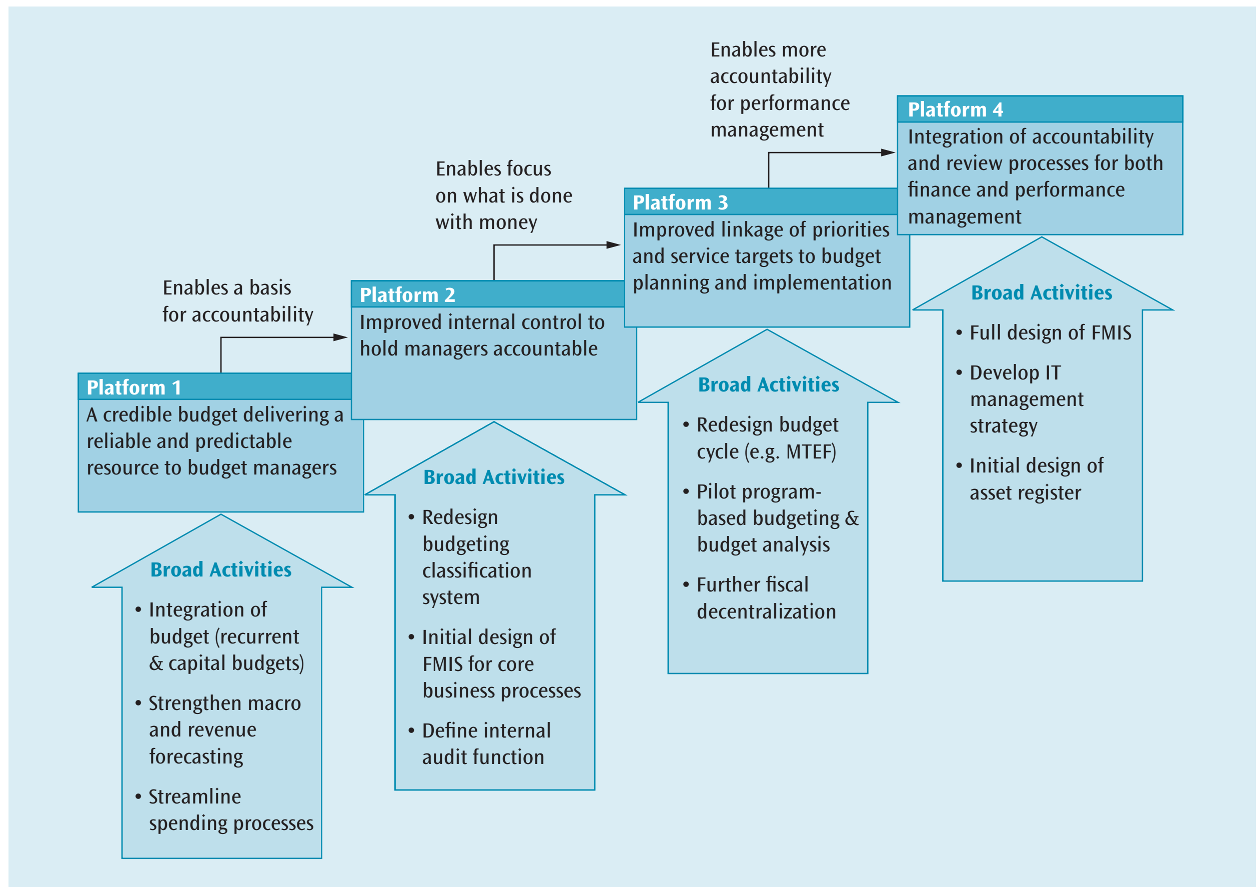
> *. . . the MTEF, as a feasible means of improving budgeting, requires the following: reliable macroeconomic projections, linked to fiscal targets in a stable economic environment; a satisfactory budget classification and accurate and timely accounting; technical capacity . . . and disciplined policy decision-making, [including] budgetary discipline . . . and political discipline for fiscal management. Before introducing an MTEF, one should raise a question: is the country ready for such an exercise in the sense of having adequate support for the above preconditions? When this support was not adequate in a number of African countries, the MTEF was introduced prematurely, and is turning out to be merely a paper exercise. (IMF 2005)*

Efforts to install computerized financial management information systems (FMIS) also are often overambitious and invariably encounter significant delays. Reviews by both the World Bank and the IMF of efforts to install FMIS in African countries concluded that large and therefore more spectacular projects are often preferred because they can be easily communicated as evidence of political action, but they are more volatile and subject to greater likelihood of failure than are smaller, more focused interventions (IMF 2005; Heidenhof and others 2002).

A useful guide to sequencing public financial management reform in low-capacity settings is suggested by DFID. The new "platform approach" for Cambodia involves a cumulative sequence of budget reforms that focuses each round on achieving specific budget functionalities, building on these functionalities in the subsequent round (DFID 2005). The sequence that emerges is almost the reverse of that often associated with PRS implementation (figure 6.3). Efforts to implement PRSs have focused on their costing and translation into medium-term budget frameworks and on strengthening countries' statistical capacities to monitor results.[6] By contrast, the Cambodian platform sequence focuses first on the basics: budget credibility, then predictability and control in budget execution. (Achieving these basics depends also on achieving predictability in the year-to-year flows of aid, a serious problem as noted in part 1.) Only after these first two platforms are locked in will they move on to medium-term budget planning—and only once that is in place will they foster public management reforms to support a results culture throughout the public bureaucracy. Country leadership has been an important feature of Cambodia's public financial management program, ensuring that the design of reforms reflects domestic priorities, rather than those of donors.

A second emerging lesson for budget management is to complement the technocratic reforms with greater transparency. Although the PRS approach highlights inclusiveness, its implicit route to effectiveness tends to be technocratic: design a robust poverty-reducing budget, execute it effectively, monitor results, and recalibrate policy and budgeting on the basis of what is learned. The lesson emerging from experience is that, in develop-

FIGURE 6.3 Cambodia: A platform approach to budget management reforms



Source: DFID 2005.

ing countries with weaker capacity, this process may be better viewed as a long-run trajectory than as a feasible path to better results in the short to medium term. That explains interest in a more demand-side approach, complementing the technocratic route: along with participatory priority-setting in PRSs, foster transparency in budget management—and emphasize the potential of public information to improve the developmental discourse among citizens, their governments, and development partners.

Monitoring and Improving Administrative Quality

Getting development results depends on much more than good financial management. For any organization, public or private, delivery depends on the quality not only of the financial side of its balance sheet, but also of its real side—the quality of its people, and how effectively they are deployed and led.

As the framework in chapter 5 highlighted, public administration comprises both downstream service provision and regulatory agencies (schools and ministries of education, customs agencies, roads authorities, and the like) and upstream cross-cutting control agencies within the bureaucracy (pay, human resource, and performance management control agencies, for example). Public administration reforms generally combine a focus on improving upstream systems—to have a broad impact across multiple systems—with targeted efforts to improve the performance of specific,

high priority agencies. This section focuses on upstream reforms; later sections consider sector-specific approaches.

In the 1980s and early 1990s a first generation of administrative reform focused principally on scaling back the bloated apparatus of government. In the late 1990s attention shifted toward improving administrative capability. Some consensus has been generated on the characteristics of an effective public administration. As the CPIA subcategories used to score the "quality of public administration" suggest, the standard prescription typically includes the following:

- Well-functioning mechanisms for policy coordination, which ensure policy consistency across departmental boundaries and facilitate clear decisions on policy and spending priorities. To be effective, these coordinating mechanisms need to be at the apex of government, supported by top political leadership.
- Well-designed administrative structures for individual line ministries and semi-autonomous executive agencies, with little duplication of responsibility, and with clear lines of authority—plus streamlined business processes and a focus on results.
- Human resource management underpinned by the principle of meritocracy—including for recruitment, promotion, and major disciplinary actions. This includes insulation from undue political or personal interests, as well as practices that reward good performance (for example, through career advancement and financial rewards) and penalize poor performance.
- Pay and benefits adequate to attract and retain competent staff, including at senior and technical levels.
- Establishment and wage bill control sufficiently robust to ensure that the public sector wage bill is sustainable under overall fiscal constraints.

Monitoring administrative capability. As with CPIA-budget, the 1–6 scale of CPIA-admin describes the gradations for a country to move through as it works to improve the quality of its public administration.

The track record of efforts to close the gaps between the desired and actual quality of public administration is (to put it gently) uneven in both developed and developing countries. A landmark review of public administrative reform in 10 OECD countries—including such noted public management reformers as Australia, New Zealand, Sweden, the United States, and the United Kingdom—concluded:

> *Reform-watching in public management can be a sobering pastime. The gaps between rhetoric and actions . . . are frequently so wide as to provoke skepticism. The pace of underlying, embedded achievement tends to be much slower than the helter-skelter cascade of new announcements and initiatives. Incremental analysis and partisan mutual adjustment seem to have been very frequent features of public management reform, even if more-than-incremental changes were frequently hoped for. (Pollitt and Bouckaert 2000: 184, 188–89)*

The CPIA-admin scores provide a snapshot of administrative system performance and reform for the 66 IDA countries. The ability to measure is less well developed for administrative quality than for budget management. No disaggregated actionable measures paralleling the HIPC tracking and PEFA indicators are available—although an initiative to fill the gap is at an early stage of piloting (box 6.3). The 2004 CPIA-admin results and a composite Kaufmann-Kraay (KK)-style measure of administrative quality produce a correlation coefficient of only 0.56—a reminder of the large margins of error all in governance measures.[7]

Public administrative systems are weaker than their budget management counterparts (figure 6.4). Of the 66 IDA countries, only 2 score 4 or higher on CPIA-admin (versus 10

BOX 6.3 Actionable indicators on public administrative quality

World Bank–supported operational work in Albania, FYR Macedonia, and Romania has yielded some actionable indicators to monitor the extent to which the immediate objectives of civil service management are being furthered. The table below identifies specific subobjectives for civil service management, and indicators to monitor each subobjective.

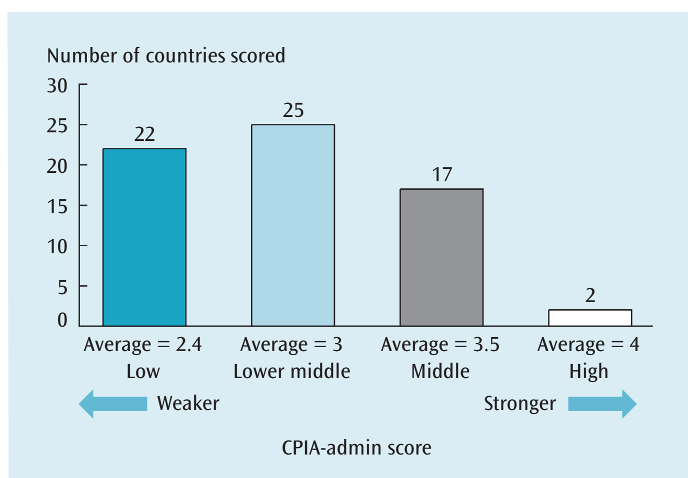
Civil service management actionable indicators

Objective	Indicator
Merit-based civil service (CS) management	
Competition in recruitment and selection	Percentage of CS vacancies filled through advertised, competitive procedures
Turnover unrelated to changes in political leadership	Quarterly CS turnover rates plotted against changes in political leadership
Effective performance evaluation practices	Percentage of CS staff for whom annual performance evaluations were completed
	Percentage of CS performance evaluations falling in each rating category
Attracting and retaining qualified staff	
Competitive remuneration	Average CS total remuneration as a percentage of average economic sector wages
	Ratios of average CS to private sector total remuneration by title
Vertical decompression	Ratio of average Secretary General total remuneration to average Junior Officer total remuneration
Attracting qualified staff	Average number of qualified (long-listed) candidates per advertised CS opening
Continuously weeding out poor performing staff	Percentage of civil servants receiving the lowest performance rating in two successive years who have left the CS within the following year
Fiscally sustainable wage bill	
Budget-financed wage bill is fiscally sustainable	Actual budget-financed overall wage bill as a percentage of GDP

Albania was first to begin using these indicators (in early 2000). Three examples illustrate their impact on reform implementation. First, reformers documented a significant increase in requests from ministers for exemptions from the competitive recruitment procedures mandated by the CS Law, and used the data to successfully make a case for imposing regulations that would make it more difficult to justify such exemptions. Second, a survey of public and private sector salaries was used to develop a new CS salary structure, which would ensure consistency in the competitiveness of CS salaries across types of CS positions. Third, evidence on a rising incidence of qualified applicants per advertised CS position in Albania has helped to convince doubters about the efficacy of Albania's competitive recruitment and selection procedures.

Source: World Bank.

FIGURE 6.4 Low-income aid recipient countries with CPIA 15 (quality of public administration) scores, 2004



Source: World Bank CPIA Database.
Note: CPIA 15 measures the quality of public administration.

on CPIA-budget), and only 17 score 3.5 (versus 24 on CPIA-budget). Trends in CPIA-admin suggest that, though change generally comes slowly, committed countries can achieve quite rapid improvement in their systems of public administration: Between 2001 and 2004 Armenia, Azerbaijan, Cameroon, Georgia, and Vietnam lifted their CPIA-admin scores by one or more points, more than any plausible margin of error.

A comparison of the results among low-income aid-recipient countries for CPIA-admin and CPIA-budget—and the relation between each and the corruption and policy-quality outcomes—again suggests some unevenness across governance subsystems. While the overall correlation between CPIA-budget and CPIA-admin is quite high (0.73), the quality of budget management and of public administration can vary greatly from one country to another.

The correlation between budget systems and control over corruption is low at 0.46. This result is not as surprising as it may appear at first—corruption is an outcome of the quality of national governance systems as a whole, not simply budget management (chapter 5) and can be unrelated to public expenditure management. Even so, the result highlights an acute dilemma for approaches to aid that give special prominence to improving budget systems to monitor the use of donor resources. The strong focus on strengthening budget management may help in underpinning good resource allocation and related policies—but not prove a panacea in the fight against corruption. Greater clarity is needed in the global dialogue on governance, corruption, and development impact as to what is achievable—and how it can realistically be achieved.

Strengthening administrative capability. Building effective public administrative systems in developing countries is difficult. A 1999 review of 102 World Bank operations to support civil service reform (CSR) between 1987 and 1997 found that only 33 percent of closed CSR interventions and 38 percent of ongoing efforts achieved satisfactory outcomes.[8] Useful lessons are emerging as to both the reasons for the disappointing track record of efforts to improve administrative systems, and constructive options for proceeding.[9]

Much of the administrative reform agenda aims to improve processes, and process reforms tend to be soft, with progress difficult to observe or measure. Even when these reforms work, their impact is evident only over the long term. From the start, though, they threaten the authority of established interests throughout the bureaucracy. Resistance to reform within the bureaucracy—either overt, or through half-hearted implementation—is therefore likely to be endemic.

Then there is the political logic of reform. Political leaders need to balance a technocratic view of good reform practice with the political imperatives of building and sustaining alliances with powerful patrons, avoiding conflict with powerful social groups, and maintaining electoral support. Such a calculus is not favorable for serious administrative reform: the upfront political costs are substantial, and the time horizon long before benefits are evident in the form of improved public performance. It is, however, much more favorable for more cynical politicians with a short time horizon to promise bold

reforms to clean up government and get government working, in full knowledge that the seriousness—or otherwise—of the reform effort will be invisible to the average citizen.

Administrative reforms therefore need to seek a good fit—one that aligns the agenda with a country's political realities on the ground. Rapid, comprehensive administrative reform is appropriate only in those rare cases where there is a strong enough baseline of capacity for sustained administrative reform—plus political leadership with the commitment, mandate, and time horizon needed to see the effort through.

Latvia and Tanzania are two countries where the environment for administrative reform was propitious. Between 2000 and 2003, Latvia promulgated an ambitious, and generally well-regarded agenda of administrative reform including a new civil service law which guaranteed meritocratic recruitment, and introduced performance appraisal; a new control framework for the large number of semiautonomous state agencies; and a new framework for coordinating policy making and administrative reform from the Prime Minister's Office. It also made ongoing efforts to reform the public sector salary structure. In Tanzania, the momentum of administrative reform built incrementally, sustaining a consensus as the program unfolded. An eight-year (1991–9) civil service program first brought employment and the wage bill under control, and then clarified the appropriate roles—and rightsized—across a wide range of government ministries, departments, and agencies. In 2000 a new phase—an ambitious 11-year program—began. The program incorporates both a phased approach to pay reform, and a performance improvement model that gives individual agencies incentives to clarify their role and mission, develop strategic plans (including well-defined results and a well-publicized service delivery charter), and identify and address capacity development needs.

Even in these favorable environments, implementation has been quite challenging. In Latvia, the passage of reformist legislation proceeded straightforwardly, but entrenched political interests have made both pay reform and agency restructuring an uphill struggle. Tanzania, too, has had to scale back the ambition of some of its more far-reaching initiatives. In countries with less favorable environments, the agenda of administrative reform needs to be more modest. However, as box 6.4 illustrates for Albania, even in these more difficult settings, carefully designed incremental reforms can achieve quite significant results.

Improving the Governance of Service Provision—Some Targeted Approaches

In most countries top-down reforms of cross-cutting public financial management and administrative systems will take a long time before they help improve service provision. So it is natural to complement them with approaches that work closer to the service provision front-line. This section will highlight five service-centric approaches to improving governance and service provision:

- Using public expenditure reviews to highlight sectoral spending priorities as part of an integrated dialogue on strengthening country systems
- Engaging via sectorwide programs
- Using information to improve accountability at the service-provision front-line
- Decentralizing to shift responsibility for service provision closer to the front-line
- Adopting community-based approaches to local infrastructure investments

The discussion focuses first on approaches that are relatively more helpful in institutionally stronger settings, working its way down to the difficult challenges posed by countries where governance is weak. Some of the approaches presented are relevant regardless of whether a country's governance is strong or weak.

Identifying sectoral spending priorities. Cross-cutting public management systems aim to ensure that scarce public resources are targeted toward activities with high social

BOX 6.4 Albania—administrative reform in an unpropitious environment

In the wake of communism, skepticism was pervasive among Albanians about the value of state authority and collective action. Politics was fiercely competitive, factionalized, and patronage based. There was no appetite or capacity for far-reaching administrative reform. Even so Albania's administrative system made important gains between 1998 and 2005.

The gains came through the skillful exploitation, by both domestic reformers and their international champions, of a window of opportunity that opened between 1998 and 2002: the appointment (by the political leaders of an electorally victorious political party) of a reformist prime minister willing to champion an administrative reform agenda. Backstopped by strong conditionality from the World Bank, the agenda was carefully calibrated to be feasible in a setting with limited commitment to reform. Albania's administrative reform focused narrowly on introducing meritocracy, plus market-competitive pay, for the country's top 1,300 civil servants. Targeting only this top tier is not enough for systemwide improvements, but it can yield important gains in the quality of policy making and in the management of public resources. It can also establish a precedent of new ways of doing business, with the scope of application broadening over time.

In 2002 the reformist prime minister was replaced, and momentum shifted away from reform and toward Albanian politics as usual. Yet the reforms, which had been widely publicized and enjoyed both the support of donors and broad approval among Albania's citizens, had crowded in a powerful constituency for their continuation—the senior civil servants. The arrangements for a meritocracy have largely been sustained. Indeed in 2005 parliament intervened directly to reject legislation that would have reduced the ability of the Department of Public Administration to enforce the pro-meritocracy 1999 civil service law.

Source: World Bank.

returns, and are deployed efficiently. But past allocation decisions may not work out as intended, and new opportunities continually arise. Chapter 1, for example, highlights the potential for new, highly productive public investments in key infrastructure areas. The development returns can thus be high from reviewing public expenditures to identify specific expenditure with high potential returns, and ongoing, low-return expenditures that could usefully be redirected toward high-return uses.[10] Where this process works well, the fiscal space opened up for new investment or productive current expenditure can be large:

- Chile invested on average 5 percent of GDP in infrastructure during the second half of the 1990s without resorting to significant borrowing, primarily through reallocation of expenditure, increased efficiency, and the use of public-private partnerships. One consequence was that the country's credit rating increased, enlarging its unused borrowing capacity, and giving it greater fiscal flexibility for potential future use.
- Thailand initiated in 2005 a large five-year public investment program of 2.5–5 percent of GDP annually to upgrade and improve infrastructure, addressing widely recognized bottlenecks, including mass transit in Bangkok and the country's interprovincial highways. Credit rating agencies have assessed the investment program to be an important driver of growth over the medium term—assessments that were based on the country's earlier fiscal credibility and enabled it to finance these investments via borrowing. However, both the IMF and rating agencies have noted that effective management of the investment program will be needed to ensure continued access to markets.
- The United Kingdom routinely incorporates spending reviews into its budget

preparation process. Despite this, a 2003 independent review of public sector efficiency identified over US$15 billion of ongoing spending which was not being efficiently used, and was directly "cash releasing" and so available for reallocation.

For all of the potential benefits of arrangements to review and adjust earlier decisions on resource allocation, putting them in place is difficult—for at least three reasons. First, as the previous section of this chapter has detailed, in many low-income countries even the basics of cross-cutting budget and administrative systems do not work well. Second, even where the systems work well, they might not drill down in sufficient detail to distinguish effectively between low- and high-return activities: the knowledge needed to assess development returns can be highly specialized, and reside within sectors, not in budget central agencies. Third, many high-return investments cut across sectoral boundaries—as illustrated in chapter 2 by the high benefits for childhood health of upgrading wood-burning stoves or dirt floors.

While the returns are thus high from strengthening budget systems so they can prioritize more effectively, especially in low-income and weaker governance settings the need to use resources well is too urgent to be dependent solely on systemic improvements. The case is compelling for complementing efforts at system improvements with more targeted efforts—within individual sectors and across sectors—to identify high-return investment opportunities, as well as opportunities for freeing up resources locked into low-return activities. This is an activity for which development partners can provide targeted assistance. The Public Expenditure Reviews facilitated by the World Bank, already an established part of the landscape of development dialogue, offer a ready-made vehicle.

Sectorwide programs. Partial approaches that focus on improving governance and service provision in one sector have the potential to achieve many goals simultaneously. These include getting quick wins in a high-priority area; providing a mechanism for concentrating limited country capacity; creating a focal point for harmonizing multiple, overlapping donor programs around a coherent agenda; providing a clear focal point for results-based monitoring and evaluation; and serving as catalysts for broader change in country systems. Financing mechanisms can run from sector-specific budget support (donors pool all their funding and channel it through the budget using country procedures but carefully monitoring flows to the preferred sector) to approaches that partly "enclave" the use of funds. To realize their potential, though, two issues need to be confronted.

First, even at the level of an individual sector, the challenges of aid harmonization and alignment remain formidable. Donors must be willing to subsume their particular priorities under the umbrella of a country-led sectorwide program and to harmonize their procedures. This is proving difficult, even in Tanzania, a global leader in incorporating aid into country-led strategies and systems. In that country's sectorwide program (SWAP) in education, for example, donors provide support through basket funding, but have not all harmonized their reporting requirements. As of October 2004, there were an estimated 110 projects still on the books, with an average size of only $906,000 (Economic and Social Research Foundation 2005).

Second, focusing public management reforms on a single sector risks making systemic reform more difficult later on. Road funds, for example, aim to strengthen accountability by harnessing the incentives of users, who have a stake in the efficient and honest use of resources, including stakeholders from the road transport industry, chambers of commerce, and farmers organizations. These have an extra incentive to provide oversight because some of the revenues used for road investment and maintenance comes from earmarked vehicle licenses and fuel levies.[11] As another example, sectorwide programs in education sometimes (notably in Francophone Africa) have included a move toward community schools, with increased

parental oversight. This has been shown to improve both school management and educational outcomes.[12] In addition, locating responsibility for the contracting of teachers with communities can also help reduce unit costs: "even when offering average salaries as low as half the civil service teacher wage, countries have found more qualified applicants than they can hire" (World Bank 2005: 82–85).

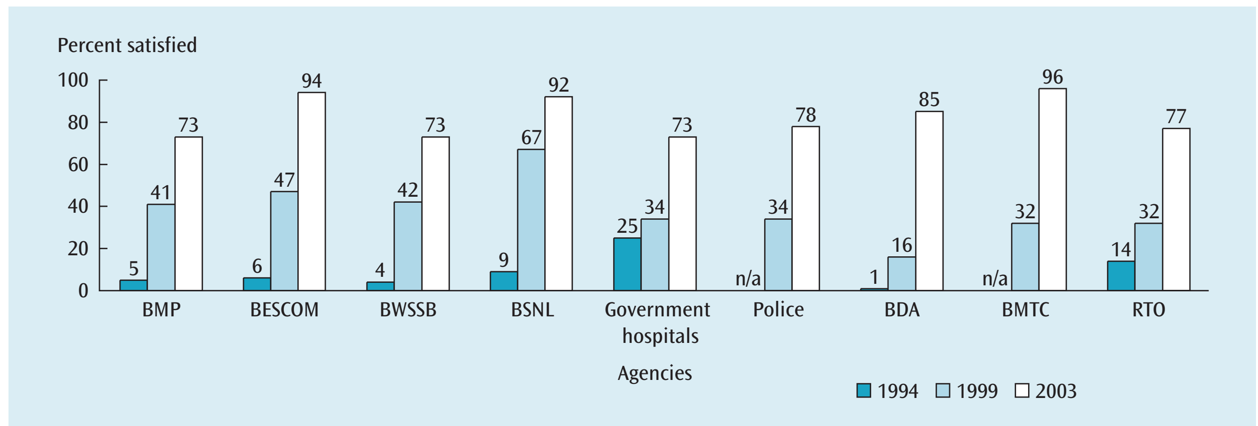
Despite their advantages, such sectorally focused initiatives can be at variance with standard approaches to strengthening cross-cutting bureaucratic controls. Ring-fencing through road funds can undercut the ability to make choices among competing uses of resources, fragment the systems of budgetary control, and complicate efforts to achieve broader improvements in the financial management system. Community contracting of teachers risks undercutting efforts to introduce transparent meritocratic practices of recruitment and promotion, and can also create new opportunities for informality and patronage. Each of these criticisms presumes that broader systemic reforms are directly feasible. But in many settings this is unlikely to be the case: the challenge is to achieve gains in an imperfect world, where the best can be the enemy of the good. Further, partial reforms also have the potential to nudge along incremental change in broader systems: A well-managed road fund could spur more far-reaching public financial management reforms. Community teachers might create an opening for more flexible approaches to civil service reform. Engaging citizens in public sector governance within individual sectors can be a valuable spur to civic engagement more broadly.

Using information to improve accountability at the service provision front-line. Open information on the performance of public agencies can engage citizens in a continuum of ways. At one end is political accountability: citizens can use information on the quality of service provision as part of their decision regarding the reelection of incumbents, at national or local levels. At the other end is the use of performance information by citizens directly involved in the governance of service provision facilities, for example through community-driven approaches discussed a little later. Two intermediate examples illustrate further the potential of empowerment through information.

The first example highlights how detailed, public information can enable citizens to make informed judgments regarding the performance of politicians, policy makers, and providers—and to respond with support, or pressure for change. Frustrated by years of inaction on public services which increasingly were unable to keep up with Bangalore's dynamism and population pressure, in 1994 a group of citizens introduced the idea of a user survey–based "report card" on public services. Initially, the impact was modest. Nonetheless, the sponsors persisted, establishing a nongovernmental organization (NGO), the Bangalore Public Affairs Center, to institutionalize the effort, building coalitions with other NGOs and repeating the report card survey in 1999 and 2003. Figure 6.5 highlights the extraordinary turnaround in perceptions of the quality of service delivery. The Public Affairs Center describes how this was achieved:

> *The first and second report cards had put the city's public agencies under the scanner. The adverse publicity they received, according to many observers, acted as a trigger for corrective action. Inter-agency comparisons seem to have acted as a proxy for competition. Citizen activism and dialogues with the agencies also increased during this early period. These developments prepared the ground for a positive response from the Government. A good example is the political leadership and vision displayed by the Chief Minister S. M. Krishna in the past four years. He provided the framework within which a set of able administrators could set in motion a series of actions and reforms in the agencies. Many civil society groups and the media have stimulated and supported this momentum. Sustaining this movement is the challenge for the future.* (See Paul 2002: 71)

FIGURE 6.5 Perceptions of service delivery performance in nine Bangalore agencies, 1994–2003



Source: Samuel Paul, Public Affairs Centre, Bangalore, presentation at 6th Global Forum on "Reinventing Governments."
Note: BMP = Bangalore Municipal Corporation; BESCOM = electricity; BWSSB = water supply; BSNL = Telecom Department; BDA=Land Development Authority; BMTC = MetropolitanTransport Corporation; RTO = Motor Vehicle Licensing

The service provision scorecard approach pioneered in Bangalore has been widely implemented—in countries ranging from Brazil to the Philippines, Ukraine, and Turkey.

The second example involves more hands-on citizen monitoring of official mechanisms and reports of how public resources are used. A few instances are summarized below:

- In Rajasthan, India, building on the passage of a Right to Information Act in the state in 2001, the Movement for the Rights of Peasants and Workers (MKSS) organized public hearings in rural areas at which figures from the records of licensed distributors of subsidized food rations were compared with figures from the ration books of recipients. Social audits were also carried out of hospitals during which data from medical records were compared with patients' actual experience. In both cases, large discrepancies between the two sets of figures were revealed. This led to further investigation, which in turn disclosed evidence of corruption, embezzlement, and maladministration.[13]
- A Philippines civil society organization (CSO), the Ateneo University Group, set up a citizen monitoring effort, together with government agencies responsible for textbook distribution and highway infrastructure, to make delivery more effective. The project determined that 21 percent of textbooks were not actually delivered to schools designated to receive them, creating losses of more than US$3 million, which the Department of Education promised to rectify. The template developed for this project has been used by many other CSOs.
- In Tanzania, the Rural Initiatives and Relief Agency helped 10 local communities track government program expenditures for health and education. The pilot projects appear to have helped ensure that commitments to deliver funds were indeed followed through. The expenditure tracking tool has been made available to CSOs in other rural areas of the country.

The latter two instances both were funded by the Partnership for Transparency—an international NGO (supported by Sweden, the United Nations Development Programme [UNDP], and the World Bank) that provides micro-grants to CSOs engaged in fighting corruption. Independent evaluations have shown the large majority of these projects to be successful. The maximum grant size provided by the Partnership for Transparency is US$25,000—underscoring that empowerment

through information can be a low-cost, high-return strategy for improving governance.

Decentralization has increasingly been seen as a response to governance dysfunction. It has a dual role in a national governance system. First, democratic subnational governments can offer an important check and balance against central executive power. Second, subnational governments potentially have advantages in the provision of some public services.

Decentralization often is driven by politics. Sierra Leone embarked on decentralization as a way of building simultaneously intergovernmental institutions, local government capacity, and bottom-up accountability. When that country's civil war ended in 2002, the government initiated a process of national consultation on decentralization. In February 2004, it enacted a progressive Local Government Act, establishing 19 local councils, which, over the period of 2004–8, will take over a large set of responsibilities and resources related to primary education, primary health, agriculture, feeder roads, water, and sanitation. The World Bank has supported fiscal decentralization technically and has helped open political space for development-oriented local politicians to emerge and establish track records by promoting community-based approaches to local infrastructure investment.

Does decentralization help reduce poverty? For this to happen, two sets of accountabilities need to work well. The first comprises downward accountability to local residents. As the 2004 World Development Report (WDR) on improving service provision to the poor put it:

> *Where decentralization is driven by a desire to move services administratively closer to the people . . . the assumption is that [it] works by enhancing citizens' voice in a way that leads to improved services. . . . Voters make more use of information about local public goods in their voting decisions because such information is easier to come by and outcomes are more directly affected by local government actions. And political agents have greater credibility because of proximity to the community and reputations developed through social interaction over an extended period. But on both theoretical and empirical grounds this could go either way. The crucial question is always whether decentralization increases accountability relative to its alternatives. If local governments are no more vulnerable to capture than the center is, decentralization is likely to improve both efficiency and equity. (World Bank, World Development Report (WDR) 2004: 90)*

The second set of accountabilities comprises the allocation of responsibilities between central and local governments. These include the assignment of responsibilities for service provision (clarifying which services are assigned to local authorities, which are assigned to national authorities, and which involve complementary responsibilities for both local and central authorities); the allocation of fiscal resources (including some tax base for local authorities) and fiscal accountability; and regulatory, fiduciary, and other forms of central oversight over local activity.

Clarifying these responsibilities in ways that give each tier of government an incentive to perform its role efficiently is a complex task and deeply political. Decisions over the decentralization "rules of the game" involve a zero-sum contest between national and local politicians and bureaucracies over who controls resources and influence. The interplay between technical complexity and political jockeying can sometimes create difficulties. A comparative review of experience in six East Asian countries (Cambodia, China, Indonesia, Philippines, Thailand, and Vietnam) concluded that

> *The result [has been] a kind of "institutional limbo". . . . Whether by design or as a result of slippages in the implementation process, intergovernmental structures have substantial internal inconsistency. The functions of different*

levels of government overlap. Bottom-up accountability of locally elected bodies is dampened by top-down methods for appointing key officials. And the discretion given to local authorities in spending unconditional fiscal transfers is effectively curtailed by central government control over human resources. (White and Smoke 2005: 7)

As the 2004 WDR concluded:

Subnational authorities can be efficient providers and regulators of local services under the right institutional incentives and with clarity about who does what—and with what. But greater autonomy can also increase opportunistic behavior and create moral hazard, resulting in costs that diminish accountability and the benefits of decentralization. Good design, sound management, and constant adaptation by both central and subnational authorities are needed to make decentralization work. (World Bank, WDR 2004: 185)

Community-based approaches to local infrastructure investments. In recent years, community-based approaches to local investments have been pursued aggressively under the rubric of community-driven development (CDD)—an approach that "gives control over planning decisions and investment support to community groups and local governments."[14] It seeks to synthesize two types of development interventions which historically have been considered separately from one another—decentralization, as described above, and social investment funds. The latter have been used extensively by donors to transfer resources to poor communities in a participatory way. Between 1999 and 2005, the World Bank alone channeled over US$10 billion to poor communities. According to most reviews, these CDD operations have helped to get services to citizens more cost-effectively and equitably, and have supported participation and accountability. Nonetheless, fierce debate surrounds CDD. Underlying this debate are contrasting views regarding the likely interplay, in weaker governance settings, between bottom-up approaches, and efforts to strengthen national governance systems.

Certainly, the risks are large. As with many donor-funded initiatives, early generation social funds bypassed the public administration with the usual costs associated with parallel implementation (see box 6.5). But in addition, such programs offer a sometimes irresistible opportunity to political leaders. In Peru, for example, between 1994 and 2000, over US$900 million was allocated to the Peruvian Social Fund, FONCODES. The

BOX 6.5 Why stand-alone investment projects can be bad for governance

Over the past half-century, stand-alone investment projects have been the dominant response of external donors to the dilemma of ensuring accountability in weaker-governance settings. Projects implemented by autonomous units have a useful role, especially for large infrastructure initiatives. But from a governance perspective, the turn to wholly parallel, projectized arrangements is a conclusion of despair. Such projects substitute external for local accountabilities, thereby perpetuating weaknesses in national governance systems. They typically insulate themselves from the day-to-day business (and rules) of the public sectors in the countries in which they operate: they establish independent project implementation units; set up their own procedures; offer salaries higher than those available in the civil service; and attract away the best talent, demoralizing those who remain. Reducing the prevalence of separate project implementation units is therefore one of the aims of the Paris Declaration (chapter 3).

poverty benefits were significant: 80 percent of the resources went to the poorest 40 percent of municipalities. Increasingly, however, it became apparent that FONCODES was being used as a source of patronage and popularity by the country's populist president, Alberto Fujimori. Disbursements increased in the months directly preceding elections, and while poorer areas were more likely to get funding, those poorer areas that were "swing voters" were favored in resource allocation (Schady 2000).

Practitioners of CDD have worked to address these risks by designing and implementing programs as part of a broader strategy of governance improvement—combining scaled-up participatory resource transfers to communities and longer-run institutional reform, by working closely with line ministries and local governments to help build their capabilities and interactions with community groups. Advocates argue that, especially in weaker governance settings, this hybrid approach can be a powerful way of supporting decentralization. Efforts along these lines are under way in many countries, ranging from Afghanistan to Albania, Brazil, Indonesia, the Kyrgyz Republic, Tanzania, and Zambia. Indonesia offers one example of how this integration can proceed (see box 6.6), but in some other countries programs have failed to evolve much beyond parallel mechanisms. Instead, by seeking to break out of the comfort zone provided by parallel projects, they have brought to the surface the many rivalries and unresolved tensions that

BOX 6.6 Linking community-based resource transfers and decentralization in Indonesia

Indonesia's Kecamatan Development Program (KDP) gives communities planning and decision-making power over development resources. The KDP was begun in 1998, in the aftermath of a major financial crisis and political turmoil. Over three phases, close to US$1 billion has passed through the program, which encompasses 28,000 villages—almost 40 percent of Indonesia's total. The first phase funded more than 50,000 infrastructure and economic activities, benefiting some 35 million poor people.

The main initial motivation for the KDP was that traditional methods for disbursing funds through line ministries had failed. The KDP proved able to provide quick, high-volume disbursements of development funds down to the local level. These are channeled outside the usual government disbursement mechanisms, allowing financing to flow directly to *kecamatan* localities and village-level bank accounts controlled by communities. Direct financing resolves decision-making bottlenecks caused by central efforts to plan and control activities. KDP disbursement takes an average of two weeks between the time when a village places a request and when funds arrive in the village account. Field studies and audits show that projects deliver a broader range of services at lower-than-normal costs, with greater community involvement, with corruption reduced most effectively by a combination of external audits plus citizen participation.

Since 1998, Indonesia has progressively systematized its formal system of decentralization. Consequently, the second and third phases of KDP have emphasized greater oversight from district parliaments, government monitoring, links with sectoral agencies such as education and health, district matching grants, and local involvement in drafting formal decentralization regulations on village autonomy. The KDP platform has also provided lessons which are being incorporated into local governance reforms to support greater transparency and participation in district policies related to information disclosure, procurement, budget planning, and allocation, leading to higher pro-poor expenditures.

Source: World Bank documents; Wong and Guggenheim 2005.

characterize countries stuck in a syndrome of weak governance.

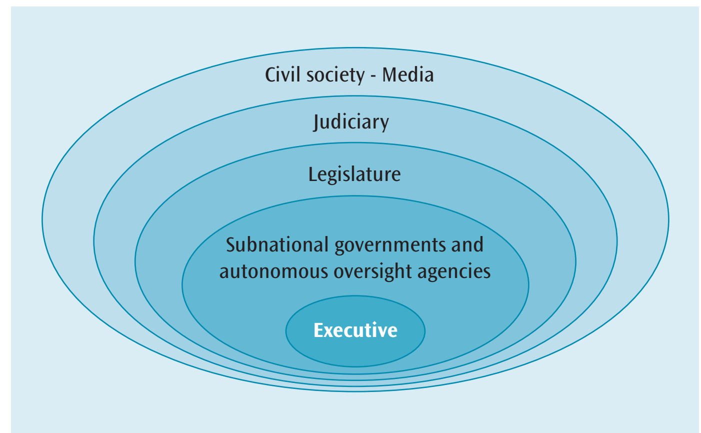
Surfacing the reality of the difficulty and unpredictability of change in weaker governance settings need not, however, be a bad thing. The challenge for CDD practitioners is to learn more about how to improve the odds: What approaches make success in incrementally fostering sustainable institutional change more likely, and in which country settings? When might the net benefits of a CDD intervention be positive, even with no success in catalyzing institutional change? Demand-driven and incremental institutional reforms such as CDD tend to be judged against a standard of perfection. Unsurprisingly, they fall short. What is needed is some agreement as to what *incremental* improvement would look like—and a monitoring approach that systematically tracks and assesses incremental, demand-driven institutional change.

Monitoring and Improving National Checks and Balances Institutions

Strong checks and balances institutions are key to a well-functioning national governance system. Some of these checks and balances are global (including global financial and other markets) and are considered elsewhere in this report. The focus here is on national checks and balances institutions. Developmental leadership or a dynamic political movement can sometimes substitute for weak national checks and balances, at least for a period. But over the longer run, well-functioning checks and balances institutions are key to *sustainability*. They help keep the executive arm of government focused on the public purpose. They are vital for fighting corruption, for ensuring that state actors at all levels use public resources efficiently and effectively, and for helping to ensure that citizens perceive state institutions to be legitimate.

Figure 6.6 disaggregates checks and balances into a constellation, arranged in terms of their "distance" from the executive authority they oversee. The relationship of these institutions with one another is only loosely hierarchical. Depending on a country's constitution, the judiciary may or may not be a constraint on legislative authority. Citizens may ultimately elect governments but on a day-to-day basis their role is more participatory than hierarchical. We can distinguish three broad groups:

FIGURE 6.6 A constellation of checks and balances institutions



Source: Authors.

- An "outer constellation" of civic voice—the rules (for example on freedom of information) and actors (such as the media) that ensure the open operation of civil society—and the transparent flow of information and data that enables citizens to play an informed role in public discourse. (Though not an explicit focus in this report, the discipline provided by competitive markets is an important buttress of this outer constellation.)
- A "middle constellation" of impartial dispute resolution—in particular the justice system
- An "inner constellation" of direct oversight—subnational governments, autonomous oversight agencies, and the legislature.

The next three subsections consider each of these in turn, focusing on approaches to monitor the quality of the relevant checks and balances institutions and highlighting how some can be strengthened.

The Outer Constellation—Transparency and Voice

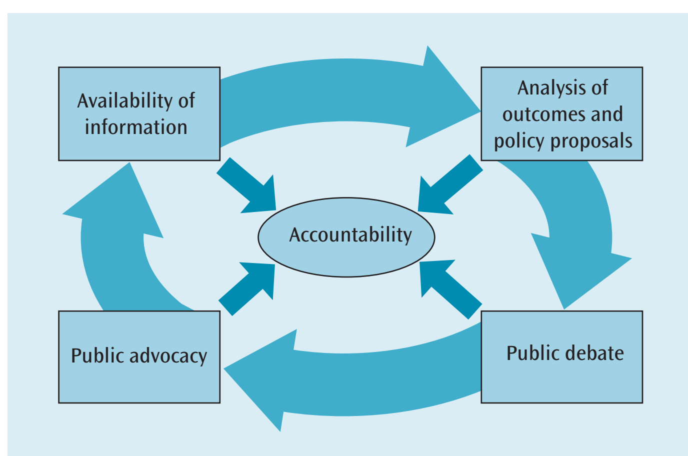
Citizen engagement, underpinned by access to high quality information, forms the outermost, and possibly the most important, element of a national system of checks and balances. Figure 6.7 depicts the "virtuous circle of transparency" in a way that highlights the links between the provision of information and state responsiveness.

Information reveals the actions of policy makers; this facilitates evaluation and monitoring, activism rises, and with it the level of public debate. Policy becomes more contestable and citizens are motivated by the possibility of holding the government accountable. Communication with the government becomes a two-way flow, generating further demands for more reliable information. The virtuous circle is completed as government practices become more open and more responsive to citizens.

Strengthening the virtuous circle. Several factors are needed for this virtuous circle to work well. First is the production and dissemination of good quality information. Recent initiatives by international agencies, including the IMF and the World Bank, have begun to put in place a framework of internationally accepted norms for the collection and publication of economic and social data. Created in 1996, the Special Data Dissemination Standard (SDDS) is a voluntary standard whose subscribers18—countries with market access or seeking it—commit to meeting internationally accepted levels of data coverage, frequency, and timeliness. SDDS subscribers are required to maintain a Web site that contains the actual data. For countries that do not have market access, the General Data Dissemination System provides a detailed framework that promotes the use of internationally accepted methodological principles, the adoption of rigorous compilation practices, and ways in which the professionalism of national statistical agencies can be enhanced.

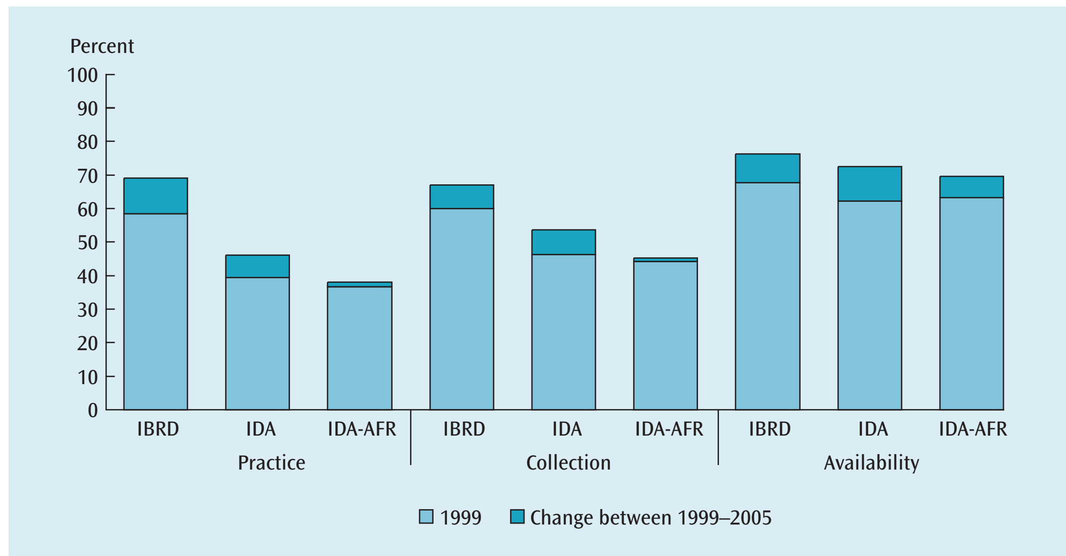
These norms can serve as benchmarks for statistical capacity building. There is, as yet, no agreed single measure of statistical capacity, but work carried out as part of the 14th replenishment of IDA's resources (IDA 14) provides a basis for monitoring changes in the performance of statistical systems. Data are compiled annually on three key dimensions of capacity: statistical *practice,* data *collection,* and indicator *availability*. The indicators are combined to generate overall indicators for each dimension and to produce a single overall indicator. This measure paints a worrying picture of statistical capacity (figure 6.8). As the low average scores in figure 6.8 for "practice" and "collection" signal, many IDA countries lack the ability to provide basic statistics on a regular basis, resulting in a vicious circle—limited, poor-quality data reduce demand for data and lower interest in supporting data collection. Attempts to bridge the availability gap include proxy data or simulations. Capacity has been increasing slowly, if at all, in most poor countries. Especially in the poorest, the impact of projects to strengthen statistical capacity has often been disappointing. Investments are usually not sustained, often because of the piecemeal, short-term nature of projects. The international community has responded to these weaknesses with the Marrakech Action Plan for Statistics (MAPS). The objective of MAPS is to assist all

FIGURE 6.7 The virtuous circle of transparency: from disclosure to responsiveness



Source: Authors.

FIGURE 6.8 Measuring country statistical capacity: IBRD, IDA, and IDA-Africa, 1999–2005



Source: Country Statistical Information Database (www.worldbank.org/data/countrydata/csid.html). See IDA (2004) for methodology.

developing countries to either implement or prepare a longer-term national statistical development plan by the end of 2006.

A second factor needed for the virtuous circle of transparency to work well is disclosure—the critical step that turns information into a potent tool for civic accountability. All governments routinely disclose reams of information, including selective information aimed at shaping public opinion. Most democratic societies have some basic standards of disclosure—publication of judicial decisions, or the records of parliamentary debates, for example. More recently, however, global changes in politics, technology, and values have converged to provide a powerful impetus to efforts to strengthen the transparency of governance systems.

This global sea change is reflected in the growing number of countries that have adopted Freedom of Information Laws[15]—over 50 as of the end of 2004, with efforts under way in an additional 30. The trend is spreading worldwide: in Asia, nearly a dozen countries have either adopted laws or are on the brink of doing so. In South and Central America and the Caribbean, half a dozen countries have adopted laws and nearly a dozen more are currently considering them. South Africa enacted a wide-reaching law in 2001 and many countries in southern and central Africa, mostly members of the Commonwealth, are following that country's lead.

A third factor is an independent media. Independent media are a crucial pillar of good governance, and a critical link in the accountability chain between the government and the governed. Investigative journalists increase the likelihood of detection of corruption, and punitive action, thus fostering good governance. Mass media also function as a channel of citizen voice, influencing government policies and actions to be more relevant and responsive to citizen preferences.[16] As box 6.7 underscores, a vibrant and good-quality media can be a potent development asset.

A fourth factor is an engaged civil society. Perseverance of civil society is crucial as a way of ensuring that greater transparency translates into a change in the internal cultures of public institutions. Development practice has responded to the new focus on civil society—illustrated by the participatory nature of the PRS process. Box 6.8 outlines

BOX 6.7 How media access can influence development outcomes

A variety of studies have documented the link between better-informed citizens and better-performing governments. Besley and Burgess (2002) show that state governments in India were far more responsive to food crises in those states that had high newspaper circulation than in those that did not. Adserá, Boix, and Payne (2003) find, similarly, that corruption is significantly lower in countries with high newspaper circulation. And Strömberg (2004) finds that households with radios during the U.S. Great Depression were much more likely to benefit from relief efforts than were households that lacked them.[17]

BOX 6.8 The Poverty Reduction Strategy process in Rwanda and Vietnam

Rwanda's PRS process has complemented and helped deepen dialogue initiated through the National Unity and Reconciliation Commission (NURC), set up to promote peace, tolerance, and respect following the 1994 genocide. There is easy public access to the PRS, including a summary in Kinyarwanda, and to fiscal data, as well as the emergence of some leading CSOs vocal on poverty issues. Participatory surveys and stakeholder seminars have been conducted by the Poverty Observatory, a strategic planning and monitoring directorate charged with monitoring PRS implementation. Efforts are under way to merge dialogue held by the NURC with that conducted by the Poverty Observatory. The development debate is being consolidated with stronger analytical underpinnings.

Vietnam produces a Socio-Economic Development Plan (SEDP) every five years. The SEDP typically has been prepared by central government agencies with little consultation outside the communist party. Subsequent to the finalization of the 2001–5 SEDP, the government embarked on developing a PRS—the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)—together with local experts and researchers as well as international and local CSOs. The existence of parallel processes and strategies has caused some confusion on the reference point for policy makers, but has provoked unprecedented lively debate on policy directions in the National Assembly. In preparing the 2006–10 SEDP, the government has committed to emulate the participatory approach to planning that characterized the preparation of the CPRGS.

for Rwanda and Vietnam how the PRS helped crowd civil society more systematically into the policy discourse. This marked a departure from the earlier practice of donors and international financial institutions (IFIs) of focusing narrowly on the executive, and has sought to engage more directly citizens and their elected representatives. A recent review suggests progress on this front (table 6.2) but shows that engagement is well developed in only a minority of countries.

Monitoring transparency and voice. One broad and one specific set of indicators are used in this subsection to monitor transparency and voice (TV). The broad indicator captures the overall TV environment—including the human rights and political governance dimensions. The specific indicator focuses more directly on those aspects of transparency most directly relevant for achieving the Millennium Development Goals (MDGs).

Two broad indicators were considered for this report—the aggregate KK "voice and accountability" indicator, and a related indicator that focuses more narrowly on transparency. Table 6.3 reports the better-established "voice and accountability" indicator—noting also that at 0.88 the correlation between the voice and

TABLE 6.2 Participation in the PRS, 2005

PARLIAMENTARY INVOLVEMENT	CIVIL SOCIETY PARTICIPATION: Little action	Action under way	Well developed
Well developed	Bhutan, Djibouti, Lao PDR, Tajikistan	Bosnia and Herzegovina, Burkina Faso, Cambodia, Guinea, Honduras, Madagascar, Mali, Mauritania, Moldova, Mozambique, Timor-Leste	Ghana, Rwanda, Uganda
Action under way	Azerbaijan, Benin, Rep. of Congo, Pakistan	Armenia, Burundi, Cape Verde, Ethiopia, Kyrgyz Republic, Liberia, Mongolia, Niger, Serbia and Montenegro, Yemen, Zambia	Tanzania, Vietnam
Little action	Central African Republic, Dem. Rep. of Congo, Côte d'Ivoire, Dominica, Guinea-Bissau, Nepal, São Tomé and Principe, Sri Lanka, Sudan	Albania, Bangladesh, Bolivia, Chad, The Gambia, Georgia, Guyana, Haiti, Kenya, Lesotho, Malawi, Nicaragua, Senegal, Sierra Leone	Cameroon

Source: World Bank 2005b.

accountability and the transparency results is high.[18] The indicator is estimated from 19 separate disaggregated sources—each of which focuses on a specific aspect of TVA. KK note that these include "a number of indicators measuring various aspects of the political process, civil liberties and political rights. These indicators measure the extent to which citizens are able to participate in the selection of governments. We also include indicators measuring the independence of the media, which serves an important role in monitoring those in authority and holding them accountable for their actions" (see Kaufmann, Kraay, and Mastruzzi 2005).

Table 6.3 reports the distribution of the sample of 66 IDA-eligible countries across three groups, distinguishing among countries according to whether one can be at least 95 percent confident, using a two-tailed test, that given measurement errors they indeed fall into the category in which they are located. As with all governance measures, the indicator provides some useful benchmarking, but only for a subset of countries is it possible to assert with confidence that their environment for voice and accountability is relatively strong or relatively weak.

If we locate the high- and middle-income countries in the KK VA sample using the same cut-off points as for the 66-country IDA-eligible sample, a considerable number falls below table 6.3's top-third group. While all of the high-income OECD member countries are significantly above the top third cut-off point for the 66-country sample, six non-OECD high-income countries are located below this cut-off point. Of 77 middle-income countries, 30 rank below the top-third cut-off point, and 16 of these score low enough to be in the bottom-third of the 66-country sample.

The specific indicators are taken from the Global Integrity Index (GII). As box 6.9 describes, the GII is an example of "good practice" methodology for governance indicators. As explained earlier, as with all governance indicators, the estimates have some margin of error. But because each measure is specifically defined, it provides "actionable" information for governance reform. The specific GII indicators cover the range of the

TABLE 6.3 KK voice and accountability 2004, 66 low-income countries

	In relevant third (with 95% certainty)	In relevant third (with less than 95 % certainty)	
Top third	Benin, Ghana, India, Lesotho, Mali, Mongolia, São Tomé and Principe, Senegal, Serbia and Montenegro	**In top half (with 95 % certainty):** Albania, Bolivia, Bosnia and Herzegovina, Comoros, Guyana, Honduras, Madagascar, Mozambique, Nicaragua, Niger, Papua New Guinea, Solomon Islands	
Middle third	Armenia, Bangladesh, The Gambia, Guinea-Bissau, Indonesia, Malawi, Moldova, Nigeria, Sierra Leone, Uganda	**Could be in bottom third:** Azerbaijan, Cambodia, Congo, Djibouti, Nepal, Yemen	**Could be in top third:** Burkina, Faso, Georgia, Kenya, Sri Lanka, Tanzania, Zambia
Bottom third	Dem. Rep. of Congo, Côte d'Ivoire, Eritrea, Haiti, Lao PDR, Pakistan, Sudan, Uzbekistan, Vietnam, Zimbabwe	**In bottom half (with 95 % certainty):** Angola, Bhutan, Burundi, Cameroon, Central African Republic, Chad, Ethiopia, Guinea, Kyrgyz Republic, Mauritania, Rwanda, Tajikistan, Togo	

Source: Kaufmann, Kraay, and Mastruzzi 2005.

TABLE 6.4 Global Integrity Index—transparency and civic participation (by group)

	Civil society organizations	Access to information law	Freedom of the media
OECD countries	95	87	91
Middle-income countries	88	60	74
Low-income countries	82	41	79

Source: www.globalintegrity.org.
Notes: The covered by the index, grouped in the three categories shown above, are Australia, Germany, Italy, Japan, Portugal, United States; Argentina, Brazil, Guatemala, Mexico, Namibia, Panama, Philippines, Russian Federation, South Africa, Turkey, Ukraine, República Bolivariana de Venezuela; and Ghana, India, Indonesia, Kenya, Nicaragua, Nigeria, Zimbabwe.
Scoring: Each question within each category is scored on a 0–100 scale, using specific guidelines. The category score is the average of the scores for the individual question.

checks and balances constellation, though so far country coverage remains limited. Table 6.4 reports the scores for three specific GII subindicators, which measure facets of the environment for transparency and civic participation for 25 OECD, middle-, and low-income countries. Low-income countries lag, especially in the right of access to information.

The Middle Constellation—Justice and the Rule of Law

Justice sector reform and promoting the rule of law have emerged as key goals of development policy. The justice sector covers a vast array of institutions, issues, and functions. In the broadest terms, it can be defined as the institutions and processes by which laws are devised and enforced. It includes legal services and their providers (for instance, lawyers and paralegals), police, prosecutors, the judiciary, courts and their officials, other institutions that resolve disputes, and institutions that execute judgments. The justice sector fulfills two distinct, but complementary, sets of essential functions. It provides services to citizens, such as safety and security, and resolving disputes. And it can help to constrain the arbitrary and discretionary use of state power.

BOX 6.9 The Global Integrity Index as a tool for governance monitoring

The GII, developed by the Center for Public Integrity, focuses on measurement of "the existence and effectiveness of mechanisms that prevent abuse of power and promote public integrity, and on the access that citizens have to their government." The GII has a nested design—with answers to more than 290 detailed questions providing the basis for estimating a variety of indicators at different levels of aggregation. This enables users to move from the more aggregated indicators to the most disaggregated, and thereby identify strengths and weaknesses. Country-specific scoring is done by a diverse panel of in-country experts, each operating individually to avoid "contamination by consensus," and with rigorous, "blind" peer review. So far, the index has been estimated only for 25 countries—6 OECD countries, 12 middle-income countries, and 7 IDA-eligible low-income countries. Global Integrity aims to increase the number of countries covered to over 100 by the end of 2006. It remains to be seen, though, whether the GII will receive the sustainable financing and broad legitimacy necessary for it to become a widely used part of the arsenal of governance indicators. The table below details the questions for 10 indicators that are most directly relevant to the dimensions of checks and balances highlighted for this report.

Some specific GII indicators

Indicators of transparency and civic participation
Civil society organizations—In law, do citizens have a right to form CSOs? Do they in practice? Can citizens organize into trade unions? In practice, do CSOs actively engage in public advocacy campaigns? Are civil society activists safe when working on corruption issues?
Access to information law—In law, do citizens have a right of access to information? In practice, is the right of access to information effective?
Freedom of the media—In law, is freedom of the media guaranteed? In law, is freedom of speech guaranteed? Are citizens able to form media entities? Is the media able to report on corruption? Are journalists safe when investigating corruption?

Indicators of justice and the rule of law
Judiciary—In law, is the independence of the judiciary guaranteed? Is the appointment process for high court judges effective? Can members of the judiciary be held accountable for their actions? Can citizens access the judicial system? In law, is there a program to protect witnesses in corruption cases? Are judges safe when adjudicating corruption cases?
Rule of law and access to justice—In practice, does the criminal justice process function according to the rule of law? In law, is there a general right of appeal? Are citizens protected from detention without trial? Are individual economic rights guaranteed?
Law enforcement—Is the law enforcement agency (that is, the police) effective? Can law enforcement officials be held accountable for their actions?

Indicators of direct oversight
Legislature—Can members of the legislature be held accountable [by the judiciary] for their actions? In law, are members of the legislature subject to prosecution? Are there regulations governing conflict of interest by members of the legislature? Can citizens access the asset disclosure records of members of the legislature? Can citizens access legislative processes and documents? Does the legislature have control of the budget? Can citizens access the national budgetary process?
National ombudsman—In law, is there a national ombudsman, public protector, or equivalent agency covering the entire public sector? Is the national ombudsman effective? Can citizens access the reports of the ombudsman?
Supreme audit institution—In law, is there a national supreme audit institution, auditor general, or equivalent agency covering the entire public sector? Is the supreme audit institution effective? Can citizens access reports of the supreme audit institution?
Anticorruption agency—In law, is there an agency (or group of agencies) with a legal mandate to address corruption? Is the main anticorruption agency effective? Can citizens access the main anticorruption agency?

Source: Center for Public Integrity 2004.

TABLE 6.5 The quality of some attributes of the justice system in 25 countries (by group)

	Judiciary	Rule of law and access to justice	Law enforcement
OECD countries	79	93	90
Middle-income countries	71	74	63
Low-income countries	58	72	59

Source: www.globalintegrity.org.
Note: See table 6.4 for a list of countries in each category.

A well-functioning justice sector is expected to reflect certain basic qualities, most notably the rule of law. Indeed, the term "rule of law" is sometimes seen as synonymous with, or used as a proxy for, a well-functioning justice sector. Yet, as with the justice sector generally, there is no shortage of conceptions as to what the rule of law is said to entail.[19] Both the rule of law and justice reform have been defined broadly with reference to their essential role in ensuring democracy and human rights—or narrowly with reference to their impact on predictability for business processes and investment climate. Differences in priority and definition will have a direct impact on which reform efforts are prioritized to improve the functioning of the justice sector and the rule of law and, in turn, what should be measured.

There already exist a number of broad and specific indicators on justice and rule of law issues. Most of them are not aimed specifically at justice and the rule of law, however, and only incorporate a section on it, as part of a broader focus or theme. Others, while focusing on justice and rule of law issues, focus on specific processes or institutions and do not seek an overall view of the state of the rule of law. The two sets of broad indicators that make global comparisons among countries comprise the KK "Rule of law" aggregate indicator, and the "Property rights and rule-based governance" CPIA criterion. As examined in chapter 5, the KK Rule of Law indicator aggregates data from multiple sources, namely: ". . . several indicators which measure the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts . . ." The CPIA-rules indicator focuses primarily on the extent to which the legal system facilitates private economic activity, but also looks at broad outcomes (safety), specific outcomes and functions (provision of business licenses, contract enforcement), and formal characteristics of the system. The correlation between the two indicators is quite high, at 0.83. Combining the two indicators for 66 low-income countries yields 12 countries that are both in the top third of the KK rankings for the indicator, and have a CPIA-rules score of 3.5 or above (Armenia, Bhutan, Ghana, Honduras, India, Lesotho, Madagascar, Malawi, Mali, Senegal, Sri Lanka, and Tanzania).

Efforts are under way to develop more specific, actionable indicators. Three are noteworthy. The first two comprise the Doing Business and Investment Climate surveys. As discussed in chapters 1 and 5, both include indicators that can be used to monitor the performance of the justice system relevant to specific features of the business environment. (See this chapter's annex for specific indicators relevant to the justice system.) The third comprises the three GII justice and the rule of law subindicators identified in box 6.9. Table 6.5 summarizes the subindicator scores for 25 OECD, middle-, and low-income countries. The results suggest that for many of them, improving the justice system is a large challenge. This area has been prominent in the development agenda only for a short period, and much remains to be learned as to what reforms work. Box 6.10 summarizes some emerging lessons.

BOX 6.10 Strengthening justice—three initial lessons

The World Bank's work in justice reform has largely focused on formal institutions, beginning with the courts, and institutions supporting the market. More recently, an increased priority has been placed on access to justice, and attention has also focused on the link between formal and informal institutions, as well as the role that informal institutions play in helping to fulfill the roles of the justice sector. Three lessons emerge:

Lesson #1: *Do not work on independence without simultaneously working on accountability.* Early efforts to increase independence of courts tended to focus on how judges are selected and evaluated, and their capacity to deliberate and decide cases without undue influence from other branches of government or other pressure. Accountability of judges, particularly to the public, was sometimes not given as much emphasis as judicial independence. Yet citizens' greatest complaints about courts tend to focus first on corruption and second on delay, neither of which are likely to improve substantially without greater judicial accountability.

Lesson #2*: Reforms that seek to overhaul the way justice systems operate will endure only if they deliberately strengthen the management of the reform process*. Profound institutional change requires professional change management at the planning and implementation stages. This is pointed out quite clearly in studies of the criminal justice reform processes in many countries of Latin America, in which attempts to replace written processes with oral hearings and trials suffered backsliding in the absence of improved management of the institutions involved.

Lesson #3*: If one is looking to increase the amount or quality of justice for the average citizen, look at both formal and informal justice systems*. Most World Bank projects, and many of the justice reform projects of major donors, focus on improving the administration of justice through formal institutions—courts, prosecutors' offices, ministries of justice, and so on. Assistance has also been provided to legal aid institutions both formal and informal, and major donors have supported development of alternative dispute resolution mechanisms such as mediation and arbitration—though often as a recognized, and sometimes court-annexed, part of a formal proceeding. The role of informal, local justice systems—which in some countries govern as much as 95 percent of the population—has only recently begun to receive more attention.

The Inner Constellation—Direct Oversight

Direct oversight institutions in the first two inner rings of figure 6.6 include elected subnational authorities, ombudsmen, supreme audit institutions (with independent authority to review national accounts, monitor the probity with which public resources are used, and report on their findings to parliament), anticorruption agencies (with independent authority to investigate and sometimes also prosecute accusations of corruption), and the national legislature, to which the executive generally is directly accountable. Though this section focuses principally on monitoring, box 6.11 illustrates for one direct oversight institution—the legislature—some of the challenges of improving performance.

The GII provides disaggregated measures of the quality of direct oversight. As table 6.6 summarizes, in most OECD and some of the middle-income countries restraints on the executive are rated as high; Zimbabwe stands out among the low-income countries considered, as having few effective executive constraints.

One of the most widely used aggregate indicators is the "executive constraint" measure of the POLITY data set.[20] This measure refers to ". . . the extent of institutionalized constraints on the decision-making powers of the executive. Such limitations may be imposed by any 'accountability group.'" In Western democracies these are usually legislatures. Other kinds of accountability groups are the ruling party in a one-party state,

BOX 6.11 Legislative oversight in Africa—a work in progress

A recent study of legislatures in four African countries—Benin, Ghana, Kenya, and Senegal—identified large differences in their effectiveness. The Kenyan parliament emerged as the most independently assertive; the Ghanaian and Beninese legislatures were described as semi-independent (and certainly more independent as of 2002 than 10–15 years earlier); but the Senegalese legislature was judged to be almost entirely subservient to the executive.

These variations in independence translated into variations in how parliamentarians allocated their time between policy-related and constituency-support activities, with the Kenyans most (and the Senegalese least) preoccupied with the former. But even in Kenya, there was only limited real engagement with the budgeting process (as distinct from other aspects of policy making), and even this engagement tended to focus narrowly on the implementation of spending commitments within the districts of individual members. Multiyear delays in the presentation of audits have led some parliamentarians to refer disparagingly to audit committees as the "post-mortem committees."

Legislative strengthening is best seen as a complement to related governance improvements involving civil society. Civil society organizations are sources of technical expertise and can provide specialized legislative committees with information about the effects of public policies and policy alternatives:

> *Treating legislatures as self-contained entities that can be fixed by repairing internal mechanisms is unlikely to get very far. Rather, . . . it is more useful to think in terms of helping a society develop the capacity to enact laws that incorporate citizens' interests . . . [this means] working with many people and groups outside the legislature.* (Carothers 1999: 107, 186–87)

The internal workings of legislatures can nonetheless be important to give parliaments the ability to sustain their interventions, bring significant independent expertise to bear, and exercise effective leverage in their oversight activities. These might include creating a permanent, independent nonpartisan staff for parliament; making changes in internal rules to permit tougher scrutiny of key executives; establishing and strengthening specialized committees (including those focused on budget, education, health, roads, rural development, and cross-cutting themes—including poverty reduction); building links with CSOs and independent policy-advisory institutions; establishing well-paid research capabilities to serve parliament; and "putting their own house in order" to improve credibility, for example by establishing codes of conduct for members of parliaments, and by making campaign financing transparent, honest, and constrained.

Source: Barkan, Adamolekun, and Zhou 2004; World Bank Institute.

TABLE 6.6 The quality of some direct oversight institutions in 25 countries (by group)

	Legislature	National ombudsman	Supreme audit institutions	Anticorruption agency
OECD countries	79	83	98	85
Middle-income countries	66	81	92	68
Low-income countries	73	73	78	77

Source: www.globalintegrity.org.
Note: See table 6.4 for a list of countries in each category.

councils of nobles or powerful advisors in monarchies, the military in coup-prone polities, and in many states a strong, independent judiciary.

POLITY IV scores on a 7-point scale. Most OECD and many middle-income countries score in the high and medium-high categories, but many countries that confront difficult governance issues also score medium-high on the indicator. A country's political and bureaucratic leadership can find itself constrained either as part of a well-functioning overall institutional environment or as part of an overall syndrome of state weakness. The final section of the chapter considers these issues further.

Sequencing Governance Reforms

This final section brings together some of the individual governance measures examined in this chapter to pose a complex question—how to engage countries with an uneven mix of governance strengths and weaknesses? This is a somewhat different problem from the question of how to engage with countries with severe all-round governance weaknesses, in part because the uneven mix may reflect turnaround cases rather than stable, clientelistic equilibria.

Trajectories of change. Table 6.7 applies the governance indicators used in earlier sections to identify 28 countries that rate well in the quality of either their bureaucracies or their checks and balances institutions. While 10 countries rate well in both areas, performance across the remaining countries is uneven. Ten countries (Rwanda and Vietnam, for example) have relatively capable public bureaucracies, but less strong checks and balances institutions. And the pattern is reversed in the other 8 countries (Albania and Lesotho, for instance) where relatively stronger indicators for checks and balances are not matched by correspondingly capable public bureaucracies.

Why might patterns such as those in table 6.7 be observed? Figure 6.9 illustrates three possible trajectories for governance turnarounds. These might vary depending on both the initial political impetus within a country and the longer-term historical processes that can shape and constrain political and institutional reform.

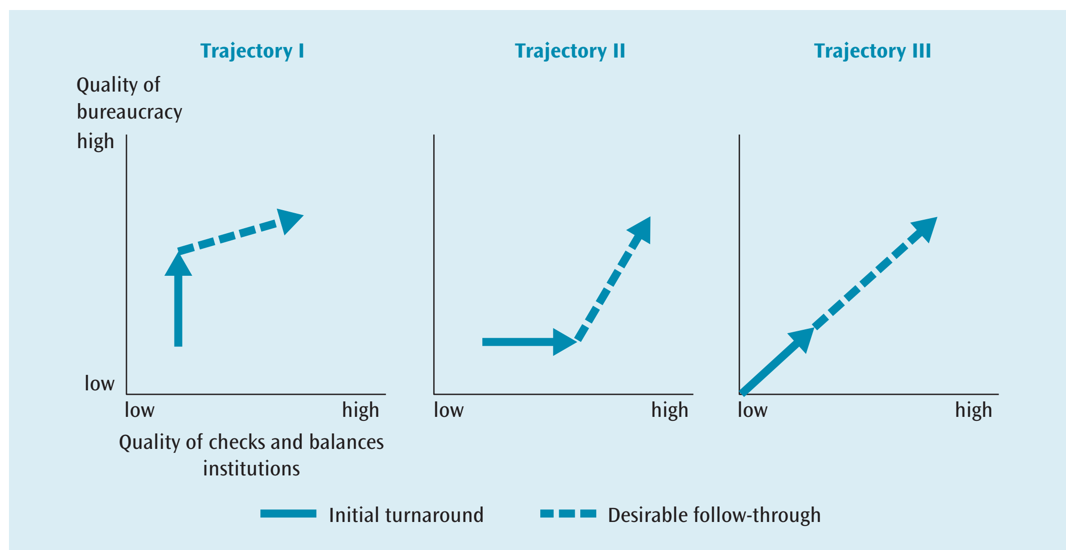
In trajectory 1 a developmentally oriented political leader takes power in a hitherto clientelistic setting (as when President Rawlings took power in Ghana in the early 1980s, or President Museveni in Uganda in the mid-1980s). A common early focus of reform might be to liberalize the economy and

TABLE 6.7 State capacity and state accountability

	Quality of checks and balances institutions	
Bureaucratic capability	**Medium or Low**	**Higher**
Higher	10 countries (Azerbaijan, Bhutan, Burkina Faso, Ethiopia, Indonesia, Pakistan, Rwanda, Tanzania, Uganda, Vietnam)	10 countries (Armenia, Benin, Bolivia, Ghana, Honduras, India, Mali, Senegal, Serbia and Montenegro, Sri Lanka)
Medium or low	38 countries	8 countries (Albania, Guyana, Lesotho, Moldova, Mongolia, Nicaragua, Niger, Papua New Guinea)

Source: Collated by the authors.
Notes: States with higher bureaucratic capability are those with CPIA-budget scores of 4 and above, or both CPIA-admin and CPIA-budget scores of 3.5 and above. States with higher quality of checks and balances institutions are those that score "high" on at least two of the voice and accountability, rule of law, and executive constraints broad checks and balances measures reviewed in earlier subsections of this chapter.

FIGURE 6.9 Governance turnarounds: three trajectories



Source: Authors.

strengthen the performance of the public sector. This can emphasize strengthening the capabilities of the public bureaucracy—public administration and financial management, and the service provision frontline. The strengthening of checks and balances institutions can initially be a low priority, though countries vary as to whether there is an initial weakening of checks and balances relative to the status quo (as in Ghana) or a modest improvement (as in Uganda). But once the reform process matures, the priority for government reform might usefully shift from strengthening bureaucratic authority to enhancing stability by increasing transparency, participation, and accountability of the state. This subsequent phase is, in practice, advanced in Ghana and more tentative in Uganda.

In trajectory 2 a turnaround is initiated by a move to political pluralism. Examples in Africa include democratic transitions over the past 15 years in countries as varied as Benin, Kenya, Malawi, Nigeria, and Zambia. Examples in Europe and Central Asia include Albania and Romania in the early 1990s. The initial political opening is only a first move in the direction of stronger checks and balances institutions. The dotted line signals a second phase of governance reform in which the momentum for greater accountability continues—and the reinvigorated legitimacy that comes from stronger participation and accountability provides a platform for ongoing improvements in bureaucratic capability. Whether and how this subsequent phase unfolds is, of course, an empirical matter.

In trajectory 3 turnaround starts from a state collapse. Sometimes external intervention helps to reintroduce the precondition for an effective state: a monopoly on the legitimate use of violence. This umbrella of security provides an opportunity for reestablishing both the bureaucracy and checks and balances institutions. Once a new base has been established, the process can continue in a balanced way, with momentum coming from the newly reestablished domestic institutions. This pattern is evident in countries ranging from Bosnia and Herzegovina to Mozambique.

These varying trajectories pose some dilemmas for the design and sequencing of governance reform:

- Change that focuses first on improvements in bureaucratic quality has the potential for rapid gains in public sector

performance. But without a subsequent effort to strengthen checks and balances institutions, it risks subsequent reversal—perhaps by a reversion to corrupt behavior by the political leadership, perhaps by a loss of legitimacy with citizens.

- Change that begins with a political opening can generate a surge of confidence and improve the climate for private investment. But unless the gains are consolidated, the country risks becoming trapped in a cycle of what Thomas Carothers (2002) has called "feckless pluralism"—with short-lived governments repeatedly voted out of power, never having sufficient support and longevity to build the base of bureaucratic capability on which effectiveness and legitimacy will eventually depend.

These varying trajectories also pose dilemmas for a country's development partners—both for scaling up aid and for ensuring the sustainability of development support.

Scaling up across different country settings. Consider first the dilemma uneven bureaucratic capability poses for efforts to scale up aid. As table 6.7 summarizes, perhaps about 20 low-income aid recipients currently have budget management and administrative systems reasonably capable of targeting spending on poverty reduction priorities—and of executing and monitoring spending in a comprehensive, credible, and transparent way. With a few exceptions, World Bank budget support via Poverty Reduction Support Credits has been targeted to these institutionally stronger countries, in the upper quintiles of the CPIA (see Gelb and Eifert 2005).

What might be the "mutual accountability" basis for scaling up aid in the remaining countries? Three possibilities are worthy of note.

First, even where current systems fall short, budget support might be scaled up for countries based on a clearly improving trend in the quality of their budget and administrative management systems. This is not simply because the additional resource transfers can be poverty reducing: a shift from project aid to budget support can also be seen as an investment in strengthening country systems. (See Gelb and Eifert 2005 for this argument.) As the principles of the Paris Declaration on Aid Effectiveness underscore, heavily fragmented project aid complicates and disrupts national systems, whereas budget support, combined with technical assistance, can facilitate the improvement of these systems, particularly if scaling up depends on continuing system improvements (see chapters 3 and 4). Tanzania illustrates this potential: it has shown rapid improvement in budget management systems since 2001 and has been a beneficiary of progressively scaled-up budget support over the period. The other examples highlighted in this chapter suggest that, for countries determined to improve their administrative budget systems, achieving a "good enough" standard within, say, 5–10 years may be feasible. Budget support might be initiated quite early in the cycle of improvement—and scaled up as long as the carefully monitored improvement continues to be evident.

Second, priority could be given to reforms that foster transparency—in budget management and more broadly. Transparency relies on public information as a source of pressure for better public sector performance—in a less technocratic way than is implied by top-down reforms of bureaucratic capability. To be sure, the route from transparency to performance is circuitous, and the timing of impact, unpredictable. So far, no study definitively pinpoints the relationship between transparency and performance. But many examples, including some in this report, highlight the potential—from the tracking of education expenditures in Uganda, to service delivery report cards in Bangalore and Brazil, to the impact of media prevalence across India's states. Even with continuing weakness in bureaucratic capability, a case could thus be made for scaling up aid (including some component of budget support) to countries that clearly commit themselves to facilitating transparency in how public resources—and state power more broadly—are used.

The third possibility for countries is to target scaled-up aid more directly toward

poverty-reducing services, which can be done in several ways. A key distinction here is between countries where bureaucratic capability may be on the upturn but is only at an early stage of improvement—and those where there is little sign of political commitment to improve governance and capacity. In the former group, the sectorwide approaches described earlier that focus on improving governance and service provision in part of the overall system are attractive. In the latter group, the focus might be on infrastructure and other service delivery investment projects—complete with project implementation units and related mechanisms that operate apart from country systems. Box 6.5 detailed some well-founded objections to these approaches. But where there is little political commitment to improve country systems and little sign that governments would have targeted pro-poor spending, these objections have less relevance.

Sustainability—bringing checks and balances onto the agenda. In the short-term, aid can thus straightforwardly be scaled up to countries with improving budget and administrative systems. But a longer-run challenge looms. While trajectories of improvement vary, and in the short run no one type of turnaround is superior to another, unless the gains in the bureaucracy and the checks and balances institutions eventually evolve in a balanced way, the risk is high that initial improvements in governance will not be sustained. Over the medium term, it may therefore become necessary to focus the governance dialogue on the complementary aspects of the bureaucratic and institutional agenda that are not spontaneously coming to the fore. How can these sensitive issues best be addressed?

A first consideration is timing. In some settings it may not be practical to press very early in a turnaround process for far-reaching reforms of checks and balances. In Uganda, for example, in the immediate aftermath of the Amin and latter-Obote years the state was in total collapse, and the ability of the new government to assert authority over the nation was limited. Under such circumstances, it is difficult to find fault with the readiness of donors to support government efforts to focus principally on strengthening bureaucratic capability and development policy—and to emphasize decentralization as a means of bringing government closer to the people. As is well known, far-reaching reductions in Ugandan poverty resulted from the early actions of government, and donor support. At the same time, it also seems clear that development partners can wait for too long—until it is too late to put the challenge of strengthening checks and balances squarely on the agenda. An example here is President Suharto's Indonesia—where a failure to focus early enough on checks and balances was associated with rising corruption, financial crisis, and a difficult process of political succession which led to some significant reversal of the development gains of earlier decades. Overall, the track record of recent decades suggests that (perhaps partly as a consequence of the Cold War) in many countries development partners may have waited too long before putting checks and balances institutions higher on the agenda of development dialogue.

A second consideration is that our knowledge of how to get "from here to there" is less developed than our understanding of what well-functioning checks and balances institutions should look like. One exception to this proposition is the value of transparency, which is essential for the effective working of all checks and balances and which can and should be enhanced in almost all settings—at quite low cost. Donors and IFIs can play a direct role here, including by ensuring that all analytical work is made widely available, with translation into local languages. We know less as to when and how improvements in transparency translate into genuine gains in accountability and performance, but it does seem to be at least a necessary condition.

Given the limitations of current knowledge, perhaps all that can be offered at this stage is a modest process suggestion. Even—or perhaps especially—when it is still uncomfortable, governments and their development partners might usefully begin a dialogue on

how to strengthen checks and balances institutions. The aim of this dialogue would be to agree on a phased sequence of steps for strengthening these institutions, perhaps emphasizing more those directly relevant to MDG outcomes—transparency, gender, the justice system, and local governance for example. Recipient countries would be accountable for proceeding with an agreed sequence. In return, they would enjoy more certainty over what is expected by the international community. Donors, in turn, having agreed on a way forward would be expected not to shift the goalposts after the fact.

Notes

1. For details of, and results from, the Code of Fiscal Transparency, see http://www.imf.org/external/np/fad/trans/index.htm and Hameed (2005).

2. The correspondence between the four dimensions of CPIA-budget—(a) through (b)—and the PEFA PFM framework in figure 6.1 is as follows: (a) corresponds to policy-based budgeting and the formulating process; (b) corresponds to a combination of the comprehensiveness of budget coverage, credibility that the budget is realistic and implemented as intended, plus the budget execution arrangements for the exercise of predictability, control, and stewardship in the use of public funds; (c) corresponds to the systems of accounting and recordkeeping to provide the information needed for proper management, plus auditing mechanisms that ensure external scrutiny. Intergovernmental finance—the focus of (d)—is not directly incorporated in the PEFA framework. For the detailed scoring system used in the CPIA, see http://siteresources.worldbank.org/IDA/Resources/CPIA2004questionnaire.pdf.

3. See the PEFA Web site at http://www.pefa.org/index2.htm.

4. For some questions the benchmark was set at the score of B and for others at A. Further details, including the descriptions of how to score each question, are available at http://www.pefa.org/about_test.htm.

5. Niger's ranking improved in eight categories and declined in three. Five of the improvements were sufficient to achieve the benchmark (but all three declines were from benchmark level to below).

6. See, for example, the Africa Action Plan recently issued by the World Bank.

7. The composite measure comprises a subset of the data used for the KK government effectiveness aggregate indicator; it excludes responses on the quality of public service provision and on the credibility of government's commitment to policies, and it excludes the CPIA-admin (because it is being used as a cross-check).

8. World Bank, Operations Evaluation Department (1999: ii–iii). The OED review highlighted four specific weaknesses in Bank-supported interventions: the poor quality of information on civil service reform performance, needed for monitoring and evaluation; the limited role afforded to strategic management and cultural change; the absence of checks and balances on arbitrary action; and a failure to appreciate key contextual contexts.

9. See the articles by Mike Stevens and Stefanie Teggemann; Kithinji Kiragu, Rwekaza Mukandala, and Denyse Morin; Poul Engberg-Pedersen and Brian Levy in Levy and Kpundeh (2004).

10. For the detailed analysis on which this subsection is based, see International Monetary Fund and the World Bank (for the Development Committee), "Fiscal Policy for Growth and Development: An Interim Report," April 2005.

11. For a detailed discussion of road sector reform, see Heggie and Vickers (1998).

12. For a review of the role of community schools in Francophone Africa, and the relevant lessons from international experience, see Gershberg and Winkler (2004).

13. For information on the MKSS, visit http://www.freedominfo.org/case/mkss/mkss.htm or contact the organization at mkssrajasthan@yahoo.com. Press coverage of MKSS activities has been extensive and includes Deccan Herald (September 21, 2003) and Mail & Guardian Newspaper, South Africa (February 20, 2004).

14. See http://www.worldbank.org/cdd.

15. This review of the role of Freedom of Information Laws is adapted from Bellver and Kaufmann (2005).

16. For a pioneering, in-depth analysis, see Islam (2002).

17. Adserà, Boix, and Payne (2003); Besley and Burgess (2002); Strömberg (2004).

18. Consideration was given to using three new measures of transparency produced by Kaufmann and a co-author, but it was decided to stick with the better-known and more thoroughly scrutinized "voice and accountability" measure. The correlation between the aggregate voice and aggregate transparency indicators is 0.88. As for the two

transparency subindicators, the correlation between "voice and accountability" and "political transparency" is 0.93. The correlation is much lower—0.41—with the measure of "economic and institutional transparency." But the latter measure generates very large standard errors relative to the other KK indicator, raising questions as to the coherence of the underlying concept it is intended to measure. See Bellver and Kaufmann (2005).

19. The inception of the term "rule of law" reaches to the roots of Western political thought—for instance, in early Greek and Roman political writings—and also appears as a cornerstone in the genesis of various European legal and political systems. See, for example, Rigo and Gruss (1991: 5–8) for an excellent overview of the origins of the rule of law, in Greek and Roman thinking, as well as its emergence as central tenets in the British and French legal orders. For a more extensive discussion, covering both Western and non-Western conceptions and origins of the Rule of Law, see Hager (2000: 3–20).

20. The POLITY project, (www.cidcm.umd.edu/inscr/polity) run from the University of Maryland, is the world's most widely used data resource for monitoring regime change and studying the effects of regime authority. For details, see Marshall and Jaggers (2002: 23–24).

ANNEX Doing Business Indicators and Investment Climate Surveys—Some Useful Measures for Governance Monitoring

A: Measures of corruption (ICS)

Unofficial payments for firms to get things done (% of sales)
Average value of gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services, and so on. The values shown indicate a percentage of annual sales.

Firms expected to give gifts in meetings with tax inspectors (%)
Percentage of firms for which a gift was expected in meeting with tax inspector.

Value of gift expected to secure government contract (% of contract)
Percentage of contract value expected as a gift to secure government contract.

Corruption a "major or severe" obstacle (% of firms)
Percentage of firms that say corruption is a major or severe obstacle to the operation and growth of their business.

B: Measures of transactions costs associated with red tape

(i) Doing Business indicators

Starting a business
The number of procedures, average time spent during each procedure, and official cost of each procedure involved in incorporating and registering a commercial or industrial firm.

Dealing with licenses
The number of procedures, average time spent during each procedure, and official cost of each procedure involved in obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections (using construction of a warehouse as a benchmark).

Registering property
The number of procedures, average time spent during each procedure, and official cost of each procedure involved in registering property (using as a benchmark the case of an entrepreneur who wants to purchase land and buildings in the largest business city—already registered and free of title dispute).

Trading across borders
Number of documents, approvals, signatures, or stamps required, and the time and associated cost necessary to comply with all procedural requirements for exporting and importing a standardized cargo of goods.

ANNEX *(continued)*

(ii) Investment climate indicators

Senior management time spent dealing with requirements of regulations (%)
Average percentage of senior management's time that is spent in a typical week dealing with requirements imposed by government regulations (such as taxes, customs, labor regulations, licensing, and registration), including dealings with officials, completing forms, and so on.

Time spent in meetings with tax officials (days)
Average time firms spend in meetings with tax officials (days).

Time to claim imports from customs (days)
Average number of days that it takes from the time goods arrive in their point of entry (for example port, airport) until the time they can be claimed from customs.

Customs and trade regulations a "major or severe" obstacle (% of firms)
Percentage of firms that say customs regulations present major or severe obstacles to the operation and growth of their business.

C: Measures of quality of provision of specific public services (ICS)

Delay in obtaining a connection (days) [electricity, water, telephone]
Average actual delay, in days, that firms experience when obtaining a connection, measured from the day the establishment applied to the day it received the service or approval.

Supply failures and outages (days) [electricity, water, telephone]
Average number of days per year the establishment experienced supply failures and outages from the public network.

Value lost to supply failures (% of sales) [electricity, water, telephone]
Total losses over the course of a year resulting from interruptions in electricity service, as a percentage of sales, including losses due to lost production time from the outage, time needed to reset machines, and production and sales lost due to processes being interrupted.

Supply weaknesses a "major or severe" obstacle (% of firms) [electricity, water, telephone]
Percentage of firms that say the shortcomings of the infrastructure present major or severe obstacles to the operation and growth of their business.

D: Measures of justice and the rule of law (ICS, except "Enforcing contracts")

Enforcing contracts (DB)
The number of procedures involved from the moment a plaintiff files a lawsuit over a payment dispute until actual payment, and the associated time in calendar days, and cost, necessary to resolve the dispute.

Confidence in the judiciary system (%)
Percentage of firms that agree with the statement, "I am confident that the judicial system will enforce my contractual and property rights in business disputes."

Dispute resolution time (weeks)
Average amount of time, in weeks, that it usually takes to resolve an overdue payment.

Legal system a "major or severe" obstacle (% of firms)
Percentage of firms that say the legal system presents major or severe obstacles to the operation and growth of their business.

Crime, theft, and disorder a "major or severe" obstacle (% of firms)
Percentage of firms that say crime, theft, and disorder present major or severe obstacles to the operation and growth of their business.

7

Strengthening Global Checks and Balances

The worldwide scale of embezzled funds and corruption proceeds is difficult to judge. One estimate puts it at a staggering $1 trillion a year (Kaufmann 2005). Nigeria's President Abacha embezzled between $2 billion and $5 billion; Zaire's President Mobutu, an estimated $5 billion. Kenya lost $600 million in one scandal alone in the early 1990s, and Angola lost an estimated $4 billion between 1997 and 2002.[1] The recent report by the Independent Expert Commission on the Oil-for-Food program found evidence of $1.8 billion in kickbacks to the Iraqi government from oil companies and suppliers. Corruption is an international problem: even when no foreign party is involved, the proceeds of developing-country corruption are typically kept in the world's major financial centers.

Everywhere the primary responsibility for establishing strong national governance systems and combating corruption rests with citizens and their national authorities. But national governance systems operate in a global context, as noted in chapter 5. Global influences can encourage or facilitate domestic corruption, and global efforts can complement domestic efforts to strengthen governance and improve transparency.

Donors and international financial institutions (IFIs) are essential parts of the global governance framework, especially for poor countries. Their efforts include bolstering their own anticorruption controls, improving transparency, encouraging adherence to internationally recognized standards and codes, and working with their clients to encourage domestic accountability.

This chapter discusses international legal initiatives for good governance, global and regional corruption treaties, and transparency initiatives (annex tables 7.1–7.3). Of recent vintage, these initiatives form an embryonic network of global checks and balances that deserves to be strengthened to reduce around the world the rewards of corrupt behavior while increasing the risks of detection.

International Legal Initiatives with Extraterritorial Reach

Certain international legal initiatives strengthen the anticorruption framework in industrial countries in ways that hold individuals and companies responsible for acts committed in other countries. This extraterritorial reach is potentially a great support to poor countries whose judiciaries often are not up to the task of prosecuting complicated corruption cases with international dimensions, especially when they involve large international companies, politically influential nationals, or both. The two most important anticorruption initiatives are the Organisation for Economic Co-operation and Development (OECD) anti-foreign-bribery

convention and the anti-money-laundering (AML) recommendations of the Financial Action Task Force (FATF). Both are supported by the OECD and have developed monitoring mechanisms based on the peer review model. Monitoring has gone beyond legislation and now concentrates on enforcement. They are linked in that the handling of bribes under the convention is subject to the sanctions pertaining to AML. Together, they greatly facilitate mutual legal assistance, exchanges of information, extradition of suspects, and seizure of assets.

Implementing the OECD Anti-Bribery Convention

Inspired by legislation in effect in the United States since 1977, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was hailed in 1997 as the first global instrument to target the supply side of corruption. Until then, most OECD countries considered bribes paid to foreign officials as legitimate business expenses that were tax deductible. All 30 OECD members quickly ratified the convention, and it came into force in 1999.

The first phase involved bringing national legislation up to the standard of the convention. This phase, examined in phase 1 of the peer review process, is substantially complete. In phase 2, which involves onsite visits, the focus is on enforcement. Seven countries are being examined each year, and by 2008 reports will have been published on all signatories.

Now that bribery is in most countries an offense under their AML legislation (see below), enforcement of the convention can take advantage of more forceful investigating techniques and additional sanctions. Although the convention is in principle open to all countries, the obligations of the peer review process force selectivity, and so far only six non-OECD members have been admitted.

Effectiveness can be judged by the examination reports' type and number of recommendations and the rate of their implementation. The OECD will soon publish a review of two dozen phase 2 reports; in the meantime, Transparency International (TI) published in 2005 a progress report on enforcement of the convention (Transparency International 2005). TI reports a positive start to enforcement, with foreign bribery cases or investigations in 15 of 24 countries surveyed (representing 95 percent of OECD exports), but it notes with concern the nine countries that have neither cases nor investigations. The convention's preventive effect is more difficult to measure. Skeptics point to the fact that the United States, despite actively prosecuting foreign bribery since 1977, scores only in the middle range on the propensity of its companies to give bribes, according to a 2002 survey of international bribe payers.[2]

Rigorous monitoring through high quality reports is clearly one of the convention's strong points. It is critical that the OECD countries continue to support this monitoring beyond 2007, when the current funding runs out. The *TI Progress Report* notes several potentially serious weaknesses, and in particular recommends strengthening government enforcement organizations to deal with foreign bribery cases. It also sees a need to improve public awareness and to raise accounting and auditing standards. To shift part of the burden from criminal enforcement to voluntary compliance, it favors promoting corporate compliance programs. IFIs can help by making the adoption of such programs a condition for bidding on their projects; the World Bank has already done so.

Without overburdening the review process, ways should be found to engage more countries, especially emerging market economies whose importance to trade and investment in the developing world is growing rapidly. The convention has been criticized for excluding small "facilitation payments" from its definition of bribery and for not dealing with bribery in political party financing. How signatories handle the more than 2,000 foreign kickback cases exposed by the Independent Inquiry Committee, which examined the UN Oil-for-Food Program, will be critical to the convention's future credibility (box 7.1).

BOX 7.1 Kickbacks under the United Nations Oil-for-Food Program

The United Nations Oil-for-Food Program was established in 1995 to permit Iraq to sell oil to raise funds to buy food, medicine, and other humanitarian supplies. The proceeds of oil sales were to be paid into a UN escrow account, which would then pay for humanitarian supplies. The program operated from 1996 until the US-led invasion of Iraq in 2003. In response to criticisms of corruption and abuse of the program, including by UN officials, UN Secretary-General Kofi Annan appointed an investigatory commission, headed by former U.S. Federal Reserve Chairman Paul Volcker.

According to the commission's October 2005 report, the Iraqi government manipulated the program to receive funds outside the UN escrow accounts that it could use freely. Although the Oil-for-Food program was supervised by the United Nations, the Iraqi government was free to choose its oil traders and goods suppliers, and it generally picked companies willing to participate in its kickback schemes. Starting in 2000, Iraq applied surcharges on oil sales and traders transferred these as side payments to Iraqi offshore accounts. Iraq received an estimated $229 million in kickbacks from 139 oil traders. More significantly, the Iraqi government demanded that all suppliers of humanitarian goods pay fictitious transportation or service fees into special overseas bank accounts. The Volcker report provides evidence of the payments, mostly since 2000, by 2,235 suppliers of "humanitarian kickbacks" of over $1.5 billion.

The list of countries with companies implicated in the kickback scheme includes most signatories of the OECD convention, which criminalized bribery of foreign officials. Their governments must now determine whether these kickbacks amount to bribery under the convention. In addition to national laws prohibiting foreign bribery, these companies would have violated UN sanctions. A number of companies have already launched internal investigations and suspended executives. In the meantime, the United Nations is dealing with the implications of the scandal for its own oversight, transparency, and accountability practices.

Source: Independent Inquiry Commission 2005.

Implementing the FATF's Forty Recommendations on Money Laundering

International efforts to fight money laundering have also helped combat corruption because money laundering is the mechanism used to hide corrupt gains. The multinational FATF, created in 1989, issued its *Forty Recommendations on Money Laundering*, now an international standard, in 1990. In 2003 the recommendations for AML were substantially strengthened; and in 2003 and 2004, nine special recommendations for measures to aid in combating financing of terrorism (CFT) were added. At the heart of the AML recommendations is the identification of the crimes that give rise to money laundering, the predicate offenses. Both corruption and bribery—including that of foreign officials—are among those predicate offenses. The FATF recommendations are wide ranging. The 2003 update requires financial institutions to pay special attention to politically exposed persons and enhance their customer due diligence, and it extended coverage to nonfinancial businesses—such as gem dealers and lawyers.

Compliance is assessed by the FATF and FATF-style regional bodies through a peer review process, as well as by the International Monetary Fund (IMF) and the World Bank in their Financial Sector Assessment Program. All assessments follow an agreed methodology with 250 criteria. The FATF accepts assessments by the IMF and World Bank for its purposes, and the IMF and Bank accept FATF assessments. Since the new recommendations were introduced in 2004, the Fund and Bank have completed 12 assessments, and the FATF

has completed 13. When governments agree, reports are published, and to date almost all have been. The IMF and the World Bank also contribute technical assistance: nearly 1,000 officials from 111 countries were trained in various aspects of AML/CFT regimes.

To expand its regional coverage, the FATF in 2005 firmed relations with the Russian Federation and with FATF-style regional bodies in Africa, Asia, the Pacific, and South America. It also invited China to attend as an observer, pending the mutual evaluation of its AML/CFT systems. The list of Non-Cooperating Countries and Territories—the FATF's ultimate sanction against weak AML/CFT programs—was shrunk further. Begun in 2000 with 23 jurisdictions, the Cook Islands, Indonesia, and the Philippines were removed in 2005, and only Myanmar, Nauru, and Nigeria remain. The study of the increasingly sophisticated techniques in money laundering and terrorist financing—typologies—plays a key role in the FATF standard-setting process, and the results are summarized in annual reports.

An IMF/World Bank review of ALM/CFT assessments in 2004 and 2005 found compliance with the more demanding 2003 recommendations generally lower. Countries were largely compliant with about half the recommendations, but compliance of banks with customer due diligence and suspicious transactions was weak. In poor countries, AML/CFT systems are still at an early stage; core legal systems are substantially lacking. The effectiveness of the system is defined by its ability to identify and prosecute existing cases—and to prevent or deter future cases. There is no information on the numbers of successful prosecutions, and in any case these would be misleading because AML cases often end in a sentence for a related, easier-to-prosecute crime such as a tax evasion or fraud. A case involving the Dominican Republic shows how the extraterritorial reach of the AML/CFT framework can help developing countries support their governance efforts at home (see box 7.2).

As is true for the OECD convention, rigorous monitoring underpins success in implementing AML/CFT. Countries should identify gaps in their enforcement systems, develop action plans to fill them, and charge the appropriate authorities to execute them. Opportunities for international cooperation

BOX 7.2 The Dominican Republic—AML in support of anticorruption

In November 2005 a Miami jury found a prominent financier from the Dominican Republic (DR) liable to pay more than $176 million for fraudulently transferring money from the DR's Banco Intercontinental, known as Baninter. This bank collapsed in 2003, setting off a banking crisis in which the central bank of DR lost half of its foreign exchange reserves. The failure was attributed to massive fraud and corruption. The civil suit in Miami was brought by the DR's bank liquidating commission.

The case is being appealed but, regardless of the outcome, it highlights the usefulness of the AML system in the international fight against corruption. The DR authorities were able to sue in the United States for racketeering and fraudulent money transfer related to corruption on their territory. The U.S. verdict is expected to buttress ongoing criminal cases, against the financier and others involved in Baninter's collapse, in the DR, where despite several years of investigations no trial has taken place.

The DR case is part of a trend in which South Florida is becoming the venue for international fraud cases involving residents of neighboring Latin America and the Caribbean. U.S. courts, spurred on by the Patriot Act, which expanded their jurisdiction, are becoming more open to hearing foreign cases involving residents outside the country.

Sources: Washington Post (December 1, 2005) at http://www.washingtonpost.com/wp-dyn/content/article/2005/12/01/AR2005120101287.html; *St. Petersburg Times* (March 30, 2004) at http://www.sptimes.com/2004/03/30/Business/Florida_banks_part_of.shtml.

should be fully exploited. The IFIs can play a useful role by continuing their assessment and providing technical assistance, particularly to developing countries.

Global and Regional Anticorruption Conventions

Anticorruption conventions are binding agreements among states on the prevention and sanctioning of corruption. Strong international interest in corruption led in the 1990s to several regional conventions: the UN Declaration Against Corruption and Bribery in International Commercial Transactions and the UN Convention Against Transnational Organized Crime.[3] In December 2005 the UN Convention Against Corruption, the first global anticorruption convention, became effective. The conventions offer the following benefits for countries:

- a model anticorruption legal framework;
- a framework for mutual legal assistance, such as information exchange and extradition, and for addressing the international dimensions of corruption; and
- international benchmarks to help advance domestic reforms.

For IFIs, the conventions offer guidance on anticorruption interventions and standards for support, and for civil society they offer a standard and a way to engage with governments on corruption issues.

For poor countries, implementing anticorruption conventions is not easy. It requires political commitment and considerable human and financial resources. Donors and international financial institutions can offer useful assistance with the process.

Implementing the United Nations Convention Against Corruption

The convention became effective in December 2005, after 30 countries had ratified it. Ratifications continue at a rapid rate. In some cases they are delayed by the requirement that national laws be in substantive compliance *before* ratification. The convention is comprehensive in its coverage and detailed in its measures. It covers public and private sector corruption, and active and passive corruption (paying and receiving bribes). It emphasizes prevention, detection, prosecution, confiscation of proceeds, and international cooperation. To reinforce its provisions, it requires that many offenses be criminalized; in this respect it goes beyond even the FATF's AML framework. Some of its provisions are mandatory; others are recommended. Negotiations benefited from the organization of controversial subjects into four pillars (box 7.3). The framework for asset recovery is considered groundbreaking. It recognizes the return of assets as a "fundamental principle" and urges state parties to "afford one another the widest measure of cooperation and assistance" (Art. 52) (box 7.4). The convention envisages a review mechanism to be established by a Conference of State Parties, which is to meet regularly. One issue that did not make it into the convention was corruption in political party financing.

To realize the aspirations of the convention, many more countries must ratify it. In addition, an effective monitoring mechanism is indispensable; it is high on the agenda for the first meeting of the Conference of State Parties in December 2006. Industrial countries should lend their technical and financial support to this mechanism. Developing and transition countries will need technical assistance with implementation; in this regard, industrial countries and IFIs can make an important contribution.

Implementing Regional Anticorruption Conventions

Regional anticorruption conventions cover Africa, Europe, and Latin America. Asia has no convention, but 25 Asian countries have signed the nonbinding ADB-OECD Action Plan for Asia-Pacific. The regional conventions complement the global UN convention and will continue to be useful. Each has its

BOX 7.3 Four pillars of the United Nations Convention Against Corruption

- *Preventive measures:* anticorruption policies and bodies; for the public sector, merit-based recruitment, codes of conduct, financial transparency and accountability, and participation of civil society; for the private sector, conflict of interest, regulatory abuse, and corporate governance
- *Criminalization and law enforcement:* a comprehensive list of predicate offenses, with criminalization mandatory for some (bribery, embezzlement, and other forms of misappropriation of property by a public official, obstruction of justice) and recommended for others; waivers of bank secrecy; whistle-blower protection; and civil remedial actions
- *Asset recovery:* standards for return of property, direct recovery of property through civil action, and recovery of assets through international confiscation procedures
- *International cooperation and monitoring:* mutual legal assistance; cooperation in investigations, prosecutions, and judicial proceedings and in the collection of evidence and the tracing, seizure, confiscation, and recovery of proceeds of crime; a monitoring mechanism to be decided by the Conference of State Parties

Source: Webb 2005.

BOX 7.4 International asset recovery—a complicated exercise

In the 1990s several cases of massive looting of public funds by political officials in developing countries came to light, and the victimized countries pressed for recovery of the assets, which they believed were stored in financial centers around the world. But asset recovery, it turns out, is a complex legal undertaking. Before they can be repatriated, hidden assets must first be traced and identified; next, they must be frozen or seized; and then, they must be legally confiscated or forfeited. Looting is hard to prove, and the looter has ample funds to erect legal obstacles. The provisions dealing with asset recovery in the UN Convention Against Corruption are therefore timely. Even so, industrial countries will have to mobilize the necessary specialized resources. For instance, G-8 justice ministers offered in 2004 to mount accelerated response teams to ensure forfeiture in appropriate large-scale corruption cases.

One of the more successful cases is that of Vladimiro Montesinos, former head of the Peruvian National Intelligence Service. Montesinos fled Peru in September 2000. He was arrested in República Bolivariana de Venezuela and extradited to Peru. After receiving suspicious transaction reports, the Swiss judiciary started AML proceedings and ordered various accounts frozen. The Peruvian authorities followed with a formal mutual assistance request, explaining the local charges against Montesinos and showing how they were linked to the frozen money. In the end some $170 million was recovered. What proved critical was the high level of cooperation among Swiss, U.S., and Peruvian judicial authorities.

Other cases have not been so successful. Only $4 million of the $5 billion looted by Mobutu Sese Seko has been identified, and less than $700 million of the $5 billion to $10 billion embezzled by Ferdinand Marcos was recovered. Of the estimated $2 billion to $5 billion looted by Sani Abacha, only about $825 million was recovered; some $1.3 billion remains frozen.

Sources: Transparency International [http://www.transparency.org/]; U4-Utstein Anti-Corruption Resource Centre [http://www.u4.no/]; G-8 declaration [http://www.g7.utoronto.ca/justice/G8justice2004_corruption.pdf].

own strengths and, thanks to its regional orientation, ownership and support.

The Inter-American Convention against Corruption, adopted in 1996, was the first anticorruption convention. All 34 members of the Organization of American States have ratified the convention, although only 15 have provided the required legal information. At the urging of civil society groups, state parties established a follow-up mechanism for implementation in 2001. Since then, a committee of government-appointed experts has started to produce country review reports, 23 of which have been published. In 2005 it was decided to post annual country progress reports on the Internet, and 20 are currently available.

In 1999 the Council of Europe adopted the Criminal Law Convention on Corruption and the Civil Law Convention on Corruption. The Criminal Law Convention aims to harmonize national laws on the definition of corruption offenses, set up complementary penal measures, and improve international cooperation in bringing offenders to justice. The Civil Law Convention, a first attempt to define common rules for civil litigation in corruption cases, requires states to provide legal remedies for persons who have suffered from acts of corruption (box 7.5). Parties to a contract whose consent has been "undermined by an act of corruption" should be able to ask a court to declare it void.

The Council of Europe conventions are monitored by the Group of States Against Corruption (GRECO). This is a voluntary country group—most Council of Europe countries belong, as does the United States—that has agreed to review good governance instruments. The only requirement for membership is a willingness to participate fully in the mutual evaluation process—including providing experts—and to agree to be evaluated. Members must also contribute financially to GRECO. Both its voluntary nature and its independent funding set the GRECO apart from other monitoring mechanisms. Most countries have been covered in two rounds of review, and more than 70 reports have been published.

Adopted by the heads of state and governments of the African Union in 2003, the African Union Convention on Preventing and Combating Corruption is the latest regional convention. It is relatively comprehensive—for example, it covers the controversial issue of corruption in the funding of political parties—and most of its provisions are mandatory. Its description of acts of corruption and related offences is particularly broad. Its regional orientation is evident in its emphasis that foreign companies should be set up in a way that respects national legislation, that the private sector should be encouraged to participate in the fight against unfair competition, that governments should involve civil society in monitoring and implementation, that everyone is entitled to a fair trial, and that signatories should cooperate with the

BOX 7.5 Civil versus criminal law pursuits of corruption

A civil lawsuit against corruption has several advantages over a criminal lawsuit. It empowers victims to litigate on their own initiative, potentially relieving public prosecutors of a complicated burden. Civil courts are also less onerous, have a longer reach, and their burden of proof is less demanding than in criminal courts, making recovery of assets more likely. Drawbacks are that civil courts lack the strong evidence-gathering methods available to criminal courts and that they require adequate resources on the part of the litigators. Not only citizens but also states can seek remedies in civil court.

Source: Transparency International 2000.

countries of origin of multinationals to pursue corrupt acts. Unfortunately, only 10 countries have ratified so far, 5 short of the minimum needed for the convention to come into effect. In the meantime, Africa is gathering experience with the peer review monitoring of the quality of governance in the New Partnership for Africa's Development (NEPAD) (box 7.6).

International Transparency Initiatives

Transparency enjoys broad international support as a powerful and practical tool for improving governance. More than 60 countries have passed legislation that recognizes and protects citizens' right to information held by public bodies. Several international good governance initiatives focus on the need to improve the quality and availability of information. Promoting transparency is also high on the agenda of the IFIs. The IMF set a standard for the quality of official statistics and developed codes for transparency in fiscal policy and monetary and financial policies, and it reports on their observance. The World Bank compiles and disseminates indicators on the state of government corruption. Both the Fund and the Bank have transparency policies that provide for Internet publication of most of their documents.

Two transparency initiatives focus on the natural resource sector. More than 50 countries qualify as rich in hydrocarbons or minerals, many of them low- or middle-income countries that depend on natural resources for more than half their government revenue (IMF 2005). This concentration of rent creates unusual scope for corruption, which by undermining domestic institutions reduces long-term growth (Sala-i-Martin and Subramanian 2003). Resource-rich developing countries as a group lag in human indicators and experience more violent conflicts than less-endowed countries (Collier and Hoeffler 2003). In 2003, the Extractive Industries Transparency Initiative was launched to ensure public accounting for all resource revenue, and the Kimberley Process was launched to certify that diamonds are conflict free (box 7.7). These initiatives dovetail with private sector governance initiatives (international arbitration, credit ratings, regulatory transparency, corporate governance principles, investment guidelines, codes of con-

BOX 7.6 The African Peer Review Mechanism

When the African heads of state launched NEPAD in 2002, they created at the same time the African Peer Review Mechanism (APRM) to foster better governance. The format emphasizes sharing of experience, reinforcement of successful practices, and capacity building. At the time, the APRM was viewed as one of NEPAD's most innovative projects, and it is still considered ambitious, yet realistic and pragmatic (Déme 2005). The review process has five stages: country self-assessment, onsite review, preparation of country report and discussion with authorities, submission of report to heads of state for consideration and decision, and formal tabling of the report and the recommendations by heads of state for discussion in various regional structures. A recent evaluation found the APRM too government-oriented and advocated more effective participation by the private sector, civil society, and all development stakeholders (ECA 2005). Ghana was the first country to traverse the first four stages during the Summit of the APRM Forum in January 2006. The final report listed capacity constraints, gender disparity, corruption, lack of decentralization, and land issues as the main governance concerns in Ghana. For the June 2005 discussion of the draft by heads of state, the Ghanaian government produced an extensive response. The report and response will be published. So far 25 countries have formally acceded to the APRM. Rwanda is far advanced in the process; Algeria and South Africa are completing their self-assessment.

Source: NEPAD [http://www.nepad.org/2005/files/aprm.php/].

BOX 7.7 Improving governance in resource-rich countries

In 2003 the United Kingdom launched the Extractive Industries Transparency Initiative (EITI), which built on the NGO campaign Publish What You Pay (PWYP). Both aim to enhance the transparency of natural resource revenue. PWYP strives for mandatory disclosure of payments by extractive industry companies; the EITI aims for voluntary disclosure, but by governments as well as companies. In the EITI, companies and governments use similar templates for reporting all revenue flows, whether accruing directly to government or through a national oil company. Any discrepancies will become evident from comparing the templates. More than 20 oil-producing countries have endorsed the EITI, and most have started to implement it. The United Kingdom currently provides a secretariat, and an International Advisory Group is preparing proposals for a future management structure and a monitoring and validation system.

The Kimberley Process Certification Scheme was launched in 2003 to prevent raw diamond production from fueling conflicts, as has happened in Angola, Sierra Leone, and elsewhere. A joint initiative of governments, the international diamond industry, and civil society, the scheme requires participant countries to ship their rough diamonds in sealed containers accompanied by certificates listing the country of origin. Participants are prohibited from trading with nonparticipants. This permits the United Nations to impose sanctions on the trade in diamonds from conflict areas. Presently, diamonds from Liberia continue under sanction (imposed in 2001), and sanctions on diamonds from Côte d'Ivoire were imposed in December 2005. Industry self-regulation supplements the scheme to help ensure that only jewelry containing certified diamonds enters the retail chain. Implementation is monitored through peer review: 19 country reports had been produced by the end of 2005; the summaries have been made public. Enforcement relies heavily on a diamond trade database currently not accessible to the public.

Sources: EITI [http://www.eitransparency.org/news.htm]; PWYP [http://www.publishwhatyoupay.org/english/]; Kimberley Process [http://www.kimberleyprocess.com:8080/].

duct). The Joint Oil Data Initiative aims to improve the timeliness, availability, and quality of monthly oil data.[4]

Implementing the Extractive Industries Transparency Initiative (EITI)

More than 20 countries are already participating in the EITI, more than half of them in Sub-Saharan Africa. At the London EITI Conference in 2005, participants endorsed six criteria for assessing implementation, while encouraging countries to go beyond them. One of the criteria covers the active engagement of civil society in the design, monitoring, and evaluation of the process. This can be time consuming, as is organizing the reporting on the government side, and auditing the figures of companies and governments. The EITI permits countries to publish an aggregate template for their companies to avoid revealing commercially sensitive information, but some countries insist on individual company declarations.

The EITI stakeholders include the more than 280 NGOs in the PWYP coalition, which is developing complementary initiatives. Because the EITI implicitly measures transparency of host countries to companies, PWYP published two reports in 2005 that attempt to measure the transparency that the home countries require of companies, and that the companies themselves exhibit.[5] The home country report evaluates performance against four criteria and finds that 9 of 10 countries score less than 50 percent. Securities regulation and accounting standards are found to be most important. Canada leads the ranking and is the only country to require financial disclosure on a country-by-country

basis, a critical transparency practice. The company report concludes that transparency practices remain weak: 23 of 25 companies reviewed scored below 30 percent. Companies tend to publish data by region and not by country, which does not help with host country transparency.

The World Bank and IMF support the EITI directly—both assist its Secretariat and the Bank manages a multidonor trust fund—and indirectly. In June 2005 the IMF issued its *Guide on Resource Revenue Transparency*, which applies the IMF's fiscal transparency principles to the challenges facing resource-rich countries (IMF 2005). This guide feeds into IMF advice on resource revenue transparency. The World Bank, in implementing its 2004 management response to the *Extractive Industries Review*, concluded in a December 2005 review that the Bank is now applying a more considered approach to its assessment of governance risks in extractive industries.[6]

The EITI is successful as a narrowly targeted initiative with great popular appeal. As country interest grows, so does the risk of "free riders," and it has become a matter of urgency for the EITI to establish a monitoring and validation procedure. So far only Azerbaijan, Gabon, the Kyrgyz Republic, and Nigeria have published EITI reports, and they all reveal serious deficiencies in coverage and/or government accounting procedures. These deficiencies will have to be addressed through broader public finance reform to achieve genuine political accountability for the spending of mineral revenues.

Implementing the Kimberley Process Certification Scheme (KPCS)

Diamonds have fueled several of Africa's most devastating wars. In Angola in the 1990s, the civil war was financed primarily by natural resources—oil (on the government side) and diamonds (the rebel group, National Union for Total Independence of Angola [UNITA]). Over the past decade and a half, diamonds have also helped finance, train, and equip the Revolutionary United Front in Sierra Leone, the dictatorial regime in Liberia, the conflicts in the Democratic Republic of Congo, and political instability and repression in Zimbabwe. The Kimberley Process followed meetings of diamond-producing states and a resolution of the United Nations General Assembly supporting the creation of an international certification scheme for rough diamonds. In November 2002 two years of negotiation culminated in the Kimberley Process Certification Scheme. The scheme outlines how trade in rough diamonds is to be regulated by countries, regional economic organizations, and rough-diamond trading entities.

The scheme has been remarkably successful in enhancing transparency in the traditionally secretive diamond trade. Almost all producer countries are participants, as are all the major rough-diamond importing countries. Some $32 billion in rough diamonds were traded in 2003, according to data compiled by the scheme, and some 57,000 certificates were issued. Important overlapping interests among governments, NGOs, and industry—the third concerned about the image of its product—contributed to this success. The rotating chair—South Africa in 2003, Canada in 2004, Russia in 2005, Botswana in 2006—with a secretariat supported by working groups and committees chaired and organized by participants and industry, is proving an effective governance model, permitting flexibility and country ownership. Civil society organizations favor building on this success and using the Kimberley Process to ensure that diamonds contribute in a meaningful way to the development of African producer countries and the individuals who mine them.[7]

The Kimberley Process is also linked to several other initiatives. As a result of the FATF's extension of its AML/CFT provisions to precious-gem traders, all cash transactions in rough diamonds exceeding $15,000 or €15,000 must be reported. And since the EITI is open to mining and thus could be extended to diamond mining, there are potential synergies with the Kimberley Process. A pressing concern are stronger controls in countries with alluvial diamond mining typically carried

out by a great many small operators, such as Angola, the Democratic Republic of Congo, and Sierra Leone. Despite its broad country participation, the scheme cannot hope to prevent all trade in noncertified raw diamonds. But it can drive a significant price wedge between certified and noncertified diamonds, making the trade in sanctioned diamonds much less remunerative.

Conclusions and Policy Recommendations

The legal initiatives, anticorruption conventions, and transparency initiatives described above, form—together with many supporting initiatives in the public and private sector—an embryonic network of global checks and balances. It appears an appropriate response to the international manifestations of corruption and poor governance, exacerbated in recent years by the forces of globalization. It also offers the international community many opportunities for supporting developing countries as they tackle poor governance at home. The network is largely accidental, the result of separately motivated initiatives, not a grand design. For the network to realize its potential, synergies among individual components must be exploited and duplication avoided. All components need continuous reinforcement. This is a global undertaking, with a large role for civil society and the private sector, and with responsibilities for policy makers at all levels.

For developing countries, including middle-income countries, the first order of business is to ratify relevant conventions, especially the UN and African Union anticorruption conventions, if they have not yet done so. Ratification should be followed by efforts to amend legislation to bring it up to the standards of the conventions and to ready the law enforcement apparatus. Developing countries should take advantage of existing opportunities, calling on OECD countries to pursue bribery by multinationals on their territories, on financial centers to assist with asset repatriation, and on donors and IFIs for help with the AML/CFT framework. Maximum transparency in the management of public sector resources is a pragmatic way of promoting accountability, which also invites civil society participation. Resource-rich countries can demonstrate their commitment to transparency by joining the EITI.

Developed countries should also ratify the UN convention speedily. In addition, they should make it a priority to raise awareness of these initiatives and conventions among their business communities. Their financial, political, and analytical support will strengthen the emerging network in the face of changing practices in international corruption. The key to making any anticorruption initiative work is effective monitoring. Peer review with ample opportunities for civil society participation has proven to be an effective model. A monitoring mechanism for the UN anticorruption convention should be established at the earliest opportunity. This and existing monitoring mechanisms deserve to be properly supported and adequately funded, and their findings utilized. The provisions on asset repatriation in the UN anticorruption convention should urge financial-center countries to make good on their promises. Developing countries need help with this legally complicated task, which promises a triple payoff—symbolically, as a deterrent, and in terms of funds recovered. Developed countries can also provide technical assistance to developing countries in implementing the AML/CFT framework and the anticorruption conventions.

The IMF and multilateral development banks (MDBs) have a special role to play. As a priority they must ensure that their in-house operations meet high integrity standards and that their interventions in member countries promote good governance. Their technical assistance with the implementation of the AML framework, the anticorruption conventions, and the EITI and the Kimberley Process will be most helpful to developing countries. Both institutions are already actively supporting the EITI secretariat. They can leverage the anticorruption conventions by using them as blueprints for guiding their own good

governance programs in member countries. The MDBs can use their procurement experience to help combat bribery of officials in developing countries through the disbarment and cross-disbarment of firms that engaged in corruption or other illegal practices. By promoting transparency across all government operations, they empower civil society and permit accountability. The IMF can counter the "resource curse" by pursuing the widespread adoption of the good practices described in its Guide on Resource Revenue Transparency, and the World Bank by pursuing the good governance agenda set out in its Management Response to the Extractive Industries Review.

Notes

1. See U4 Utstein Anti-Corruption Resource Centre at http://www.u4.no/; *The Guardian,* March 16, 2006. Available at www.guardian.co.uk/kenya/story/0,,1731884,00.html; Human Rights Watch, "Some Transparency, No Accountability" at http://www.hrw.org/.

2. See Transparency International's Bribe Payers Index at http://www.transparency.org/.

3. For a useful overview of anticorruption conventions, see chapter 5 of Transparency International's *Global Corruption Report 2003*.

4. See http://www.jodidata.org/.

5. Measurement of transparency was conceived by Save the Children UK. The reports are posted on the PWYP Web site at http://www.publishwhatyoupay.org/measuring_transparency/index.shtml.

6. See the World Bank's Oil, Gas, Mining, and Chemicals Department Web site at http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20605112~menuPK:336936~pagePK:148956~piPK:216618~theSitePK:336930,00.html.

7. See relevant papers on the Web sites of Partnership Africa Canada [http://www.pacweb.org/e/] and Global Witness [http://www.globalwitness.org/].

ANNEX TABLE 7.1 Global checks and balances: international legal initiatives

Name (year of effectiveness)	Objective	Eligible countries	Current membership	Monitoring mechanism	Web site
OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1999)	For each member country to adopt or amend its legal frameworks as necessary to criminalize the bribery of foreign officials, and to treat it with the same severity as bribery of domestic officials.	OECD countries; non-OECD countries subject to approval	All 30 OECD and 6 non-OECD countries	Self assessment and peer review with lead examiners and plenary discussion, supported by OECD Working Group on Bribery in International Business Transactions (WBI)	http://www.oecd.org/
Financial Action Task Force (FATF) Forty Recommendations on Money Laundering (1990)	Develop and promote national and international policies to combat money laundering and terrorist financing. Created in 1989, the FATF works to generate the necessary political will to bring about legislative and regulatory reforms in these areas.	Originally 16 mostly industrial countries	31 countries and territories and 2 regional organizations	Self-assessments, peer review with expert teams by FATF or FATF-Style Regional Bodies (FSRBs) or assessments by IMF and World Bank staff, with plenary discussion	http://www.fatf-gafi.org/

ANNEX TABLE 7.2 Global checks and balances: anticorruption treaties

Name (year of effectiveness)	Objective	Eligible countries	Current membership	Monitoring mechanism	Web site
The United Nations Convention Against Corruption—UNCAC (2005)	Promote and strengthen measures to prevent and combat corruption more efficiently and effectively; promote international cooperation and technical assistance in the prevention of and fight against corruption; promote integrity, accountability and proper management of public affairs and public property.	UN member countries and regional integration organizations	44 countries have ratified; 140 have signed.	Convention provides for Conference of the State Parties of the Convention, which is charged with reviewing implementation. The Conference meets for the first time in December 2006.	http://www.unodc.org/pdf/
The African Convention on Preventing and Combating Corruption (not yet effective)	Promote and strengthen the development in Africa by each State Party, of mechanisms required to prevent, detect, punish and eradicate corruption and related offenses in the public and private sectors.	All 53 African Union member countries	11 countries have ratified; 15 ratifications are necessary for the Convention to become effective.	A Follow-Up Mechanism is provided for in the Convention, involving an Advisory Board on Corruption within the African Union, but it is not effective yet.	http://www.africa-union.org/
The Inter-American Convention Against Corruption (1997)	Promote and strengthen the development by each of the States of the mechanisms needed to prevent, detect, punish, and eradicate corruption in the performance of public functions; and promote/facilitate cooperation among the States to ensure the effectiveness of such mechanisms, measures, and actions.	34 members of the Organization of American States (OAS)	33 countries have ratified; 15 have submitted information required by the Treaty.	Convention did not provide for monitoring. Follow-Up Mechanism (MESICIC) was established in 2001 consisting of self-assessment and peer review with review teams and committee discussions. Mechanism is supported by the Organization of American States and Transparency International.	http://www.oas.org/juridico/english/

(continued)

ANNEX TABLE 7.2 Global checks and balances: anticorruption treaties *(continued)*

Name (year of effectiveness)	Objective	Eligible countries	Current membership	Monitoring mechanism	Web site
The Council of Europe Civil Law Convention on Corruption (2003)	For each member to provide in its internal law for effective remedies for persons who have suffered damage as a result of acts of corruption, to enable them to defend their rights and interests, including the possibility of obtaining compensation for damage.	The member States of the Council of Europe, the European Community, and others	30 have signed and 25 have ratified.	The independent Group of States Against Corruption (GRECO) monitors implementation through peer review with evaluation teams and plenary discussion, using questionnaires and other input.	http://conventions.coe.int/treaty/en/Treaties/
The Council of Europe Criminal Law Convention on Corruption (2002)	For each member country to adopt such legislative and other measures to establish as criminal offenses under its domestic law with respect to bribery of domestic or foreign arbitrators and jurors.	The member States of the Council of Europe, the European Community, and others	46 have signed and 32 have ratified.	Group of States Against Corruption (GRECO) monitors implementation as above.	http://conventions.coe.int/treaty/en/Treaties/

ANNEX TABLE 7.3 Global checks and balances: international transparency initiatives

Name (year of effectiveness)	Objective	Eligible countries	Current membership	Monitoring mechanism	Web site
Extractive Industries Transparency Initiative—EITI (2003)	Transparency in revenues from extractive industries by comparing company and government reporting.	All governments, international organizations, companies, NGOs, investors, and business and industrial organizations. Target group: some 50 countries rich in hydrocarbons and minerals	20 resource rich developing countries are committed to implementing EITI principles; other stakeholders include 32 organizations and associations and 9 donor industrial countries	No formal monitoring at this point. Six minimum criteria for EITI assessment are available. A more formal monitoring and validation procedure is being designed.	http://www.eitransparency.org/
Kimberley Process Certification Scheme—KPCS (2002)	International certification of country and region of origin of all raw diamonds produced, to be able to stem trade in conflict diamonds, that is, diamonds that fuel wars against legitimate governments.	Countries and regional economic integration organizations (participants) who are eligible to trade in rough diamonds under the provisions of the KPCS.	45 participants, including the European Community; producer countries cover nearly the total world diamond production	Peer review monitoring organized by Working Group composed of country participants, industry and civil society representatives.	http://www.kimberleyprocess.com:8080/

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Annex

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Statistical Annex

A. Millennium Development Goals

- Goal 1: Poverty (US$1 a day headcount ratio, %)
  Share of consumption to poorest quintile (%)
- Goal 2: Primary education completion (gross intake to final primary grade, %)
  Secondary enrollment (gross, %)
- Goal 3: Ratio of girls to boys in primary and secondary school (%)
  Women in nonagricultural sector (% of total nonagricultural employment)
- Goal 4: Child mortality (under-5 mortality rate per 1,000)
  Measles immunization (% of children ages 12–23 months)
- Goal 5: Maternal mortality ratio (modeled estimate, per 100,000 live births)
  Births attended by skilled health staff (% of total)
- Goal 6: HIV prevalence (% of population ages 15–49)
  Incidence of tuberculosis (per 100,000 people)
- Goal 7: Access to an improved water source (% of population)
  Access to improved sanitation facilities (% of population)
- Goal 8: Fixed-line and mobile phone subscribers (per 1,000 people)
  Internet users (per 1,000 people)

B. Measures of Governance Performance

- Overall governance performance
  - Control of Corruption (KK, TI, ICS)
  - Policy outcome (CPIA cluster A–C average)
  - Aggregate public institutions (CPIA cluster D)
  - Business transactions costs (DB, ICS)
- Bureaucratic capability
  - Budget and financial management (CPIA 13)
  - Public administration (CPIA 15)
- Checks and balances institutions
  - Voice and accountability (KK)
  - Justice and rule of law (KK, CPIA 12)
  - Executive constraints (Polity IV)

C. Overall Trade Restrictiveness Index (OTRI)

D. Official Development Assistance (ODA)

- Net Official Development Assistance by DAC and non-DAC Countries
- Net Official Development Assistance Receipts

CPIA: Country Policy and Institutional Assessment; DB: Doing Business indicators; ICS: Investment Climate Surveys; KK: Kaufmann and Kraay; OTRI: Overall Trade Restrictiveness Index; TI: Transparency International.

TABLE A.1 Millennium Development Goals

	Goal 1 Eradicate extreme poverty		Goal 2 Achieve universal primary education		Goal 3 Promote gender equality		Goal 4 Reduce child mortality	
	Poverty (US$1 a day headcount ratio, %)	Share of consumption to poorest quintile (%)	Primary education completion (gross intake to final primary grade, %)	Secondary enrollment (gross, %)	Ratio of girls to boys in primary and secondary school (%)	Women in nonagricultural sector (% of total nonagricultural employment)	Child mortality (under-5 mortality rate per 1,000)	Measles immunization (% of children ages 12–23 months)
	1998–2004[a]	1998–2004[a]	2001–4[a]	2004	2004	2003	2004	2004
Afghanistan	..	..	..	13	34	..	..	61
Albania	<2	9.1	99	*78*	*97*	40.3	19	96
Algeria	..	..	94	81	99	15.5	40	81
Angola	..	..	..	*17*	..	..	260	64
Argentina	7.0	3.2	102	*99*	*103*	47.6	18	95
Armenia	<2	8.5	107	91	103	47.0	32	92
Australia	..	..	100	*154*	*98*	48.9	6	93
Austria	..	8.6	..	*100*	*96*	44.5	5	74
Azerbaijan	<2	12.2	96	83	97	48.5	90	98
Bangladesh	36.0	9.0	73	*51*	*106*	24.2	77	77
Belarus	<2	8.5	101	94	100	55.9	11	99
Belgium	..	8.5	..	*160*	*106*	44.4	5	82
Benin	30.9	7.4	49	26	71	..	152	85
Bhutan	..	..	..	..	..	..	80	87
Bolivia	23.2	1.5	100	89	98	36.5	69	64
Bosnia and Herzegovina	..	9.5	..	..	..	..	15	88
Botswana	..	..	92	*74*	*102*	47.0	116	90
Brazil	7.5	2.6	111	*110*	*103*	46.9	34	99
Bulgaria	<2	8.7	97	*99*	*97*	52.2	15	81
Burkina Faso	27.2	6.9	30	12	76	15.2	192	78
Burundi	54.6	5.1	33	12	82	..	190	75
Cambodia	..	..	82	*26*	*85*	52.6	141	80
Cameroon	17.1	5.6	72	44	87	..	149	64
Canada	..	7.2	..	*105*	*100*	49.2	6	95
Central African Republic	..	..	..	*12*	..	..	193	35
Chad	..	..	30	15	58	..	200	56
Chile	<2	3.3	97	*88*	*99*	37.3	8	95
China	16.6	4.7	100	*70*	*99*	39.5	31	84
Hong Kong, China	..	..	111	85	95	46.9	..	..
Colombia	7.0	2.5	94	75	104	48.8	21	92
Comoros	..	..	50	35	84	..	70	73
Congo, Dem. Rep. of	..	..	..	*23*	..	..	205	64
Congo, Rep. of	..	..	66	*32*	*87*	..	108	65
Costa Rica	2.2	3.9	92	68	101	39.5	13	88
Côte d'Ivoire	14.8	5.2	43	*25*	*68*	20.2	194	49
Croatia	<2	8.3	91	*88*	*101*	46.3	7	96
Cuba	..	..	93	93	98	37.7	7	99
Czech Republic	..	..	102	*97*	*101*	45.8	4	97
Denmark	..	..	103	*127*	*103*	48.3	5	96
Djibouti	..	..	29	22	75	..	126	60
Dominican Republic	2.5	3.9	91	68	105	34.9	32	79
Ecuador	17.7	3.3	101	61	100	41.1	26	99
Egypt, Arab Rep. of	3.1	8.6	93	*87*	*94*	21.6	36	97
El Salvador	19.0	2.7	84	60	98	31.1	28	93

Goal 5 Improve maternal health		Goal 6 Combat HIV/AIDS and other diseases		Goal 7 Ensure environmental sustainability		Goal 8 Develop a global partnership for development (new technologies)	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	Births attended by skilled health staff (% of total)	HIV prevalence (% of population ages 15–49)	Incidence of tuberculosis (per 100,000 people)	Access to an improved water source (% of population)	Access to improved sanitation facilities (% of population)	Fixed-line and mobile phone subscribers (per 1,000 people)	Internet users (per 1,000 people)
2000	2000–4[a]	2003	2004	2002	2002	2004	2004
..	14	..	333	13	8	..	..
55	98	..	22	97	89	*438*	24
140	96	0.1	54	87	92	215	26
1,700	45	3.9	259	50	30	*29*	11
82	99	0.7	43	..	..	579	133
55	97	0.1	78	92	84	260	50
8	..	0.1	6	100	100	1,359	646
4	..	0.3	14	100	100	1,438	477
94	84	<0.1	75	77	55	333	49
380	13	..	229	75	48	37	2
35	100	..	60	100	..	*424*	163
10	..	0.2	13	..	..	1,333	403
850	66	1.9	87	68	32	*38*	12
420	37	..	107	62	70	53	22
420	67	0.1	217	85	45	269	39
31	100	<0.1	53	98	93	*507*	58
100	94	37.3	670	95	41	396	34
260	96	0.7	60	89	75	587	120
32	99	0.1	36	100	100	966	283
1,000	38	1.8	191	51	12	37	4
1,000	25	6.0	343	79	36	*12*	3
450	32	2.6	510	34	16	*40*	3
730	62	5.5	179	63	48	*74*	10
6	98	0.3	5	100	100	*1,053*	626
1,100	44	13.5	322	75	27	18	2
1,100	14	4.8	279	34	8	14	6
31	100	0.3	16	95	92	799	267
56	96	0.1	101	77	44	499	73
..	..	0.1	75	..	..	1,733	506
130	86	0.7	50	92	86	427	80
480	62	..	46	94	23	*26*	14
990	61	4.2	366	46	29	*11*	*1*
510	..	4.9	377	46	9	102	9
43	98	0.6	14	97	92	533	235
690	68	7.0	393	84	40	*86*	17
8	100	<0.1	41	..	..	*996*	293
33	100	0.1	10	91	98	75	13
9	100	0.1	11	..	..	1,392	470
5	..	0.2	8	100	..	1,599	696
730	61	2.9	734	80	50	*43*	12
150	98	1.0	91	93	57	396	91
130	..	0.3	131	86	72	472	48
84	69	<0.1	27	98	68	235	54
150	92	0.7	54	82	63	402	87

(continued)

TABLE A.1 Millennium Development Goals *(continued)*

	Goal 1 Eradicate extreme poverty		Goal 2 Achieve universal primary education		Goal 3 Promote gender equality		Goal 4 Reduce child mortality	
	Poverty (US$1 a day headcount ratio, %)	Share of consumption to poorest quintile (%)	Primary education completion (gross intake to final primary grade, %)	Secondary enrollment (gross, %)	Ratio of girls to boys in primary and secondary school (%)	Women in nonagricultural sector (% of total nonagricultural employment)	Child mortality (under-5 mortality rate per 1,000)	Measles immunization (% of children ages 12–23 months)
	1998–2004[a]	1998–2004[a]	2001–4[a]	2004	2004	2003	2004	2004
Eritrea	..	..	44	28	73	35.0	82	84
Estonia	<2	6.7	103	*96*	*100*	51.5	8	96
Ethiopia	23.0	9.1	51	28	73	..	166	71
Finland	..	9.6	102	*127*	*106*	50.6	4	97
France	..	..	99	*110*	*100*	47.0	5	86
Gabon	..	..	66	*50*	..	..	91	55
Gambia, The	59.3	4.8	..	*34*	*85*	..	122	90
Georgia	6.5	5.6	86	82	99	45.2	45	86
Germany	..	8.5	97	*100*	*99*	46.4	5	92
Ghana	44.8	5.6	65	42	91	..	112	83
Greece	..	6.7	..	*96*	*101*	41.1	5	88
Guatemala	13.5	2.9	70	49	91	38.7	45	75
Guinea	..	..	49	26	73	..	155	73
Guinea-Bissau	..	..	27	*18*	*65*	..	203	80
Guyana	..	..	95	*90*	*116*	..	64	88
Haiti	53.9	2.4	..	..	..	..	117	54
Honduras	20.7	3.4	79	..	..	50.5	41	92
Hungary	<2	9.5	97	*103*	*100*	47.1	8	99
India	34.7	8.9	84	*52*	*88*	17.5	85	56
Indonesia	7.5	8.4	101	*62*	*98*	30.8	38	72
Iran, Islamic Rep. of	<2	5.1	95	82	100	..	38	96
Iraq	..	..	74	45	78	..	..	90
Ireland	..	7.4	101	*109*	*103*	47.4	6	81
Israel	..	5.7	101	*93*	*99*	48.9	6	96
Italy	..	6.5	103	*99*	*99*	41.2	5	84
Jamaica	<2	6.7	84	*84*	*101*	48.0	20	80
Japan	..	..	..	*102*	*100*	40.8	4	99
Jordan	<2	6.7	97	*88*	*101*	24.9	27	99
Kazakhstan	<2	7.4	110	98	98	48.7	73	99
Kenya	..	..	89	48	94	38.5	120	73
Korea, Dem. Rep. of	..	..	..	..	..	..	55	95
Korea, Rep. of	<2	7.9	105	91	100	41.2	6	99
Kuwait	..	..	91	90	104	24.1	12	97
Kyrgyz Republic	<2	8.9	93	88	101	44.0	68	99
Lao PDR	27.0	8.1	74	46	84	..	83	36
Latvia	<2	6.6	98	*95*	*99*	53.4	12	99
Lebanon	..	..	94	89	102	..	31	96
Lesotho	..	..	71	36	104	..	112	70
Liberia	..	..	..	..	..	..	235	42
Libya	..	..	..	*104*	*103*	..	20	99
Lithuania	<2	6.8	105	*103*	*98*	50.0	8	98
Macedonia, FYR	<2	6.1	97	*85*	*99*	42.2	14	96
Madagascar	61.0	4.9	45	..	..	..	123	59
Malawi	..	..	59	29	99	12.5	175	80

Goal 5 Improve maternal health		Goal 6 Combat HIV/AIDS and other diseases		Goal 7 Ensure environmental sustainability		Goal 8 Develop a global partnership for development (new technologies)	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	Births attended by skilled health staff (% of total)	HIV prevalence (% of population ages 15–49)	Incidence of tuberculosis (per 100,000 people)	Access to an improved water source (% of population)	Access to improved sanitation facilities (% of population)	Fixed-line and mobile phone subscribers (per 1,000 people)	Internet users (per 1,000 people)
2000	2000–4[a]	2003	2004	2002	2002	2004	2004
630	28	2.7	271	57	9	14	12
63	100	1.1	46	..	..	1,260	497
850	6	4.4	353	22	6	*8*	2
6	100	0.1	9	100	100	1,407	629
17	..	0.4	12	..	..	1,299	414
420	86	8.1	280	87	36	388	29
540	55	1.2	233	82	53	*99*	33
32	..	0.1	82	76	83	337	39
8	..	0.1	8	100	..	1,525	500
540	47	2.2	206	79	58	93	17
9	..	0.2	19	..	..	1,465	177
240	41	1.1	77	95	61	350	61
740	56	3.2	240	51	13	*15*	5
1,100	35	..	199	59	34	*8*	17
170	86	2.5	140	83	70	329	193
680	24	5.6	306	71	34	64	59
110	56	1.8	77	90	68	153	32
16	100	0.1	26	99	95	1,217	267
540	43	0.9	168	86	30	85	32
230	72	0.1	245	78	52	184	67
76	90	0.1	27	93	84	*270*	8
..	72	<0.1	132	81	80	..	..
5	100	0.1	11	..	..	1,425	265
17	..	0.1	9	100	..	1,499	471
5	..	0.5	7	..	..	1,541	501
87	97	1.2	7	93	80	1,021	403
10	..	<0.1	30	100	100	1,176	587
41	100	<0.1	5	91	93	407	110
210	..	0.2	151	86	72	351	27
1,000	42	6.7	619	62	48	85	45
67	97	..	178	100	59	*41*	*0*
20	..	<0.1	90	92	..	1,303	657
5	..	..	26	..	..	1,015	244
110	99	0.1	122	76	60	*106*	52
650	19	0.1	156	43	24	48	4
42	..	0.6	68	..	..	937	350
150	..	0.1	11	100	98	429	169
550	60	28.9	696	76	37	109	24
760	51	5.9	310	62	26	*3*	*0*
97	..	0.3	20	72	97	*156*	36
13	100	0.1	63	..	..	1,235	282
23	99	<0.1	30	..	..	*642*	78
550	51	1.7	218	45	33	*19*	5
1,800	61	14.2	413	67	46	25	4

(continued)

TABLE A.1 Millennium Development Goals *(continued)*

	Goal 1 Eradicate extreme poverty		Goal 2 Achieve universal primary education		Goal 3 Promote gender equality		Goal 4 Reduce child mortality	
	Poverty (US$1 a day headcount ratio, %)	Share of consumption to poorest quintile (%)	Primary education completion (gross intake to final primary grade, %)	Secondary enrollment (gross, %)	Ratio of girls to boys in primary and secondary school (%)	Women in nonagricultural sector (% of total nonagricultural employment)	Child mortality (under-5 mortality rate per 1,000)	Measles immunization (% of children ages 12–23 months)
	1998–2004[a]	1998–2004[a]	2001–4[a]	2004	2004	2003	2004	2004
Malaysia	..	..	95	*70*	*105*	38.0	12	95
Mali	..	..	44	22	74	..	219	75
Mauritania	25.9	6.2	43	20	96	..	125	64
Mauritius	..	..	100	80	103	38.5	15	98
Mexico	4.5	4.3	97	*79*	*102*	37.4	28	96
Moldova	22.0	7.8	83	74	103	54.6	28	96
Mongolia	27.0	5.6	96	93	108	49.4	52	96
Morocco	<2	6.5	67	47	88	26.2	43	95
Mozambique	..	..	29	11	82	..	152	77
Myanmar	..	..	72	*38*	*99*	..	106	78
Namibia	..	..	81	*58*	*105*	50.8	63	70
Nepal	24.1	6.0	71	*46*	*90*	*17.4*	76	73
Netherlands	..	7.6	100	*122*	*98*	45.7	6	96
New Zealand	..	..	..	*119*	*107*	51.3	7	85
Nicaragua	45.1	5.6	74	64	103	..	38	84
Niger	..	..	25	8	71	..	259	74
Nigeria	70.8	5.0	76	35	84	..	197	35
Norway	..	9.6	103	*114*	*101*	49.1	4	88
Oman	..	..	91	86	98	25.6	13	98
Pakistan	17.0	9.3	..	27	73	8.7	101	67
Panama	6.5	2.5	97	70	101	44.0	24	99
Papua New Guinea	..	..	55	*26*	*87*	35.4	93	44
Paraguay	16.4	2.2	89	*65*	*98*	42.0	24	89
Peru	12.5	3.2	96	*90*	*97*	37.2	29	89
Philippines	15.5	5.4	98	*84*	*102*	41.1	34	80
Poland	<2	7.5	100	*105*	*97*	47.7	8	97
Portugal	..	..	..	*109*	*102*	46.9	5	95
Puerto Rico	..	..	..	..	..	40.1	..	..
Romania	<2	8.1	90	*85*	*100*	45.3	20	97
Russian Federation	<2	6.1	..	*93*	*100*	50.1	21	98
Rwanda	51.7	..	37	14	100	..	203	84
São Tomé and Principe	..	..	..	*39*	*94*	..	118	91
Saudi Arabia	..	..	62	68	92	14.5	27	97
Senegal	..	..	45	19	90	..	137	57
Serbia and Montenegro	..	..	96	*89*	*101*	44.9	15	96
Sierra Leone	..	..	..	*26*	*71*	..	283	64
Singapore	..	5.0	..	..	..	47.8	3	94
Slovak Republic	..	..	101	*92*	*100*	52.1	9	98
Slovenia	<2	9.1	102	*112*	*99*	47.4	4	94
Solomon Islands	..	..	..	*30*	*91*	..	56	72
Somalia	..	..	..	..	..	..	225	40
South Africa	10.7	3.5	96	*91*	*101*	..	67	81
Spain	..	7.0	..	*117*	*102*	40.7	5	97
Sri Lanka	5.6	8.3	..	*81*	*102*	43.2	14	96

Goal 5 Improve maternal health		Goal 6 Combat HIV/AIDS and other diseases		Goal 7 Ensure environmental sustainability		Goal 8 Develop a global partnership for development (new technologies)	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	Births attended by skilled health staff (% of total)	HIV prevalence (% of population ages 15–49)	Incidence of tuberculosis (per 100,000 people)	Access to an improved water source (% of population)	Access to improved sanitation facilities (% of population)	Fixed-line and mobile phone subscribers (per 1,000 people)	Internet users (per 1,000 people)
2000	2000–4[a]	2003	2004	2002	2002	2004	2004
41	97	0.4	103	95	..	766	397
1,200	41	1.9	281	48	45	36	4
1,000	57	0.6	287	56	42	*135*	5
24	99	..	64	100	99	700	146
83	95	0.3	32	91	77	545	135
36	..	0.2	138	92	68	391	96
110	99	<0.1	192	62	59	*184*	80
220	63	0.1	110	80	61	357	117
1,000	48	12.2	460	42	27	*27*	7
360	57	1.2	171	80	73	10	1
300	76	21.3	717	80	30	206	37
740	15	0.5	184	84	27	22	7
16	..	0.2	8	100	100	1,393	614
7	..	0.1	11	..	..	1,189	788
230	67	0.2	63	81	66	177	23
1,600	16	1.2	157	46	12	13	2
800	35	5.4	290	60	38	79	14
16	..	0.1	5	100	..	*1,396*	390
87	95	0.1	11	79	89	413	97
500	23	0.1	181	90	54	63	13
160	93	0.9	45	91	72	388	94
300	41	0.6	233	39	45	*14*	29
170	77	0.5	71	83	78	*349*	25
410	59	0.5	178	81	62	223	117
200	60	<0.1	293	85	73	446	54
13	100	0.1	29	..	..	*777*	236
5	100	0.4	42	..	..	1,384	281
25	..	..	5	..	..	974	221
49	99	<0.1	146	57	51	673	208
67	99	1.1	115	96	87	*508*	111
1,400	31	5.1	371	73	41	18	4
..	76	..	107	79	24	*79*	131
23	..	..	40	..	..	537	66
690	58	0.8	245	72	52	*72*	42
11	93	0.2	33	93	87	910	147
2,000	42	..	443	57	39	*19*	2
30	..	0.2	40	..	..	1,350	571
3	99	0.1	19	100	100	1,027	423
17	100	0.1	15	..	..	*1,278*	476
130	..	..	59	70	31	*17*	6
1,100	25	..	411	29	25	88	25
230	..	15.6	718	87	67	*473*	78
4	..	0.7	25	..	..	1,321	336
92	96	0.1	60	78	91	165	14

(continued)

TABLE A.1 Millennium Development Goals *(continued)*

	Goal 1 Eradicate extreme poverty		Goal 2 Achieve universal primary education		Goal 3 Promote gender equality		Goal 4 Reduce child mortality	
	Poverty (US$1 a day headcount ratio, %)	**Share of consumption to poorest quintile (%)**	**Primary education completion (gross intake to final primary grade, %)**	**Secondary enrollment (gross, %)**	**Ratio of girls to boys in primary and secondary school (%)**	**Women in nonagricultural sector (% of total nonagricultural employment)**	**Child mortality (under-5 mortality rate per 1,000)**	**Measles immunization (% of children ages 12–23 months)**
	1998–2004[a]	**1998–2004[a]**	**2001–4[a]**	**2004**	**2004**	**2003**	**2004**	**2004**
Sudan	..	..	49	33	88	18.9	91	59
Swaziland	..	..	61	*42*	*96*	31.3	156	70
Sweden	..	9.1	..	*137*	*111*	50.9	4	94
Switzerland	..	7.6	96	*93*	*96*	46.9	5	82
Syrian Arab Rep.	..	..	107	63	94	18.2	16	98
Tajikistan	7.4	7.9	92	82	89	52.3	93	89
Tanzania	57.8	7.3	57	..	..	..	126	94
Thailand	<2	6.3	..	77	98	46.9	21	96
Togo	..	..	66	39	73	..	140	70
Trinidad and Tobago	..	..	94	84	101	41.3	20	95
Tunisia	<2	6.0	94	*77*	*102*	25.3	25	95
Turkey	3.4	5.3	..	*85*	*85*	20.6	32	81
Turkmenistan	..	6.1	..	..	..	..	103	97
Uganda	..	5.9	57	19	97	..	138	91
Ukraine	<2	9.2	91	93	99	53.6	18	99
United Arab Emirates	..	..	75	66	102	14.4	8	94
United Kingdom	..	6.1	..	*170*	*116*	49.9	6	..
United States	..	5.4	..	*95*	*100*	48.8	8	93
Uruguay	<2	5.0	94	*106*	*105*	46.3	17	95
Uzbekistan	..	9.2	98	*95*	*98*	41.5	69	98
Venezuela, R. B. de	8.3	4.7	89	72	103	41.5	19	80
Vietnam	..	7.5	101	74	94	51.8	23	97
West Bank and Gaza	..	..	98	94	103	..	..	..
Yemen, Republic of	15.7	7.4	62	48	63	6.1	111	76
Zambia	75.8	6.1	66	26	93	..	182	84
Zimbabwe	..	..	80	*36*	*96*	21.8	129	80
World	**..**	**..**	**..**	***66***	***93***	**38.1**	**79**	**76**
Low-income	**..**	**..**	**74**	***46***	***86***	**23.3**	**122**	**64**
Middle-income	**..**	**..**	**97**	***75***	***98***	**40.5**	**37**	**87**
Lower-middle-income	..	..	98	*72*	*98*	39.9	40	86
Upper-middle-income	..	..	96	*87*	*98*	44.1	28	91
Low- and middle-income	**..**	**..**	**86**	***61***	***92***	**36.1**	**86**	**74**
East Asia and Pacific	..	..	99	*69*	*98*	39.7	37	82
Europe and Central Asia	..	..	94	*92*	*96*	47.3	34	93
Latin America and the Caribbean	..	..	97	*87*	*102*	43.7	31	92
Middle East and North Africa	..	..	88	67	90	..	55	92
South Asia	..	..	82	*49*	*87*	18.1	92	61
Sub-Saharan Africa	..	..	62	30	84	..	168	64
High-income	**..**	**..**	**..**	***105***	***101***	**46.0**	**7**	**93**
European Monetary Union	..	..	..	*108*	*100*	44.8	5	89

Source: 2006 World Development Indicators database.
Figures in italics refer to periods other than those specified.
a. Data are for the most recent year available.
.. Not available.

Goal 5 Improve maternal health		Goal 6 Combat HIV/AIDS and other diseases		Goal 7 Ensure environmental sustainability		Goal 8 Develop a global partnership for development (new technologies)	
Maternal mortality ratio (modeled estimate, per 100,000 live births)	Births attended by skilled health staff (% of total)	HIV prevalence (% of population ages 15–49)	Incidence of tuberculosis (per 100,000 people)	Access to an improved water source (% of population)	Access to improved sanitation facilities (% of population)	Fixed-line and mobile phone subscribers (per 1,000 people)	Internet users (per 1,000 people)
2000	2000–4[a]	2003	2004	2002	2002	2004	2004
590	87	2.3	220	69	34	58	32
370	74	38.8	1,226	52	52	*119*	32
2	..	0.1	4	100	100	*1,750*	756
7	..	0.4	7	100	100	1,560	474
160	..	<0.1	41	79	77	269	43
100	71	<0.1	177	58	53	*46*	1
1,500	46	7.0	347	73	46	*32*	9
44	99	1.5	142	85	99	537	109
570	61	4.1	355	51	34	*48*	37
160	96	3.2	9	91	100	745	123
120	90	<0.1	22	82	80	480	84
70	83	..	28	93	83	751	142
31	97	<0.1	65	71	62	*82*	8
880	39	4.1	402	56	41	44	7
35	100	1.4	101	98	99	545	79
54	..	..	17	..	100	1,128	321
13	..	0.2	12	..	..	1,584	628
17	..	0.6	5	100	100	1,223	630
27	..	0.3	28	98	94	465	198
24	96	0.1	117	89	57	*79*	34
96	94	0.7	42	83	68	450	89
130	90	0.4	176	73	41	184	71
..	97	..	23	94	76	380	46
570	27	0.1	89	69	30	92	9
750	43	15.6	680	55	45	*29*	20
1,100	..	24.6	674	83	57	55	63
410	**60**	**1.1**	**139**	**82**	**54**	**476**	**139**
682	**40**	**2.1**	**224**	**75**	**36**	**76**	**24**
142	**87**	**0.7**	**114**	**83**	**61**	**486**	**90**
153	86	0.3	114	81	57	438	74
92	95	2.6	112	93	81	*564*	159
450	**60**	**1.2**	**162**	**79**	**50**	**312**	**62**
117	86	0.2	138	78	49	435	74
58	94	0.7	83	91	82	*536*	138
194	87	0.7	64	89	75	499	115
183	72	0.1	54	88	75	219	42
564	36	0.8	177	84	35	76	26
921	42	7.2	363	58	36	*65*	19
14	**..**	**0.4**	**17**	**99**	**..**	**1,306**	**545**
10	..	0.3	13	..	..	1,430	443

TABLE A.2 Measures of Governance Performance

	Overall governance performance[a]									
	Control of corruption					Policy outcome	Aggregate public institutions	Business transaction costs	
	KK Control of Corruption[b]		TI Corruption Perceptions Index[c]		ICS—unofficial payments for firms to get things done (% of sales)[d]	CPIA cluster A–C average[e]	CPIA cluster D[e]	Doing Business 2005—dealing with licenses (time required, days)[f]	ICS—senior management time spent dealing with requirements of regulations (%)[d]
	Est. 2004	S.E.	Est. 2005	S.E.					
Afghanistan	–1.33	0.21	2.5	1.09	..	..	..	..	..
Albania	–0.72	0.16	2.4	0.35	1.6	1	3	344	10.4
Algeria	–0.49	0.14	2.8	0.72	6.0	..	..	244	..
Angola	–1.12	0.15	2.0	0.22	..	5	5	326	..
Argentina	–0.44	0.13	2.8	0.60	..	..	..	288	..
Armenia	–0.53	0.14	2.9	0.47	0.7	1	1	176	3.0
Australia	2.02	0.13	8.8	0.82	..	..	..	121	..
Austria	2.10	0.15	8.7	0.48	..	..	..	195	..
Azerbaijan	–1.04	0.12	2.2	0.46	2.7	1	3	212	5.2
Bangladesh	–1.09	0.14	1.7	0.52	2.1	1	3	185	3.7
Belarus	–0.91	0.15	2.6	1.39	0.5	..	..	354	3.6
Belgium	1.53	0.15	7.4	0.93	..	..	..	184	..
Benin	–0.34	0.19	2.9	1.33	..	1	2	335	..
Bhutan	0.69	0.22	6.9	1.75	..	1	1	..	..
Bolivia	–0.78	0.15	2.5	0.53	..	1	3	187	..
Bosnia and Herzegovina	–0.54	0.14	2.9	0.38	0.3	1	2	476	4.3
Botswana	0.86	0.15	5.9	1.40	..	..	..	160	..
Brazil	–0.15	0.13	3.7	0.46	..	..	..	460	7.2
Bulgaria	–0.04	0.12	4.0	1.09	1.0	..	..	212	2.8
Burkina Faso	–0.35	0.20	3.4	0.74	..	1	2	241	..
Burundi	–1.16	0.24	2.3	0.32	..	3	4	302	..
Cambodia	–0.97	0.19	2.3	0.48	4.6	3	5	247	8.6
Cameroon	–0.78	0.17	2.2	0.37	..	2	3	444	..
Canada	1.99	0.14	8.4	0.95	..	..	..	87	..
Central African Republic	–1.36	0.24	2.4	0.42	..	4	5	237	..
Chad	–1.14	0.19	1.7	0.61	..	2	4	199	..
Chile	1.44	0.13	7.3	0.91	..	..	..	191	..
China	–0.51	0.12	3.2	0.60	1.6	..	..	363	18.5
Hong Kong, China	1.57	0.13	8.3	1.14	..	..	..	230	..
Colombia	–0.16	0.13	4.0	0.83	..	..	..	150	..
Comoros	–1.14	0.26	2.6	..	..	5	5	..	..
Congo, Dem. Rep. of	–1.31	0.15	2.1	0.37	..	3	5	306	..
Congo, Rep. of	–1.02	0.18	2.3	0.44	..	3	4	174	..
Costa Rica	0.78	0.14	4.2	0.85	..	..	..	120	..
Côte d'Ivoire	–1.01	0.17	1.9	0.26	..	4	4	569	..
Croatia	0.08	0.13	3.4	0.40	0.3	..	..	278	2.7
Cuba	–0.62	0.17	3.8	1.58	..	..	..	..	..
Czech Republic	0.30	0.12	4.3	1.39	0.4	..	..	245	2.1
Denmark	2.38	0.14	9.5	0.32	..	..	..	70	..
Djibouti	–0.94	0.26	2.6	..	..	2	4	..	..
Dominican Republic	–0.50	0.15	3.0	0.81	..	..	..	150	..
Ecuador	–0.75	0.15	2.5	0.58	4.9	..	..	149	13.4

Bureaucratic capability[a]		Checks and balances institutions[a]					
Budget and financial management	Public administration	Voice and accountability		Justice and rule of law			Executive constraints
CPIA 13[e]	CPIA 15[e]	KK Voice and Accountability[b]		KK Rule of Law[b]		CPIA 12[e]	Polity IV 2004—executive constraints[g]
		Est. 2004	S.E.	Est. 2004	S.E.		
..	..	–1.35	0.14	–1.81	0.17	..	..
2	3	0.03	0.11	–0.80	0.15	3	6
..	..	–0.91	0.15	–0.73	0.13	..	5
4	4	–1.02	0.15	–1.33	0.14	4	3
..	..	0.49	0.14	–0.71	0.12	..	6
2	1	–0.66	0.11	–0.58	0.14	2	5
..	..	1.40	0.16	1.82	0.13	..	7
..	..	1.25	0.16	1.76	0.13	..	7
1	3	–0.97	0.10	–0.85	0.12	3	2
2	3	–0.69	0.15	–0.86	0.13	3	5
..	..	–1.54	0.11	–1.31	0.14	..	2
..	..	1.35	0.16	1.47	0.13	..	7
1	3	0.30	0.16	–0.47	0.17	3	5
2	1	–1.18	0.19	0.27	0.23	1	2
2	2	–0.01	0.15	–0.55	0.13	4	7
2	3	–0.14	0.11	–0.76	0.14	3	..
..	..	0.73	0.14	0.73	0.13	..	7
..	..	0.34	0.14	–0.21	0.12	..	6
..	..	0.58	0.11	0.05	0.12	..	7
1	2	–0.38	0.15	–0.62	0.17	3	3
4	4	–1.13	0.18	–1.50	0.21	4	..
4	4	–0.89	0.16	–0.98	0.17	4	4
2	3	–1.18	0.15	–1.00	0.14	4	2
..	..	1.38	0.16	1.75	0.13	..	7
4	4	–1.20	0.18	–1.44	0.18	4	2
2	4	–1.09	0.16	–1.15	0.16	4	2
..	..	1.09	0.14	1.16	0.12	..	7
..	..	–1.54	0.15	–0.47	0.12	..	3
..	..	0.21	0.17	1.42	0.13	..	..
..	..	–0.47	0.14	–0.70	0.12	..	6
4	4	–0.14	0.19	–1.04	0.25	4	7
3	4	–1.64	0.15	–1.74	0.14	4	..
3	4	–0.79	0.17	–1.18	0.17	4	2
..	..	1.11	0.14	0.57	0.13	..	7
4	4	–1.46	0.15	–1.42	0.14	4	..
..	..	0.46	0.11	0.07	0.12	..	6
..	..	–1.88	0.15	–1.12	0.14	..	1
..	..	1.03	0.11	0.69	0.11	..	7
..	..	1.59	0.16	1.91	0.13	..	7
3	4	–0.85	0.19	–0.61	0.21	4	3
..	..	0.27	0.15	–0.54	0.13	..	6
..	..	–0.19	0.14	–0.71	0.13	..	6

(continued)

TABLE A.2 Measures of Governance Performance *(continued)*

	Overall governance performance[a]								
	Control of corruption					Policy outcome	Aggregate public institutions	Business transaction costs	
	KK Control of Corruption[b]		TI Corruption Perceptions Index[c]		ICS—unofficial payments for firms to get things done (% of sales)[d]	CPIA cluster A–C average[e]	CPIA cluster D[e]	Doing Business 2005—dealing with licenses (time required, days)[f]	ICS—senior management time spent dealing with requirements of regulations (%)[d]
	Est. 2004	S.E.	Est. 2005	S.E.					
Egypt, Arab Rep. of	–0.21	0.14	3.4	0.80	8.0	..	..	263	..
El Salvador	–0.39	0.17	4.2	1.06	1.1	..	..	144	7.2
Eritrea	–0.64	0.22	2.6	1.34	0.2	4	3	187	3.8
Estonia	0.82	0.12	6.4	1.08	0.2	..	..	116	2.3
Ethiopia	–0.85	0.16	2.2	0.41	..	2	2	133	2.1
Finland	2.53	0.15	9.6	0.20	..	..	..	56	..
France	1.44	0.14	7.5	0.85	..	..	..	185	..
Gabon	–0.58	0.15	2.9	0.97	..	..	..	..	..
Gambia, The	–0.61	0.18	2.7	0.70	..	3	4	..	..
Georgia	–0.91	0.13	2.3	0.47	0.2	1	2	282	3.0
Germany	1.90	0.14	8.2	0.57	..	..	..	165	..
Ghana	–0.17	0.13	3.5	0.78	..	1	1	127	..
Greece	0.56	0.15	4.3	0.78	..	..	..	176	..
Guatemala	–0.74	0.15	2.5	0.57	2.6	..	..	294	12.4
Guinea	–0.81	0.23	1.7	0.04	..	3	4	278	..
Guinea-Bissau	–0.71	0.22	4.4	3.30	..	3	5	..	..
Guyana	–0.35	0.24	2.5	0.36	..	1	3	..	..
Haiti	–1.49	0.22	1.8	0.48	..	3	5	186	..
Honduras	–0.71	0.15	2.6	0.62	1.7	1	2	199	10.2
Hungary	0.65	0.12	5.0	0.53	0.5	..	..	213	4.0
India	–0.31	0.12	2.9	0.47	..	1	1	270	12.9
Indonesia	–0.90	0.12	2.2	0.43	1.1	1	2	224	4.0
Iran, Islamic Rep. of	–0.59	0.15	2.9	0.76	..	..	..	668	..
Iraq	–1.45	0.18	2.2	0.98	..	..	..	210	..
Ireland	1.61	0.14	7.4	0.97	..	..	..	181	..
Israel	0.79	0.14	6.3	1.24	..	..	..	219	..
Italy	0.66	0.15	5.0	0.75	..	..	..	284	..
Jamaica	–0.52	0.16	3.6	0.26	..	..	..	242	..
Japan	1.19	0.13	7.3	1.18	..	..	..	87	..
Jordan	0.35	0.14	5.7	1.04	..	..	..	122	..
Kazakhstan	–1.10	0.13	2.6	0.85	0.7	..	..	258	3.1
Kenya	–0.89	0.13	2.1	0.46	2.9	1	2	170	11.7
Korea, Dem. Rep. of	–1.46	0.23	1.5	0.31	..	..	..	60	..
Korea, Rep. of	0.17	0.12	5.0	0.68	..	..	..	..	..
Kuwait	0.71	0.17	4.7	0.99	..	..	..	149	..
Kyrgyz Republic	–0.92	0.13	2.3	0.35	2.4	1	4	152	6.1
Lao PDR	–1.15	0.19	3.3	1.97	..	3	5	208	..
Latvia	0.23	0.13	4.2	0.65	0.5	..	..	160	2.9
Lebanon	–0.51	0.16	3.1	0.44	..	..	..	275	..
Lesotho	–0.05	0.18	3.4	0.76	..	1	2	254	..
Liberia	–0.86	0.30	2.2	0.15	..	..	..	..	..
Libya	–0.91	0.18	2.5	0.72	..	..	..	..	..

Bureaucratic capability[a]		Checks and balances institutions[a]					
Budget and financial management	Public administration	Voice and accountability		Justice and rule of law			Executive constraints
CPIA 13[e]	CPIA 15[e]	KK Voice and Accountability[b]		KK Rule of Law[b]		CPIA 12[e]	Polity IV 2004—executive constraints[g]
		Est. 2004	S.E.	Est. 2004	S.E.		
..	..	–1.04	0.15	–0.02	0.12	..	3
..	..	0.26	0.14	–0.34	0.15	..	5
4	3	–1.96	0.17	–0.78	0.20	3	2
..	..	1.13	0.11	0.91	0.12	..	7
2	2	–1.11	0.14	–1.00	0.14	3	3
..	..	1.50	0.16	1.97	0.13	..	7
..	..	1.24	0.16	1.33	0.13	..	6
..	..	–0.71	0.15	–0.51	0.13	..	2
4	3	–0.59	0.16	–0.32	0.17	3	2
2	3	–0.34	0.11	–0.87	0.13	2	5
..	..	1.38	0.16	1.66	0.13	..	7
2	2	0.39	0.14	–0.16	0.12	2	6
..	..	0.91	0.16	0.75	0.13	..	7
..	..	–0.39	0.13	–0.96	0.13	..	6
3	3	–1.12	0.17	–1.09	0.18	4	3
4	4	–0.62	0.17	–1.26	0.19	4	2
2	3	0.62	0.19	–0.48	0.20	3	5
4	4	–1.50	0.15	–1.66	0.18	4	..
2	2	–0.02	0.15	–0.61	0.14	2	5
..	..	1.16	0.11	0.85	0.11	..	7
1	2	0.27	0.15	–0.09	0.12	2	7
1	2	–0.44	0.13	–0.91	0.12	4	6
..	..	–1.36	0.15	–0.83	0.13	..	2
..	..	–1.71	0.15	–1.97	0.15	..	..
..	..	1.30	0.16	1.62	0.13	..	7
..	..	0.46	0.16	0.77	0.13	..	7
..	..	1.06	0.16	0.74	0.13	..	7
..	..	0.54	0.15	–0.32	0.14	..	7
..	..	0.98	0.16	1.39	0.13	..	7
..	..	–0.68	0.14	0.30	0.13	..	3
..	..	–1.21	0.10	–0.98	0.12	..	2
2	3	–0.34	0.13	–0.98	0.12	3	6
..	..	–2.05	0.15	–1.15	0.16	..	1
..	..	0.73	0.15	0.67	0.12	..	6
..	..	–0.48	0.16	0.65	0.14	..	3
3	4	–1.06	0.11	–1.04	0.13	4	4
4	4	–1.55	0.18	–1.27	0.17	3	3
..	..	0.96	0.11	0.48	0.12	..	7
..	..	–0.81	0.15	–0.32	0.14	..	..
3	3	0.28	0.18	–0.03	0.16	2	7
..	..	–1.24	0.16	–1.76	0.24	..	..
..	..	–1.79	0.15	–0.65	0.14	..	1

(continued)

TABLE A.2 Measures of Governance Performance *(continued)*

	Overall governance performance[a]									
	Control of corruption					Policy outcome	Aggregate public institutions	Business transaction costs	
	KK Control of Corruption[b]		TI Corruption Perceptions Index[c]		ICS—unofficial payments for firms to get things done (% of sales)[d]	CPIA cluster A–C average[e]	CPIA cluster D[e]	Doing Business 2005—dealing with licenses (time required, days)[f]	ICS—senior management time spent dealing with requirements of regulations (%)[d]
	Est. 2004	S.E.	Est. 2005	S.E.					
Lithuania	0.36	0.12	4.8	0.57	0.8	..	..	151	5.1
Macedonia, FYR	–0.52	0.14	2.7	0.68	0.4	..	..	214	8.2
Madagascar	–0.15	0.21	2.8	1.25	0.9	1	2	356	20.8
Malawi	–0.83	0.14	2.8	0.89	..	2	2	205	..
Malaysia	0.29	0.12	5.1	1.19	..	..	..	226	..
Mali	–0.52	0.17	2.9	1.21	2.9	1	1	260	7.5
Mauritania	0.02	0.24	4.9	0.97	..	2	3	152	..
Mauritius	0.33	0.15	4.2	1.22	..	..	..	132	..
Mexico	–0.27	0.13	3.5	0.45	..	..	..	222	..
Moldova	–0.86	0.13	2.9	1.06	0.8	2	3	122	3.6
Mongolia	–0.51	0.20	3.0	0.84	..	2	3	96	..
Morocco	–0.02	0.14	3.2	0.67	..	..	..	217	..
Mozambique	–0.79	0.14	2.8	0.61	..	2	3	212	..
Myanmar	–1.49	0.19	1.8	0.25	..	..	..	..	..
Namibia	0.18	0.15	4.3	0.96	..	..	..	169	..
Nepal	–0.61	0.16	2.5	0.74	..	1	3	147	..
Netherlands	2.08	0.15	8.6	0.52	..	..	..	184	..
New Zealand	2.38	0.15	9.6	0.15	..	..	..	65	..
Nicaragua	–0.34	0.16	2.6	0.36	1.8	1	2	192	13.0
Niger	–0.87	0.23	2.4	0.29	..	2	3	165	..
Nigeria	–1.11	0.13	1.9	0.29	..	4	4	465	..
Norway	2.11	0.15	8.9	0.56	..	..	..	97	..
Oman	0.78	0.17	6.3	1.48	1.0	..	..	271	..
Pakistan	–0.87	0.14	2.1	0.74	1.6	1	2	218	8.7
Panama	–0.06	0.14	3.5	0.77	..	..	..	128	..
Papua New Guinea	–0.90	0.15	2.3	0.46	..	3	3	218	..
Paraguay	–0.99	0.15	2.1	0.35	..	..	..	273	..
Peru	–0.35	0.14	3.5	0.61	..	..	..	201	..
Philippines	–0.55	0.12	2.5	0.60	1.2	..	..	197	6.9
Poland	0.16	0.12	3.4	0.95	0.4	..	..	322	3.0
Portugal	1.23	0.15	6.5	1.17	..	..	..	327	..
Puerto Rico	0.88	0.27	6.3	0.87	..	..	..	137	..
Romania	–0.25	0.12	3.0	0.86	0.6	..	..	291	1.1
Russian Federation	–0.72	0.12	2.4	0.34	1.0	..	..	528	6.3
Rwanda	–0.36	0.24	3.1	1.72	..	2	2	252	..
São Tomé and Principe	–0.66	0.26	2.6	..	..	4	3	..	..
Saudi Arabia	0.15	0.17	3.4	0.99	..	..	..	131	..
Senegal	–0.40	0.15	3.2	0.61	0.2	1	1	185	..
Serbia and Montenegro	–0.48	0.14	2.8	0.67	0.6	1	2	212	8.0
Sierra Leone	–0.88	0.22	2.4	0.49	..	2	4	236	..
Singapore	2.44	0.13	9.4	0.22	..	..	..	129	..
Slovak Republic	0.39	0.12	4.3	0.95	0.4	..	..	272	3.0

Bureaucratic capability[a]		Checks and balances institutions[a]					
Budget and financial management	Public administration	Voice and accountability		Justice and rule of law			Executive constraints
CPIA 13[e]	CPIA 15[e]	KK Voice and Accountability[b]		KK Rule of Law[b]		CPIA 12[e]	Polity IV 2004—executive constraints[g]
		Est. 2004	S.E.	Est. 2004	S.E.		
..	..	0.97	0.11	0.60	0.12	..	7
..	..	–0.02	0.11	–0.44	0.13	..	7
3	2	0.07	0.17	–0.30	0.17	2	5
3	2	–0.50	0.14	–0.29	0.13	2	6
..	..	–0.36	0.13	0.52	0.12	..	4
1	3	0.35	0.15	–0.34	0.15	2	5
3	3	–1.16	0.19	–0.62	0.20	3	3
..	..	0.94	0.16	0.84	0.14	..	7
..	..	0.36	0.14	–0.26	0.12	..	6
3	4	–0.47	0.11	–0.65	0.12	2	7
2	3	0.45	0.16	0.18	0.17	3	7
..	..	–0.55	0.14	–0.05	0.13	..	3
3	3	–0.13	0.15	–0.60	0.13	3	4
..	..	–2.19	0.15	–1.62	0.15	..	2
..	..	0.47	0.14	0.22	0.13	..	5
2	3	–1.00	0.14	–0.82	0.14	3	1
..	..	1.49	0.16	1.78	0.13	..	7
..	..	1.47	0.16	1.93	0.13	..	7
2	2	0.06	0.13	–0.65	0.14	3	7
2	3	–0.12	0.17	–0.92	0.18	3	5
3	4	–0.65	0.13	–1.44	0.12	4	5
..	..	1.53	0.16	1.95	0.13	..	7
..	..	–0.90	0.16	0.98	0.14	..	2
2	2	–1.31	0.14	–0.78	0.12	3	2
..	..	0.54	0.16	–0.04	0.13	..	6
2	3	–0.03	0.15	–0.82	0.14	4	7
..	..	–0.23	0.15	–1.09	0.14	..	7
..	..	–0.04	0.14	–0.63	0.12	..	7
..	..	0.02	0.15	–0.62	0.12	..	6
..	..	1.13	0.11	0.51	0.11	..	7
..	..	1.31	0.16	1.16	0.13	..	7
..	..	1.02	0.22	0.74	0.23	..	..
..	..	0.36	0.11	–0.18	0.12	..	7
..	..	–0.81	0.11	–0.70	0.11	..	5
2	2	–1.09	0.17	–0.90	0.19	3	3
3	3	0.55	0.20	–0.55	0.25	3	..
..	..	–1.63	0.15	0.20	0.13	..	1
2	2	0.19	0.14	–0.20	0.13	2	6
1	2	0.12	0.11	–0.72	0.14	3	6
2	3	–0.49	0.15	–1.10	0.18	4	5
..	..	–0.13	0.15	1.82	0.12	..	3
..	..	1.10	0.11	0.49	0.12	..	7

(continued)

TABLE A.2 Measures of Governance Performance *(continued)*

	Overall governance performance[a]								
	Control of corruption					Policy outcome	Aggregate public institutions	Business transaction costs	
	KK Control of Corruption[b]		TI Corruption Perceptions Index[c]		ICS—unofficial payments for firms to get things done (% of sales)[d]	CPIA cluster A–C average[e]	CPIA cluster D[e]	Doing Business 2005—dealing with licenses (time required, days)[f]	ICS—senior management time spent dealing with requirements of regulations (%)[d]
	Est. 2004	S.E.	Est. 2005	S.E.					
Slovenia	0.97	0.12	6.1	1.16	0.1	..	..	207	3.7
Solomon Islands	–1.23	0.24	..	..	..	4	4	..	..
Somalia	–1.58	0.30	2.1	0.38	..	..	..	..	..
South Africa	0.48	0.12	4.5	0.64	0.1	..	..	176	9.2
Spain	1.45	0.14	7.0	0.74	..	..	..	277	..
Sri Lanka	–0.16	0.14	3.2	0.75	0.1	1	2	167	3.5
Sudan	–1.30	0.17	2.1	0.24	..	4	5	..	..
Swaziland	–0.95	0.19	2.7	0.67	..	..	..	..	..
Sweden	2.20	0.14	9.2	0.27	..	..	..	116	..
Switzerland	2.17	0.15	9.1	0.30	..	..	..	152	..
Syrian Arab Rep.	–0.74	0.17	3.4	1.07	..	..	..	134	10.3
Tajikistan	–1.11	0.15	2.1	0.37	1.0	2	4	..	3.3
Tanzania	–0.57	0.13	2.9	0.47	1.3	1	1	313	14.4
Thailand	–0.25	0.12	3.8	0.64	..	..	..	147	1.3
Togo	–0.92	0.23	2.7	0.03	..	4	5	273	..
Trinidad and Tobago	0.02	0.16	3.8	0.97	..	..	..	..	..
Tunisia	0.29	0.14	4.9	1.06	..	..	..	154	..
Turkey	–0.23	0.13	3.5	0.96	1.0	..	..	232	10.8
Turkmenistan	–1.34	0.15	1.8	0.24	..	..	..	..	..
Uganda	–0.71	0.13	2.5	0.51	1.3	1	2	155	3.8
Ukraine	–0.89	0.12	2.6	0.32	1.4	..	..	265	8.1
United Arab Emirates	1.23	0.17	6.2	1.37	..	..	..	125	..
United Kingdom	2.06	0.14	8.6	0.51	..	..	..	115	..
United States	1.83	0.13	7.6	1.05	..	..	..	70	..
Uruguay	0.50	0.15	5.9	0.56	..	..	..	146	..
Uzbekistan	–1.21	0.13	2.2	0.20	0.6	2	4	..	2.5
Venezuela, R. B. de	–0.94	0.13	2.3	0.20	..	..	..	276	..
Vietnam	–0.74	0.12	2.6	0.59	0.5	1	2	143	5.8
West Bank and Gaza	–0.60	0.34	2.6	0.49	..	..	..	144	..
Yemen, Republic of	–0.84	0.16	2.7	0.54	..	2	4	131	..
Zambia	–0.74	0.13	2.6	0.49	1.1	2	3	165	13.0
Zimbabwe	–1.01	0.14	2.6	0.77	..	5	5	481	..

Sources: Various indicators as labeled for individual columns.
a. Though shown only for KK and TI, all indicators, as discussed in the text, have margins of error.
b. KK Governance scores lie between –2.5 and 2.5, with higher scores corresponding to better outcomes (http://www.worldbank.org/wbi/governance/pdf/GovMatters_IV_main.pdf).
c. Transparency International's Corruption Perpections Index (CPI) score relates to perceptions of the degree of corruption as seen by businesspeople and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt) (http://ww1.transparency.org/cpi/2005/cpi2005.sources.en.html).
d. http://rru.worldbank.org/EnterpriseSurveys/.
e. The CPIA 2004 data are grouped from strong (1) to weak (5), with the number of groups depending on the distribution of the data.
f. http://www.doingbusiness.org/ExploreTopics/DealingWithLicenses/.
g. Polity IV 2004 Executive Constraints scores lie between 1 and 7, with higher scores corresponding to better outcomes(http://www.cidcm.umd.edu/inscr/polity/index.htm).
.. Not available.

Bureaucratic capability[a]		Checks and balances institutions[a]					
Budget and financial management	Public administration	Voice and accountability		Justice and rule of law			Executive constraints
CPIA 13[e]	CPIA 15[e]	KK Voice and Accountability[b]		KK Rule of Law[b]		CPIA 12[e]	Polity IV 2004—executive constraints[g]
		Est. 2004	S.E.	Est. 2004	S.E.		
..	..	1.12	0.11	0.93	0.12	..	7
4	4	0.10	0.20	–1.15	0.24	3	7
..	..	–1.58	0.16	–2.31	0.24	..	..
..	..	0.86	0.14	0.32	0.11	..	7
..	..	1.17	0.16	1.12	0.13	..	7
1	2	–0.16	0.14	–0.03	0.13	2	5
4	4	–1.81	0.15	–1.59	0.15	4	1
..	..	–1.45	0.18	–0.95	0.16	..	2
..	..	1.52	0.16	1.85	0.13	..	7
..	..	1.49	0.16	1.98	0.13	..	7
..	..	–1.72	0.15	–0.40	0.14	..	3
4	4	–1.12	0.11	–1.18	0.14	4	3
1	2	–0.35	0.14	–0.49	0.12	2	3
..	..	0.24	0.15	–0.05	0.12	..	7
4	4	–1.22	0.17	–1.01	0.18	4	2
..	..	0.49	0.16	0.17	0.14	..	7
..	..	–1.11	0.15	0.24	0.13	..	2
..	..	–0.15	0.15	0.04	0.12	..	7
..	..	–1.90	0.12	–1.43	0.14	..	1
1	3	–0.64	0.13	–0.79	0.12	2	3
..	..	–0.62	0.10	–0.83	0.12	..	5
..	..	–1.01	0.16	0.85	0.14	..	3
..	..	1.37	0.16	1.71	0.13	..	7
..	..	1.21	0.16	1.58	0.13	..	7
..	..	1.00	0.15	0.42	0.13	..	7
3	4	–1.75	0.10	–1.30	0.12	4	1
..	..	–0.46	0.13	–1.10	0.12	..	5
2	2	–1.54	0.14	–0.59	0.12	3	3
..	..	–1.25	0.21	–0.95	0.28	..	..
3	3	–0.99	0.14	–1.11	0.14	4	2
3	3	–0.36	0.14	–0.54	0.12	3	5
4	4	–1.48	0.13	–1.53	0.13	4	2

TABLE A.3 Overall Trade Restrictiveness Index (OTRI), 2005

	OTRI	OTRI for agricultural sector	Market access OTRI	Market access OTRI for agricultural sector
Albania	7.1	7.7	15.5	32.0
Algeria	40.8	48.7	12.1	0.0
Argentina	17.7	20.3	23.7	44.5
Australia	10.1	35.5	21.4	53.5
Bahrain	8.6	19.3	11.1	52.8
Bangladesh	18.8	23.0	17.7	24.7
Belarus	14.1	31.6	12.5	30.8
Bhutan	25.4	50.5	21.7	61.1
Bolivia	14.7	35.8	22.2	40.8
Brazil	23.5	38.1	16.1	44.7
Brunei Darussalam	8.4	12.7	17.1	0.0
Burkina Faso	13.0	38.5	27.0	35.1
Cameroon	17.6	24.0	9.9	17.5
Canada	6.0	18.5	12.0	45.4
Central African Republic	19.6	28.2	8.5	18.6
Chad	16.2	23.3	12.0	16.8
Chile	9.5	25.3	14.9	30.7
China	12.5	24.7	6.1	27.3
Hong Kong, China	1.1	14.6	10.9	27.2
Colombia	21.7	44.4	18.6	34.8
Costa Rica	4.6	11.9	15.5	39.3
Côte d’Ivoire	36.6	51.4	23.0	40.8
Czech Republic	4.4	6.8	8.2	46.4
Ecuador	14.7	35.6	18.3	27.7
Egypt, Arab Rep. of	39.9	79.1	16.1	63.5
El Salvador	12.8	15.7	22.6	47.2
Equatorial Guinea	15.9	24.3	5.9	41.3
Estonia	5.0	7.8	16.5	39.3
Ethiopia	16.6	14.4	23.9	42.6
Gabon	16.9	21.2	1.9	11.8
Ghana	15.4	31.2	9.4	21.1
Guatemala	12.7	38.9	23.9	33.1
Honduras	5.6	13.1	21.0	30.2
Hungary	8.1	22.6	11.7	45.1
Iceland	5.0	18.1	8.9	15.2
India	24.2	65.4	18.1	48.6
Indonesia	9.4	31.5	14.0	35.8
Japan	11.1	35.9	7.9	0.0
Jordan	20.3	21.3	9.9	25.9
Kazakhstan	14.3	33.3	16.3	58.8
Kenya	9.7	31.4	19.0	35.0
Kyrgyz Republic	4.0	8.6	16.9	37.5
Lao PDR	23.4	27.3	17.9	31.6
Latvia	9.7	32.4	17.0	34.8
Lebanon	14.3	46.2	15.7	36.6
Lithuania	5.9	18.1	21.9	40.3
Madagascar	13.3	18.1	20.6	37.7
Malawi	13.5	25.6	25.9	40.9
Malaysia	23.0	39.2	8.8	27.4
Mali	13.1	27.9	6.7	23.5
Mauritius	20.7	37.7	16.2	51.7
Mexico	26.9	57.9	7.7	25.2

	OTRI	OTRI for agricultural sector	Market access OTRI	Market access OTRI for agricultural sector
Moldova	6.8	18.5	22.7	39.8
Morocco	44.3	73.1	11.8	28.2
Mozambique	13.3	29.2	22.2	37.4
Nepal	11.7	10.7	16.5	28.7
New Zealand	14.1	32.8	21.4	37.1
Nicaragua	10.3	37.8	28.3	43.5
Nigeria	47.0	75.7	5.9	15.1
Norway	7.9	69.9	9.1	30.7
Oman	12.9	55.0	7.8	16.9
Pakistan	15.1	34.8	21.9	64.2
Papua New Guinea	7.2	22.6	21.2	35.9
Paraguay	17.1	37.0	24.8	36.5
Peru	15.6	39.8	17.9	45.7
Philippines	20.5	50.2	9.7	61.3
Poland	8.3	25.7	14.3	33.1
Romania	17.8	38.4	12.0	29.2
Russian Federation	20.3	26.8	9.9	49.3
Rwanda	11.3	13.8	17.1	53.0
Saudi Arabia	10.6	15.2	3.1	44.4
Senegal	35.8	63.2	14.2	17.2
Slovenia	11.5	44.8	13.3	64.7
South Africa	7.1	12.3	12.2	46.7
Sri Lanka	7.5	17.8	18.2	23.4
Sudan	47.3	48.9	22.3	51.0
Switzerland	8.2	50.4	9.4	29.6
Tanzania	38.4	82.9	23.8	42.0
Thailand	9.2	37.7	13.6	69.3
Trinidad and Tobago	6.3	24.3	27.5	65.7
Tunisia	33.5	83.7	14.1	38.9
Turkey	11.3	37.7	11.9	37.3
Uganda	6.5	10.9	14.0	28.4
Ukraine	21.6	47.0	14.4	48.4
United States	7.8	21.6	10.8	47.6
Uruguay	20.2	36.1	26.9	40.5
Venezuela, R. B. de	21.5	47.0	6.4	37.3
Vietnam	35.2	52.5	22.3	53.1
Zambia	11.1	29.4	21.9	45.5
Zimbabwe	18.4	46.9	19.1	34.8
Low-income	20.2	29.7	18.2	37.1
Middle-income	16.6	33.3	12.1	39.4
High-income	11.2	28.6	12.6	34.9
European Union	11.9	37.5	11.9	37.3

Source: World Bank staff estimates.
Note: OTRI and Market Access OTRI are estimated using the most recent available tariff schedules (2004–5) and ad-valorem equivalents of nontariff barriers (about 2001). The OTRI measures the restrictiveness of a country's own trade policies. It is defined as the uniform tariff that would keep aggregate imports at their observed level. The Market Access OTRI measures the restrictiveness of other countries' trade policies on the export bundle of each country. For a detailed methodology on the estimation of the OTRI and the Market Access OTRI see Kee, Nicita, and Olarreaga (2006). For Algeria, Brunei Darussalam, and Japan the Market Access OTRI for agriculture was not estimated owing to their limited agricultural exports.

TABLE A.4 Net Official Development Assistance (ODA) by DAC and non-DAC Countries

	2001		2004						
				of which:					
	ODA (current US$ millions)	ODA (percent of GNI)	ODA (current US$ millions)	Technical Co-operation Grants	Debt Forgiveness Grants	Food and Emergency Aid Grants	Other Bilateral ODA[a]	Contributions to Multilaterals	ODA (percent of GNI)
DAC Donors									
Austria	633	0.34	678	133	117	60	13	325	0.23
Belgium	867	0.37	1463	414	211	103	133	561	0.50
Denmark	1634	1.03	2037	112		95	893	835	0.85
Finland	389	0.32	655	127		53	153	293	0.35
France	4198	0.31	8473	2340	1960	614	287	2906	0.41
Germany	4990	0.27	7534	2486	814	230	45	3712	0.28
Greece	202	0.17	465	196		13	77	161	0.23
Ireland	287	0.33	607	12		39	330	198	0.39
Italy	1627	0.15	2462	140	115	108	278	1757	0.15
Luxembourg	139	0.76	236	4		26	137	64	0.83
Netherlands	3172	0.82	4204	663	231	341	1189	1534	0.73
Portugal	268	0.25	1031	114	5	18	724	158	0.63
Spain	1737	0.30	2437	340	198	109	670	1037	0.24
Sweden	1666	0.77	2722	112	26	384	1437	646	0.78
United Kingdom	4579	0.32	7883	751	759	523	2798	2544	0.36
EU Members, Total	**26388**	**0.33**	**42886**	**7947**	**4438**	**2717**	**9164**	**16731**	**0.35**
Australia	873	0.25	1460	692	10	207	216	270	0.25
Canada	1533	0.22	2599	414	74	323	971	608	0.27
Japan	9847	0.23	8906	1914	2413	705	214	2988	0.19
New Zealand	112	0.25	212	46		28	72	53	0.23
Norway	1346	0.80	2199	287		261	871	662	0.87
Switzerland	908	0.34	1545	117	8	345	688	359	0.41
United States	11429	0.11	19705	7347	141	3916	3843	3455	0.17
DAC Members, Total	**52435**	**0.22**	**79512**	**18764**	**7084**	**8501**	**16039**	**25126**	**0.26**
Non-DAC Donors									
Czech Republic	26	0.05	108	11	11	9	29	45	0.11
Hungary			55				21	35	0.06
Iceland	10	0.13	21				16	5	0.18
Kuwait	73	0.19	209				185	24	
Korea	265	0.06	423	54		13	247	93	0.06
Latvia			8				0	8	0.06
Lithuania	2		9				1	8	0.04
Other Bilateral Donors	76		492				468	24	0.11
Poland	36	0.02	118				25	93	0.05
Saudi Arabia	490	0.27	1734				1691	43	0.69
Slovak Republic	8	0.04	28				11	17	0.07
Turkey	64	0.04	339	185		45	27	47	0.11
United Arab Emirates	127		181				181		
Non-DAC Countries,Total	**1178**	**0.13**	**3726**	**249**	**11**	**67**	**2900**	**441**	**0.17**

Source: OECD DAC Database.

a. Other Bilateral ODA is Bilateral ODA - special purpose grants (technical cooperation, debt forgiveness, food and emergency aid) and administrative costs (not shown).

Note: DAC countries also gave $5600 million in 2001 and $8500 in 2004 to countries in transition and more advanced developing countries. These flows are not classified by OECD-DAC as Official Development Assistance and they are not included in the totals.

TABLE A.5 Net Official Development Assistance (ODA) Receipts

	2001	2004						
			of which:					
	ODA (current US$ millions)	ODA (current US$ millions)	Technical Co-operation	Debt Forgiveness Grants	Food and Emergency Aid Grants	Other ODA	ODA per capita (in current US$)	ODA (percent of GNI)
Afghanistan	408	2190	459		430	1301		38.0
Albania	270	362	155		9	198	116.33	4.7
Algeria	224	313	189		27	97	9.67	0.4
Angola	289	1144	71		216	857	73.85	6.6
Argentina	151	91	66		1	24	2.37	0.1
Armenia	198	254	99		28	127	83.94	8.1
Azerbaijan	232	176	70		31	75	21.19	2.3
Bangladesh	1030	1404	215	271	142	776	10.09	2.4
Benin	274	378	90	84	8	196	46.23	9.3
Bhutan	61	78	23		0	55	87.05	11.9
Bolivia	735	767	242	508	36	–20	85.14	9.1
Bosnia and Herzegovina	639	671	146	4	47	474	171.63	7.7
Botswana	29	39	34	1	2	2	22.05	0.5
Brazil	349	285	328		2	–46	1.55	0.0
Burkina Faso	392	610	105	38	14	453	47.58	12.7
Burundi	137	351	28	7	138	177	48.20	54.6
Cambodia	420	478	157		16	306	34.64	10.3
Cameroon	487	762	152	423	10	177	47.51	5.4
Central African Republic	67	105	34	8	6	57	26.34	8.0
Chad	187	319	44	15	87	173	33.76	11.8
Chile	58	49	67		2	–20	3.04	0.1
China	1476	1661	883		13	765	1.28	0.1
Colombia	381	509	478	8	37	–14	11.33	0.5
Comoros	27	25	13	2	0	10	42.52	6.9
Congo, Dem. Rep. of	263	1815	144	778	259	634	32.50	28.6
Congo, Rep. of	75	116	32	5	14	65	29.87	3.5
Costa Rica	2	13	29		2	–17	3.06	0.1
Côte d'Ivoire	170	154	78	119	63	–107	8.62	1.0
Croatia	113	121	77		7	36	27.24	0.4
Cuba	54	90	36		7	48	8.00	
Djibouti	58	64	30	0	6	29	82.15	8.9
Dominican Republic	108	87	63		9	15	9.92	0.5
Ecuador	173	160	150	13	16	–18	12.27	0.6
Egypt, Arab Rep. of	1257	1458	201	150	5	1102	20.07	1.9
El Salvador	238	211	138		36	38	31.20	1.4
Eritrea	281	260	32		122	106	61.44	28.6
Ethiopia	1116	1823	179	151	456	1037	26.06	23.0
Gabon	9	38	44	7	3	–17	27.89	0.6
Gambia, The	54	63	10	2	3	47	42.63	16.0
Georgia	300	315	102		81	132	69.72	5.9
Ghana	644	1358	142	1292	25	–101	62.68	15.4
Guatemala	227	218	125		32	61	17.73	0.8
Guinea	282	279	72	70	47	90	30.32	7.3
Guinea-Bissau	59	76	16	6	2	53	49.36	28.2
Guyana	97	145	25	27	6	86	193.27	19.3
Haiti	171	243	89	1	90	63	28.90	6.7
Honduras	679	642	115	76	37	413	91.09	9.1

(continued)

TABLE A.5 Net Official Development Assistance (ODA) Receipts *(continued)*

	2001	2004						
			of which:					
	ODA (current US$ millions)	ODA (current US$ millions)	Technical Co-operation	Debt Forgiveness Grants	Food and Emergency Aid Grants	Other ODA	ODA per capita (in current US$)	ODA (percent of GNI)
India	1724	691	400		64	228	0.64	0.1
Indonesia	1471	84	430		55	–400	0.39	0.0
Iran, Islamic Rep. of	117	189	80		104	6	2.82	0.1
Iraq	122	4658	396	98	961	3202		
Jamaica	54	75	36	12	10	18	28.36	0.9
Jordan	433	581	109	12	113	348	106.80	5.0
Kazakhstan	148	265	120		2	142	17.67	0.7
Kenya	463	635	212	24	90	310	18.97	4.0
Korea, Dem. Rep. of	120	196	55		119	22	8.76	
Kyrgyz Republic	189	258	110		25	123	50.66	12.2
Lao PDR	245	270	77	0	10	182	46.62	11.5
Lebanon	243	265	110		77	78	74.85	1.3
Lesotho	56	102	14	0	3	85	56.73	6.3
Liberia	39	210	27		148	35	64.80	53.3
Macedonia, FYR	248	248	105	0	4	139	122.14	4.7
Madagascar	374	1236	97	534	28	576	68.24	28.8
Malawi	404	476	111	49	23	292	37.75	25.9
Malaysia	27	290	64		2	223	11.65	0.3
Mali	354	567	121	117	3	326	43.20	12.2
Mauritania	268	180	40	85	21	33	60.40	11.1
Mauritius	22	38	22		0	16	30.79	0.6
Mexico	75	121	139		3	–21	1.17	0.0
Moldova	122	118	58		13	47	27.98	4.0
Mongolia	212	262	74		29	159	104.19	16.4
Morocco	519	706	381	7	15	303	23.67	1.4
Mozambique	933	1228	209	17	72	930	63.22	21.4
Myanmar	127	121	40	4	30	48	2.42	
Namibia	110	179	72		5	102	89.09	3.1
Nepal	394	427	118	1	24	286	16.06	6.4
Nicaragua	931	1232	106	861	35	230	229.16	28.2
Niger	257	536	60	203	21	251	39.71	17.5
Nigeria	185	573	255		22	296	4.45	0.9
Oman	2	55	8		0	47	21.71	0.2
Pakistan	1948	1421	135	42	56	1188	9.34	1.5
Panama	28	38	46	0	1	–9	11.97	0.3
Papua New Guinea	203	266	187		1	79	46.08	7.6
Paraguay	61	0	49		0	–49	0.00	0.0
Peru	453	487	292	25	40	131	17.67	0.7
Philippines	574	463	236		38	188	5.67	0.5
Rwanda	299	468	97	20	50	301	52.69	25.8
São Tomé and Principe	38	33	15	1	1	16	215.74	55.8
Senegal	413	1052	218	498	17	319	92.39	13.9
Serbia and Montenegro	1308	1170	296	6	108	760	143.61	4.9
Sierra Leone	345	360	37	17	79	226	67.46	34.4
Solomon Islands	59	122	97		5	20	261.92	47.7
Somalia	150	191	10	1	130	50	23.98	
South Africa	428	617	241		3	373	13.56	0.3

TABLE A.5 Net Official Development Assistance (ODA) Receipts *(continued)*

	2001	2004						
			of which:					
	ODA (current US$ millions)	ODA (current US$ millions)	Technical Co-operation	Debt Forgiveness Grants	Food and Emergency Aid Grants	Other ODA	ODA per capita (in current US$)	ODA (percent of GNI)
Sri Lanka	313	519	77		49	394	26.73	2.7
Sudan	185	882	78	4	683	118	24.83	4.5
Swaziland	29	117	11		67	39	104.48	4.9
Syrian Arab Republic	155	110	70		37	3	5.92	0.5
Tajikistan	170	241	51		45	145	37.48	12.1
Tanzania	1271	1746	175	276	65	1230	46.40	16.2
Thailand	281	–2	161		18	–180	–0.03	0.0
Timor-Leste	195	153	82		4	67	165.47	31.7
Togo	44	61	35	8	1	17	10.19	3.0
Tunisia	378	328	142		1	185	33.02	1.2
Turkey	169	257	147		25	85	3.58	0.1
Turkmenistan	72	37	28		1	8	7.76	0.6
Uganda	793	1159	213	86	155	705	41.66	17.3
Uruguay	15	22	17		0	5	6.40	0.2
Uzbekistan	153	246	103		5	138	9.39	2.1
Venezuela, R. B. de	45	49	36		5	8	1.88	0.0
Vietnam	1450	1830	313	1	24	1492	22.27	4.1
West Bank and Gaza	870	1136	154		505	477	323.82	
Yemen, Rep. of	461	252	52	16	51	134	12.40	2.1
Zambia	349	1081	144	387	27	523	94.17	21.2
Zimbabwe	164	186	56		67	63	14.38	4.0
East Asia & Pacific	7327	6790	3062	5	460	3263		
Europe & Central Asia	4696	5456	1860	10	724	2862		
Latin America & Caribbean	5960	6793	3440	1545	591	1216		
Middle East & North Africa	4948	10563	2016	283	1968	6296		
South Asia	5943	7128	1610	314	925	4280		
Sub-Saharan Africa	14159	25941	4634	5342	3899	12065		
Unspecified by region	*8809*	*15298*	*3862*		*2062*	*9375*		
Low-income countries	22690	33954	6395	6525	4178	16856		
Middle-income countries	17857	23823	8370	961	2969	11522		
Unallocated	*11297*	*20192*	*5720*	*12*	*3481*	*10980*		
Developing Countries, Total	**52153**	**78308**	**20581**	**7499**	**10636**	**39592**		

Source: OECD DAC Database.
Regional totals do not include ODA that is unspecified by region. The total for developing countries includes ODA that is unallocated by country or income group. Regional and income group totals differ from those shown in the World Development Indicators because these aggregates do not include countries that the DAC classifies as “Part II: Countries and Territories in Transition.”

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