- *Promoting the rule of law.* Legal and administrative systems require a properly resourced and adequately staffed legislature, judiciary, and executive branch of government.
- *Promoting political and social rights.* The Goals reflect human rights norms, which can be supported at the country level through a human rights assessment that checks MDG-based strategies for their national commitments to human rights principles.
- *Promoting accountable and efficient public administration.* Better governance depends on the systems of political and bureaucratic accountability, transparency, and participation, especially by poor people.
- *Promoting sound economic policies.* Government actions—such as macroeconomic management, proper investments in infrastructure, and corruption-free delivery of public services—are key to private sector development, as outlined in the report of the Commission on Private Sector and Development and *World Development Report 2005*.
- *Supporting civil society.* Governments have a special responsibility to provide civil society with the political freedom to express its views, a policy voice to participate in the planning and review and of MDG-based strategies, and institutional space to support the implementation of public investment strategies.

3 Recommendations for the international system to support country-level processes

Fixing the aid system

The development aid system has the potential to help countries achieve the Goals, but it needs a much more focused approach to do so. Here are the 10 main problems with the system today (table 4).

Lack of MDG-based aid processes

The system lacks a coherent MDG-based approach to reducing poverty. For example, the Bretton Woods institutions should do much more to help countries design and implement MDG-based poverty reduction strategies. International Monetary Fund (IMF) program design has paid almost no systematic attention to the Goals when considering a country's budget or macroeconomic framework. In the vast number of country programs supported by the IMF since the adoption of the Goals, there has been almost no discussion about whether the plans are consistent with achieving them.

In its country-level advisory work, the UN Millennium Project has found that multilateral and bilateral institutions have not encouraged the countries to take the Millennium Development Goals seriously as operational objectives. Many low-income countries have already designed plans to scale up their sector strategies, but due to budget constraints could not implement them. In

Table 4

Recommendations for reforming development partnership

Shortcoming	Recommendation
Purpose and process	
1. Aid processes are not MDG-based	Development partners should affirm the MDGs as the operational objective of the development system, with country-level MDG-based poverty reduction strategies as the anchoring process for development support, based on needs.
2. Support strategies are inadequately differentiated by country need	Development partners should differentiate support by country needs, whether for budget support, emergency assistance, or simply technical support.
3. Development is a long-term process, but short-run processes dominate	Development partners should support countries to put forward 3- to 5-year MDG-based poverty reduction strategies that are anchored in a 10-year needs-based framework through 2015. In conflict countries, a shorter time frame may be more appropriate.
Technical support	
4. Technical support is not adequate for scaling up to the MDGs	Technical support should focus on supporting governments to develop and implement nationally owned MDG-based poverty reduction strategies.
5. Multilateral agencies are inadequately coordinated	The UN Resident Coordinator system should be dramatically strengthened to coordinate agencies' technical contributions to the MDG-based poverty reduction strategies.
Development finance	
6. Development finance is not needs-based or set to meet the MDGs	ODA should be set by the MDG financing gaps outlined in the MDG-based poverty reduction strategies. For many well governed low-income countries, this will imply a substantial increase in ODA and funding of recurrent costs.
7. Debt relief is not aligned with the MDGs	"Debt sustainability," particularly Paris Club debt, should be evaluated as the debt level consistent with countries achieving the MDGs. This will imply a dramatic acceleration of debt relief for many heavily indebted countries.
8. Development finance is of very poor quality	For well governed countries, a much larger share of ODA should take the form of budget support. For all developing countries, donor agencies should also follow through on their commitments outlined in the Rome harmonization agenda.
System issues	
9. Major MDG priorities are systematically overlooked	Within the needs-based approach to development assistance, development partners should increase attention to issues like long-term scientific capacities, environmental conservation, regional integration, sexual and reproductive health, and cross-border infrastructure.
10. Donor countries show a persistent lack of coherence in their policies	Donors should evaluate their development, finance, foreign, and trade policies for coherence with respect to supporting the MDGs. Donors should subject themselves to at least the same standards of transparency as they expect of developing countries, with independent technical reviews.

Most low-income countries require technical support from the international system to put forward scaled-up investment plans

other cases, countries are advised not even to consider such scaled-up plans. Fortunately, the Bretton Woods institutions are now showing more interest in basing the country programs that they support on the Millennium Development Goals, and it is important for them to follow through on that expressed interest.

Development partners do not approach country-level needs systematically

Since development partnership is not driven by a coherent set of operational targets, there are no clear criteria for evaluating the types or amounts of development assistance required by individual countries. There is no established framework, for instance, for differentiating support to countries with corrupt governments as opposed to those that are weak but willing.

Most development processes are stuck in the short run

Development is a long-term process, but the key processes for international partnership are short term in their orientation. Most important for low-income countries, PRSPs are typically three-year strategies, tending to take many constraints as given rather than identifying ways to overcome them over time. In many cases the actual planning cycles are even shorter, dictated by the annual meetings of Consultative Groups.

Technical support is inadequate for MDG scale-up

Most low-income countries require technical support from the international system to put forward scaled-up investment plans to achieve the Goals. Yet the international agencies that are the global repositories of sector-specific knowledge—such as FAO or IFAD for agriculture, UNICEF for child health, UNIDO for industrial development, or WHO for health systems and disease control—are usually asked instead to focus on small pilot projects. In general, the technical UN agencies on the ground are not prepared to help countries scale up national programs.

Multilateral agencies are not coordinating their support

Multilateral organizations frequently compete for donor government funding to implement small projects, instead of supporting country-scale plans and budgets. The various UN agencies, programs, and funds have begun to coordinate their efforts through the structure of the UN Development Group at headquarters and the UN Country Teams at country level, but this is still often more a forum for dialogue rather than real coordination. Moreover, the UN agencies are frequently not well linked to the local activities of the Bretton Woods institutions and regional development banks, which tend to have the most access in advising a government since they provide the greatest resources.

Development assistance is not set to meet the Goals

As the IMF Managing Director has recently written, it is the developed world that has the greatest responsibility for ensuring the achievement of the Goals (box 7). Public investments cannot be scaled up without greatly increased official development assistance. This is particularly important in low-income countries where assistance levels are generally set more by donor preferences than by developing country needs. Although long-term sustainability and capacity building in the poorest countries require support for recurrent costs—such as salaries and maintenance—donors have historically refused to support them, thus preventing any hope of *true* sustainability. Similarly, even though worker shortages are often the major bottleneck for countries trying to deliver basic social services, donors do not systematically invest in preservice training of health, education, and other key workers. Aid flows are also not growing as fast as promised. Since even the much-heralded Monterrey commitments have not fully materialized, developing countries wonder whether developed countries are genuinely committed to the Goals.

Debt relief is not aligned with the Goals

The targets for debt relief are based on arbitrary indicators (debt-to-export ratios) rather than MDG-based needs. Many heavily indebted poor countries (HIPCs) retain excessive debt owed to official creditors (such as the Bretton Woods institutions) even after relief. Many middle-income countries are in a similar situation and receive little or no debt relief.

Development finance is of very poor quality

The quality of bilateral aid is often very low. It is too often:

- Highly unpredictable.

Box 7

What advanced economies can do to achieve the Goals

Source: de Rato y Figaredo 2004.

In a recent opinion piece published throughout Africa, IMF Managing Director Rodrigo de Rato y Figadero described how developed countries bear the greatest responsibility for supporting developing countries to achieve the Millennium Development Goals.

"If we are to achieve the Millennium Goals, the heaviest responsibility inevitably must fall on the advanced economies, which have a dual task. First, they must meet their commitment to provide higher levels of aid, whenever possible on grant terms. Current aid flows are insufficient, unpredictable, and often uncoordinated among donors. Better coordination and multiyear commitments are keys to making development assistance more effective.

"Second, the developed countries must improve access to their markets for developing country exports and dismantle trade-distorting subsidies. The framework agreements reached at the World Trade Organization last July are welcome, and place the Doha Round back on track. This needs to be followed by determined progress to maintain the momentum and achieve the goals of the Doha development agenda. In doing so, both rich and poor countries carry responsibilities in promoting the fuller integration of developing countries into the global trading system."

Each of these problems is solvable through committed and specific actions on the side of development partners

- Targeted at technical assistance and emergency aid rather than investments, long-term capacity, and institutional support.
- Tied to contractors from donor countries.
- Driven by separate donor objectives rather than coordinated to support a national plan.
- Overly directed to poorly governed countries for geopolitical reasons.
- Almost never evaluated or documented systematically for results.

Low-quality official development assistance has fostered the serious misperception that aid does not work and has thereby threatened long-term public support for development assistance. Aid works, and promotes economic growth as well as advances in specific sectors, when it is directed to real investments on the ground in countries with reasonable governance (box 8). The problem is not aid—it is how and when aid has been delivered, to which countries, and in what amounts. For low-income countries, only 24 percent of bilateral aid can actually finance investments on the ground (table 5). The proportion for multilateral aid is better, at 54 percent, though still well short of ideal.

Major MDG priorities are systematically overlooked

Development programs routinely overlook needed investments in regional integration, environmental management, technological upgrading, efforts to promote gender equality, and even such core investments as roads, electricity, adequate shelter, disease control, soil nutrients, and sexual and reproductive health.

Policy incoherence is pervasive

Many developed countries have identified incoherence as a core problem in their policies. For instance, a government might provide aid to support agriculture in a food-exporting country while also applying market access barriers to the same agricultural exports. Similarly, a finance ministry might collect debt payments that negate the benefits of aid being disbursed by the development ministry. Incongruous policies highlight the need for a clear set of measurable objectives to align developed country policies.

Key measures to improve aid delivery

Each of these problems is significant. But each is also solvable through committed and specific actions on the side of development partners. Here are 10 key "to do's" for the donors.

Confirm the Goals as concrete operational targets for countries

The multilateral and bilateral development agencies and other relevant international institutions need to make explicit their support for MDG-based poverty reduction strategies.

Box 8

Large-scale aid works—when done properly

Criticisms of aid come in many forms. Some critics charge that aid is inherently flawed because it strengthens governments, often corrupt governments, at the expense of the private sector. This is the famous argument of the late British economist Peter Bauer. Some charge that aid is not needed, since private saving and investment can and should be the backbone of economic growth. Some have taken the middle ground that aid works when it is channeled to well governed countries. This is the conclusion of the highly influential study by Burnside and Dollar (2000).

Our view, explained in the text, is that aid is most useful if channeled to the countries that truly need it (mainly those stuck in a poverty trap) and channeled to the right sectors (mainly infrastructure and human capital). It works best when delivered to well governed countries. And aid used to support public investment complements private saving and investment, rather than competing with private capital.

Many negative conclusions about the link between aid and economic growth have come from cross-country regressions of economic growth on aid volumes (and other variables). The volume of aid is often found to be statistically insignificant as a determinant of economic growth, leading some authors to conclude that “aid is ineffective” in promoting economic growth. An important weakness in such studies is that they tend to examine the links of growth to overall volumes of aid without paying attention to how the aid is actually delivered. Specifically, much aid comes in the form of technical assistance (for consultants from the donor country), administrative costs of running bilateral and multilateral agencies, and emergency food aid. It is not really surprising that such aid is not correlated with economic growth in the recipient country. Food aid, especially, is given in the midst of deep crises. So a regression of economic growth on food aid would tend to prove (erroneously) that aid causes output to decline, instead of the correct conclusion that an output decline (caused by drought, for example) causes emergency aid to rise!

In an important new study, Clemens, Radelet, and Bhavnani (2004) correct for this typical shortcoming by considering only aid volumes that effectively support investments and services on the ground in the recipient country, taking out emergency aid, technical assistance, and other kinds of aid that do not translate into growth-promoting investments and services. They find that aid, when measured properly, contributes significantly to economic growth. This suggests that aid is effective, if it is well targeted and administered as direct support for country-level investments. Of course, a minimum adequacy of governance is required for a country to be able to channel aid into investments.

Aid can and must be disbursed in ways that align the incentives of donors and recipients to support positive development outcomes. As this report argues, elements of a successful disbursement strategy include aid in the form of budget support for national poverty reduction strategies based on the Millennium Development Goals. While there have been real problems with the way that aid has been distributed in the past, governments in rich and poor countries alike are learning from their mistakes to design more effective ways of delivering financial assistance to those who need it most.

In sum, foreign aid can play a hugely positive part in growth and poverty reduction when properly targeted and administered toward vital infrastructure and human capital. This finding is underlined by the recent experience of Mozambique, Tanzania, and Uganda, which all experienced substantial social sector improvements financed largely through development assistance. Mozambique is a particular success story over the past decade, having averaged real per capita economic growth rates of 5 percent while receiving aid ranging from 20 percent to 60 percent of GNP every year since 1993.

Differentiate donor support according to country-level needs

Donor governments need to distinguish among countries so that aid is focused where it will make a difference, and so that donors do not shortchange the countries that need the most help by focusing on those with greater geopolitical attention. Different types of support will be needed for middle-income countries, well governed poverty trap countries, and poorly governed poverty trap countries (box 9). Special attention should also go to conflict countries and countries with special needs, such as landlocked or small island economies.

Support 10-year frameworks to anchor 3-to-5-year strategies

To address long-term development needs systematically, countries should produce an MDG needs assessment through 2015 and a corresponding 10-year policy framework. This framework should then guide the more detailed and shorter term MDG-based poverty reduction strategy.

Table 5

Estimated official development assistance for direct MDG support and MDG capacity building, 2002

Billions of 2002 US$

	Low-income countries			Middle-income countries		
	From bilateral sources	From multilateral sources	Total	From bilateral sources	From multilateral sources	Total
Estimated ODA for direct MDG support						
Grants	16.7	4.2	20.9	12.2	2.8	15.0
Gross loans	3.3	9.8	13.2	4.5	2.8	7.3
Principal repayments	–1.9	–2.8	–4.7	–4.2	–1.1	–5.3
Net ODA	**18.1**	**11.3**	**29.4**	**12.6**	**4.4**	**17.0**
Interest payments	–0.8	–0.9	–1.7	–1.7	–0.5	–2.2
Technical cooperation	–5.4	–0.8	–6.2	–6.2	–0.5	–6.8
Development food aid	–0.8	–0.2	–1.0	–0.3	–0.0	–0.3
Emergency aid	–1.9	–0.9	–2.8	–0.5	–0.3	–0.8
Debt forgiveness grants	–3.2	–0.3	–3.5	–2.0	–0.0	–2.0
Support through nongovernmental organizations[a]	–0.9	0.0	–0.9	–0.8	0.0	–0.8
Estimated maximum support through government budgets	**5.2**	**8.1**	**13.4**	**1.1**	**3.1**	**4.2**
25 percent of non-MDG support through government budgets[b]	–1.3	–2.0	–3.3	–0.3	–0.8	–1.0
40 percent of support through NGOs for MDG investments[c]	0.4	0.0	0.4	0.3	0.0	0.3
Total ODA for direct MDG support	**4.3**	**6.1**	**10.4**	**1.2**	**2.3**	**3.5**
Share of net ODA (percent)	**24**	**54**	**35**	**9**	**52**	**20**
Estimated ODA for MDG capacity building						
Technical cooperation for capacity building in support of MDGs[d]	3.2	0.5	3.7	3.7	0.3	4.1
MDG capacity building through NGOs[e]	0.5	0.0	0.5	0.5	0.0	0.5
Total ODA for MDG capacity building	**3.8**	**0.5**	**4.3**	**4.2**	**0.3**	**4.5**
Share of net ODA (percent)	**21**	**4**	**14**	**33**	**7**	**27**

Note: Numbers in table may not sum to totals because of rounding.

a. Based on DAC estimates.

b. Assumes that 75 percent of “maximum support through government budgets” directly finances MDG investment needs.

c. Assumes that 40 percent of official development assistance provided through NGOs directly supports MDG investments.

d. Assumes that 60 percent of technical cooperation contributes to MDG capacity building (OECD–DAC assumption).

e. Assumes that 60 percent of official development assistance provided through NGOs contributes to MDG capacity building.

Source: Organisation for Economic Co-operation and Development–Development Assistance Committee and authors’ calculations.

Box 9

Differentiating development support by country needs

Middle-income countries

Most middle-income countries can finance the Goals largely through their own resources, nonconcessional flows (market-based loans from the World Bank and regional development banks), and private capital flows. Donor efforts should be directed at helping these countries to eliminate the remaining "pockets of poverty." Some middle-income countries also need further debt cancellation, especially on debts owed to creditor governments (Paris Club debt). The successful conclusion of the Doha Development Agenda of multilateral trade negotiations, with increased access to rich world markets, will bring benefits to middle-income countries. Many middle-income countries, such as Brazil, China, and Malaysia, already are donor countries. We recommend that they and other successful poverty-reducing countries, such as India, step up their donor efforts, including financial contributions and technical training for low-income country partners.

Well governed poverty trap countries

For well governed countries caught in a poverty trap, even a significant increase in domestic resource mobilization will not be enough to achieve the Millennium Development Goals. Substantial co-financing through official development assistance is required, especially for Least Developed Countries, to scale up the needed investments in infrastructure, human capital, and public administration. The key for well governed poverty trap countries is to base aid on a true MDG-needs assessment, and then to ensure that aid is not the binding constraint to scaling up. These countries should be fast-tracked in 2005.

Poorly governed poverty trap countries: lack of volition

For countries like Belarus, Myanmar, the Democratic People's Republic of Korea, and Zimbabwe, where the problem is the will of the political leadership, there is little case for large-scale aid. Aid should be directed to humanitarian efforts or through NGOs that can ensure delivery of services on the ground. Any aid directed through the government should be conditional on significant improvements in human rights and economic policies.

Poorly governed poverty trap countries: weak public administration

When the volition exists in government leadership but public administration is poor because of a lack of sound public management, one key step is to invest in public-sector capacity. This will also raise the "absorptive capacity" for aid in later years. Donors should view the poor public administration as an investment opportunity, not a barrier to achieving the Goals. Early efforts should be directed at building the government's analytical and administrative capacity at national, regional, and local levels—and building the technical expertise at the grassroots level in health, education, agriculture, and infrastructure. We expect that these countries will significantly outperform current expectations. In many countries international expectations are low but the country's potential is very high if timely donor support and debt cancellation are brought to bear, and phased in over time.

Conflict countries

Countries in conflict, just out of conflict, or falling into conflict present urgent special cases for the international community. Rapid responses are essential. A delay in well targeted aid can mean the difference between a consolidated peace process and a resurgence of conflict. Aid should be targeted at ending the violence and restoring basic services, directed in a manner to ease tensions among competing groups. Carrots (offers of an expanding aid effort) generally are much more powerful than sticks (international sanctions) in such crisis countries as Haiti and Sudan. Yet sticks are more typically applied, with few lasting results.

(continued on next page)

Box 9
Differentiating development support by country needs
(continued)

Geopolitical priorities

Countries with geopolitical priority (such as Afghanistan and Iraq) have urgent needs, to be sure, but may take up a disproportionate share of donor funding and public attention. If the major donors are to devote substantial efforts to these countries, they must ensure that the efforts do not divert attention and financial resources from other worthy countries. Debt cancellation for Iraq, for example, without similar debt cancellation for Nigeria would be unjustified on grounds of equity, merit, and relative need.

Countries with special needs

Developing states with special needs include:

- Small island states (isolation, small markets, natural hazards).
- Landlocked states (isolation and high transport costs).
- Mountain states (isolation and high transport costs).
- States vulnerable to natural disasters.

The geographically isolated states require special investments in transport and communications—and geopolitical help to support regional cooperation and regional integration. Hazards are rising in frequency, intensity, and impact, and traditional ad hoc responses are too slow and underfinanced. Donors should establish special emergency funds for natural hazards (droughts, floods, pests, disease) and steady funds for long-term improvements to cope with disasters.

Coordinate technical support around the Goals

The multilateral and bilateral agencies should organize their technical efforts around supporting countries to develop and implement MDG-based poverty reduction strategies. The UN Development Group (UNDG) should guide resident UN Country Teams in their MDG support, and the UN Development Assistance Framework should identify the specific ways in which the Country Team will support the government to achieve the Goals. We recommend that agency specialists be trained to complement their existing sector-specific knowledge with basic skills to support country-level budgeting processes. We also recommend the establishment of multi-agency, cross-sectoral regional technical centers to support governments and UN Country Teams in developing, financing, and implementing MDG-based PRSs.

Strengthen the UN Development Group and the UN Resident Coordinator

As the senior UN representative on the ground, the UN Resident Coordinator's office needs dramatic strengthening, both to coordinate among UN organizations through the UN Country Team and to manage a core technical staff to support the host government in developing and implementing the MDG-based poverty reduction strategy. The local representatives of the international financial institutions should work closely with the UN Country Team in support of the host-country poverty reduction programs. The UNDG at headquarters level should support the strengthening of the Resident Coordinator position.

"Debt sustainability" should be redefined as "the level of debt consistent with achieving the Millennium Development Goals"

Set ODA levels according to proper needs assessment
ODA levels should be guided by the MDG needs assessment, rather than being picked for political reasons or on the basis of incremental budgeting, as is now the case. By partnering with local research institutes, the UN Millennium Project has undertaken the first ever bottom-up needs assessments of the country-level investments required to achieve the Goals. Although these first estimates need to be refined through the real country-level processes we are recommending in this report, the results show that the total cost of investments in low-income countries is on the order of $70–$80 per capita per year in 2006, increasing to $120–$160 per capita per year in 2015 (see, for example, the results for Ghana in table 6 on page 56). Middle-income countries will generally be able to afford these investments on their own. But the low-income countries, even after they initiate a major increase in their resource mobilization, will require $40–$50 per capita in external finance in 2006, rising to $70–$100 in 2015. To ensure the sustainability of programs, development assistance should also cover recurrent costs (such as public sector salaries, operations and maintenance) in addition to capital costs.

Deepen and extend debt relief and provide grants rather than loans
"Debt sustainability" should be redefined as "the level of debt consistent with achieving the Millennium Development Goals," arriving in 2015 without a new debt overhang. For many heavily indebted poor countries, this will require 100 percent debt cancellation. For many heavily indebted middle-income countries, this will require more debt relief than has been on offer. For some poor countries left off the heavily indebted poor countries (HIPC) list, such as Nigeria, meeting the Goals will require significant debt cancellation. A corollary for low-income countries is that current and future ODA should be grants rather than loans.

Simplify and harmonize bilateral aid practices to support country programs
To empower national ownership of MDG-based strategies and to limit the transaction costs of providing financial support, bilateral donors should use simplifying coordination mechanisms—such as sector-wide approaches, direct budget support, and multilateral financing such as that through the European Development Fund and the International Development Association. They should also follow through urgently on the actions they set for themselves in the Rome harmonization agenda.

Focus on overlooked priorities and neglected public goods
Development partners should support developing countries in promoting overlooked priorities such as maternal health, gender equality, and reproductive health, and addressing neglected public goods, including long-term scientific

An MDG-based international trade policy should focus on improved market access for the poor countries and improved supply-side competitiveness for low-income country exports

capacities, environmental management, regional integration, and cross-border infrastructure.

Measure policy coherence against the Millennium Development Goals
Donors should evaluate their development, foreign, and financial policies with specific reference to the Goals. Donors should subject themselves to at least the same standards of transparency and coherence as they expect of developing country governments. Some countries have made progress by initiating their self-evaluating Goal 8 reports, but independent technical groups should publish independent evaluations of donor policy impacts and donor coherence, with data made publicly available to permit re-analysis.

A breakthrough in global trade

Trade is among the most politically charged of international issues for development. Though hugely important, it is far from a magic bullet for achieving development. The slogan "trade, not aid" is misguided, particularly in the poorest countries. Trade reforms are complementary to other parts of development policy, such as infrastructure investments and social programs to develop a healthy and well educated workforce. As outlined in Monterrey, an MDG-based international trade policy should focus on two overarching issues:

- Improved market access and terms of trade for the poor countries.
- Improved supply-side competitiveness for low-income country exports, through increased investments in infrastructure (roads, electricity, ports) and trade facilitation.

To establish an overarching framework for progress, we recommend that global political leaders first agree to a conveniently distant long-term target (for example, 2025) for the total removal of barriers to merchandise trade, a substantial and across-the-board liberalization of trade in services, and the universal enforcement of the principles of reciprocity and nondiscrimination. In the nearer term context of the Doha Development Agenda and the Goals, we recommend that the following key outcomes be agreed upon before mid-2005.

Agriculture
Among agricultural trade issues, highest priority should go to improved market access, with very significant reductions in tariff peaks and escalation and the phasing out of specific duties on the exports of low-income countries (such as cotton). A binding commitment to abolish export subsidies and two-tier price schemes should also be made in the near term.

Nonagricultural merchandise
Developing countries' exports to developed countries face tariffs that are, on average, four times higher than those faced by the exports of other developed

The Millennium Development Goals cannot be achieved solely through country-level investments, debt relief, and trade reform

countries. Developing countries also suffer from their own protection, which not only reduces competitiveness in world markets but also limits opportunities for more trade among themselves. In the Doha Round developed countries should aim to bind all tariffs on nonagricultural merchandise at zero by 2015. A mid-term goal could be for no tariff higher than 5 percent by 2010. Developing countries could then aim for a zero tariff by 2025. If absolutely indispensable, the poorest countries should aim to bind all tariffs at a uniform and maximum rate for a reasonable period.

Services

Getting service liberalization right requires careful attention to the nature, pace, and sequencing of reform. The liberalization of mode 4 of the General Agreement on Trade in Service (GATS)—temporary movement of labor to provide services—should be adopted as a high priority in the Doha Round. We encourage developing countries to trade commitments to open mode 1 (cross-border supply of services) and mode 3 (foreign direct investment in services) in return for developed countries' real offers on mode 4.

Special and differential treatment

Special and differential treatment makes sense for developing economies that generally have a more limited ability to take advantage of new trade opportunities and to bear adjustment costs. It should encourage flexibility, time, and assistance for implementation. The focus should be on longer terms to adjust to liberalization and improve technology. A temporary "Aid for Trade Fund" commensurate with the size of the task would allow commitments to be made to address adjustment costs associated with the implementation of a Doha reform agenda.

Promotion of export competitiveness in developing countries

Countries should continue to pursue open trade. But they should also continue to receive additional aid to overcome their supply-side production barriers, with special emphasis on investments in agricultural productivity, infrastructure (such as roads, ports, telecommunications, and power), and labor-intensive exports. This is particularly important for the Least Developed Countries. Export competitiveness must not be pursued in a way that encourages discriminatory or coercive labor practices or adversely affects the natural environment—say, through unsustainable forestry or fisheries practices.

Regional and global public goods

The Millennium Development Goals cannot be achieved solely through country-level investments, debt relief, and trade reform. National strategies need to link with one another and with international coordination mechanisms to provide regional and global public goods.

Any strategy to meet the Goals requires a special global effort to build scientific and technological capacities in the poorest countries

Regional infrastructure and institutions

A country's immediate neighbors tend to be among its most important trading partners. These ties can be strengthened through regional infrastructure and policy cooperation, both of which are critical for economic growth and poverty reduction when an economy has a small population or if it is landlocked, a small island state, or dependent on neighbors for food, water, or energy. Similarly, transboundary watersheds, desertification, air pollution, and biodiversity can only be managed through regional strategies. And since many local conflicts have repercussions on entire regions or are driven by regional tensions, conflict management requires greater regional cooperation to detect conflicts before they erupt and to develop coordinated responses from neighboring countries to end them.

To address these needs, we recommend that four types of regional public goods be supported internationally and integrated into national MDG-based poverty reduction strategies:

- Infrastructure for transport, energy, or water management.
- Coordination mechanisms to manage transboundary environmental issues.
- Institutions to promote economic cooperation, including coordination and harmonization in trade policies and procedures.
- Political cooperation mechanisms for regional dialogue and consensus-building, as exemplified by the African Peer Review Mechanism.

Strengthening the provision of regional goods requires substantial investment. For low-income countries, this typically implies the need for external funding. Countries also need to strengthen their regional institutions by streamlining responsibilities and conferring some sovereignty into partnerships where necessary.

Mobilizing global science and technology for the Millennium Development Goals

Advances in science and technology allow society to mobilize new sources of energy and materials, fight disease, improve and diversify agriculture, mobilize and disseminate information, transport people and goods with greater speed and safety, limit family size as desired, and much more. But these technologies are not free. They are the fruits of enormous social investments in education, scientific discovery, and targeted technological projects.

Every successful high-income country makes special public investments to promote scientific and technological capacities. Unfortunately, poor countries have largely been spectators, or at best users, of the technological advances produced in the high-income world that are relevant. Poor countries have tended to lack large scientific and technological communities. Their scientists and engineers, chronically underfunded, move abroad for satisfying employment in scientific research and development. Private companies, moreover, focus

Many countries now dismissed as too poor or too far off track could still achieve the Goals

their innovation activities on rich-country problems and projects, since that is where adequate financial returns exist.

Any strategy to meet the Goals requires a special global effort to build scientific and technological capacities in the poorest countries, both to help drive economic development and to help forge solutions to developing countries' own scientific challenges. A focus should be on strengthening institutions of higher education. A special global effort is also required to direct research and development towards specific challenges facing the poor in disease, climate, agriculture, energy, and environmental degradation. Realistic prospects exist to develop new vaccines and medicines for malaria, HIV/AIDS, tuberculosis, and other killer diseases in poor countries. Improved sexual and reproductive health products would include microbicides, new female-controlled methods, and male contraceptives. Improved agricultural varieties and cropping systems can increase food productivity of rainfed agriculture. Accurate environmental monitoring and forecasting can help focus actions with the greatest positive impact. Other examples abound.

To address these most pressing of scientific issues, direct public financing of research needs to increase. A preliminary estimate suggests that by 2015, at least $7 billion a year will be required, of which perhaps $4 billion would be directed at public health. Another $1 billion would go toward agriculture and improved natural resource management by nearly tripling the current budget of the Consultative Group on International Agricultural Research (CGIAR). Roughly another $1 billion would go toward improved energy technologies. And perhaps $1 billion is needed for greater understanding of seasonal, interannual, and long-term climate change.

An international strategy to mitigate climate change

Climate change is a major development issue that needs to be addressed urgently. Unless global warming slows down, the incidence of droughts and floods will likely increase, vector-borne diseases will probably expand their reach, and many ecosystems, such as mangroves and coral reefs, will likely be put under great strain. In short, achievements in the fight against disease, hunger, poverty, and environmental degradation risk being unraveled by climate change.

In addition to improving scientific understanding of climate change and helping countries adapt to the effects of climate change, the world must mitigate climate change by stabilizing greenhouse gas emissions and promoting carbon sequestration. Additional measures must be implemented to stabilize greenhouse gas concentrations in the atmosphere in the near future. As agreed at Johannesburg, primary responsibility for mitigating climate change and other unsustainable patterns of production and consumption, such as the overharvesting of global fisheries, must lie with the countries that cause the problems. Those are the high-income and some of the rapidly growing middle-income countries.

There is still enough time to meet the Millennium Development Goals—though barely

Getting started in 2005—launching a decade of bold ambition

There is still enough time to meet the Millennium Development Goals—though barely. With a systematic approach and decade-long horizon, many countries now dismissed as too poor or too far off track could still achieve the Goals. The UN Millennium Project argues strongly for introducing a longer term horizon into international development policy, one that focuses on overcoming short-term constraints by scaling up approaches to meet basic needs. But the need for longer term horizons should not be confused with, or detract attention from, the need for urgent action. Without a bold breakthrough in the coming year, a large number of countries that could still achieve the Goals will be consigned to failure.

Major challenges of global policy cooperation need to be addressed in 2005. The Doha trade agenda needs a breakthrough for development. Immediate action is needed to start tackling long-term environmental challenges, such as climate change and fisheries depletion.

The world also needs to move urgently with specific actions of scale-up toward the Goals. Only by acting now can sufficient numbers of doctors or engineers be trained, service delivery capacity strengthened, and infrastructure improved to meet the Goals. To start the decade of bold ambition toward 2015, we recommend a series of worldwide initiatives to kickstart progress, translating the Goals quickly from ambition to action. For all of this, we recommend that they be led by the Secretary-General, with UN system contributions coordinated under the strengthened guidance of the UN Development Group.

Identify fast-track countries

Bold MDG-based investment programs cannot be scaled up in developing countries with extremely poor governance. But the international community has recognized many low-income countries as having strong governance and the potential for much more ambitious investment programs. In 2005 we recommend that these well governed low-income countries be granted "fast-track MDG status" by the international community and receive the massive increase in development assistance needed for them to implement MDG-based poverty reduction strategies.

Several preexisting criteria could be used to help identify the fast-track countries (box 10). They include countries that have reached completion point under the HIPC Initiative, those that have qualified for support from the U.S. Millennium Challenge Corporation; those that have acceded to the African Peer Review Mechanism of the New Partnership for Africa's Development; or those with favorable reviews through the World Bank–IMF Joint Staff Assessments of PRSPs. These or other performance-based criteria will yield at least a couple of dozen low-income countries that have reached governance standards sufficient for including them on a fast-track for scaling up MDG-based investments beginning in 2005.

Box 10

Identifying MDG fast-track countries

The UN Millennium Project recommends that in 2005, the international community designate fast-track status to a significant number of low-income countries that are ready for scale-up. At least four criteria could be used to identify these countries, as listed in the table. One of the first international efforts to reward strong governance with increased foreign assistance was the Heavily Indebted Poor Countries (HIPC) Initiative to reduce debt burdens. As part of the HIPC process, country eligibility to receive debt relief hinges not only on having an extremely high debt burden but also on a positive joint evaluation by the World Bank and IMF of the country's governance quality and economic policies. Countries are granted debt relief when they reach their "completion point," and thus are "recognized by the international community for their satisfactory progress in implementing sound economic and structural policies."

A second mechanism that evaluates and validates strong governance as a precondition to aid disbursement is the U.S. Millennium Challenge Corporation (MCC). The MCC disburses funds only to countries surpassing thresholds for various indicators measuring governance, investment effort in health and education, and economic policies. Seventeen countries have already been deemed eligible for ambitious investment programs. Another 13 "threshold" countries have been assessed as committed to undertaking the reforms necessary to improve policy performance and eventually qualify for MCC assistance.

A third example is the African Peer Review Mechanism (APRM) of the New Partnership for Africa's Development (NEPAD). African Union member states join the APRM to foster the adoption of policies, standards, and practices that lead to political stability, high economic growth, sustainable development, and accelerated subregional and continental economic integration through sharing experiences and reinforcing successful practices, including identifying deficiencies and assessing the needs for capacity building. A key criterion for acceding to the APRM is submitting to periodic peer reviews and facilitating such reviews to ensure that the policies and practices of participating states conform to the agreed political, economic, and corporate values, codes, and standards. As of mid-2004, 23 African countries have signed a Memorandum of Understanding as the first step to accession and submitting their policies and institutions to regular peer review.

The PRSP process offers a fourth mechanism for identifying countries to include on an MDG fast-track. The World Bank and IMF conduct Joint Staff Assessments of the PRSPs, and have given high praise to several low-income countries. For example, "[Mali's] PRSP represents a credible policy framework to reduce poverty, integrating for the first time the country's various poverty-focused programs within the context of a sound macroeconomic framework." Other countries recently praised for having strong PRSPs include Burkina Faso, Ethiopia, Ghana, Mauritania, and Yemen. In addition, the World Bank recently published a paper arguing that developing countries are ready to absorb an additional $30 billion in foreign assistance. The study selected a sample of 18 countries that have recently "improved their policies significantly…used aid productively…and continue to have substantial unmet development needs." The paper concludes that a significant increment of aid could be used effectively in all 18 countries.

(continued on next page)

Box 10
Identifying MDG fast-track countries
(continued)

Potential candidates for MDG fast-tracking

	Governance qualification					
Country	African Peer Review Mechanism[a]	HIPC completion point[b]	Millennium Challenge Corporation Qualifier[c]	Millennium Challenge Corporation Threshold[c]	Poverty Reduction Strategy Paper[b]	World Bank Absorptive Capacity Study[d]
Albania				×	×	×
Algeria	×					
Angola*	×					
Armenia			×		×	
Azerbaijan					×	
Bangladesh*						×
Benin*	×	×	×		×	×
Bhutan*					×	
Bolivia		×	×		×	×
Bosnia and Herzegovina					×	
Burkina Faso*	×	×		×	×	×
Cambodia*					×	
Cameroon*	×				×	
Cape Verde			×			
Chad*					×	
Congo, Rep.*	×					
Djibouti					×	
Egypt	×					
Ethiopia*	×	×			×	×
Gabon	×					
Gambia*					×	
Georgia			×		×	
Ghana*	×	×	×		×	
Guinea*					×	
Guyana		×		×	×	
Honduras			×		×	×
India*						×
Indonesia						×
Kenya*	×			×		
Kyrgyzstan*					×	×
Lao PDR*					×	
Lesotho*	×		×			
Madagascar*		×	×		×	×
Malawi*	×			×	×	
Mali*	×	×	×		×	×
Mauritania *		×			×	×
Mauritius	×					
Moldova*					×	
Mongolia*			×		×	
Morocco			×			
Mozambique*	×	×	×		×	×
Nepal*					×	
Nicaragua *		×	×		×	
Niger*		×			×	
Nigeria*	×					
Pakistan*					×	×
Paraguay				×		
Philippines				×		
Rwanda*	×				×	
São Tomé and Principe*				×		
Senegal*	×	×	×		×	
Serbia and Montenegro					×	
Sierra Leone*	×					
Sri Lanka			×		×	
South Africa	×					
Tajikistan*					×	
Tanzania*	×	×		×	×	×
Timor-Leste*				×		
Uganda*	×	×		×	×	×
Vanuatu			×			
Viet Nam*					×	×
Yemen*				×	×	
Zambia*				×	×	

* Low-income country.

a. Countries are from www.nepad.org, retrieved on December 20, 2004.

b. Countries are from www.worldbank.org, retrieved on December 20, 2004.

c. Countries are from www.mca.org, retrieved on December 20, 2004.

d. World Bank 2003.

Source: See notes a–d.

A major worldwide effort in preservice skill training should be launched in 2005 to overcome the short-term scale-up constraints in human resources

It is with these MDG fast-track countries that the international community, particularly the donor countries, will face the clearest test of their commitment to achieving the Goals. If donors cannot provide the support that these countries require to achieve the Goals, the undertaking to achieve those Goals will be in peril. Moreover, the system for international development assistance needs to consolidate its incentives for countries with weaker governance levels, showing that good performance is indeed rewarded by financial support consistent with the Goals.

Prepare MDG-based poverty reduction strategies

In addition to supporting fast-track countries, we recommend that every interested developing country produce, before the end of 2005, an MDG needs assessment and an MDG-based poverty reduction strategy. We further recommend that the Secretary-General request each resident UN Country Team to assist in this process. Most often the outcome will be a revised version of an existing national strategy, including the Poverty Reduction Strategy Paper (PRSP), where appropriate. It should contain a strategy for enhanced investments at the village, town, and city levels, a financing scenario, and a governance strategy to ensure implementation of the program with minimized corruption, based on fundamental principles of human rights.

The host country should lead and own the effort to design the MDG strategy, drawing in civil society organizations; bilateral donors; the UN specialized agencies, programs, and funds; and the international financial institutions, including the IMF, the World Bank, and the appropriate regional development bank. The contributions of the UN specialized agencies, programs, and funds should be coordinated through the UN Country Team, and the UN Country Team should work closely with the international financial institutions. At the headquarters level, the UN Development Group should coordinate the activities among all UN agencies, programs, and funds—with the UNDP Administrator continuing to play a special coordination role.

Launch a global human resource training effort for the Millennium Development Goals

With the design of national strategies, a major worldwide effort in preservice skill training should be launched simultaneously in 2005 to overcome the immediate scale-up constraints in human resources. International agencies and bilateral donors should work with low-income countries to prepare serious strategies and training materials for use at the village and city level. Global champions are needed for this initiative to set targets and confirm financial commitments to train, as first priorities:

- Village specialists in health, soil nutrients, irrigation, land reclamation, drinking water, sanitation, electricity, vehicle repair, road maintenance, and forest management.

In many low-income countries domestic resources alone will not be enough to meet the goals

- Managers in investment planning, budgeting, computer-based information systems, poverty mapping, and sector needs assessments.
- Teachers, doctors, and other skilled professionals to provide services in education and health.
- Professionals for urban planning and urban infrastructure and services (such as electricity, transport, water, waste management, and industrial zoning) and community development agents to promote local participation, gender equality, and minority rights.

A sharp focus on the short-term training of young workers, where appropriate, will provide the added benefits of bringing them into the formal labor market. It will also help them develop a skill base that will contribute to longer term development processes.

Launch the Quick Wins initiatives

We have noted the chance for early breakthroughs in many areas: school attendance, malaria control, school meals, soil nutrients, to name just a few. Each should be championed, and explicit and bold targets should be set on a three-year horizon. For example, it would certainly be possible to make a free antimalaria bed-net available to every African child in an endemic malaria region by the end of 2007. It would also be possible to have every subsistence farmer given the chance to replenish soil nutrients using fertilizers or agroforestry or related techniques by the end of 2007. We have identified a large number of additional Quick Wins. The relevant UN agencies, together with bilateral agencies and the Bretton Woods institutions, should grasp the opportunity to launch these initiatives in 2005.

Engage the middle-income countries in the challenge of meeting the Goals

Middle-income countries are challenged to complete the process of eradicating extreme poverty within their own countries and to join the ranks of donor countries at the same time. Most large middle-income countries suffer from pockets of poverty that must be targeted for elimination. Grants in support of high debt burdens for heavily indebted middle-income countries can support that process.

But leading middle-income countries—such as Brazil, China, Malaysia, Mexico, and South Africa—also have expertise of direct benefit to the poorer countries. For example, China should help to ensure a steady flow of artemisinin-based antimalaria medicines for Africa in the coming years. It can also assist countries in expanding transport or other infrastructure. Brazil can contribute to development in Lusophone Africa, including the training of Portuguese-speaking professionals. Malaysia can help promote increased competitiveness in labor-intensive manufacturing exports and strengthen science advice mechanisms. South Africa has recently gained unique experience in the rapid scaling-up of infrastructure services for water and electricity in rural areas. It could assist countries in the rest of Africa in designing ambitious investment plans. Many other examples of the tremendous potential for developing country cooperation abound—and should be seized in 2005.

4 The costs and benefits of achieving the Millennium Development Goals

In line with the Monterrey Consensus, developing countries will need to expand their domestic resource mobilization to finance MDG-based poverty reduction strategies by drawing on government revenues, household contributions, and private sector investment to the greatest extent possible. In many low-income countries, and practically all Least Developed Countries, domestic resources alone will not be enough to meet the Goals.

Expanding the financial envelope to achieve the Goals

The central questions are: How much will it cost to achieve the Goals? And what share of total costs can be borne through increased domestic resources, and what must be provided by donors? Since there is no "one-size fits-all" in meeting the Goals, the questions can be properly answered only through detailed needs assessments that must be carried out at the country level. In a first attempt, the UN Millennium Project collaborated with local research organizations to prepare MDG needs assessments for five countries to quantify infrastructure, human resource, and financial needs. For Ghana the required annual public investments for reaching the Goals add up to \$80 per capita in 2006, scaling up to \$124 in 2015 (table 6). Needs assessments for other low-income countries show similar levels of required investment. Note that this figure does not include technical cooperation for capacity building and other purposes, emergency assistance, or other ODA that does not directly finance the capital or operating costs of MDG interventions.

To finance these investments, we assume a major increase in domestic resource mobilization by increasing government expenditures on the Goals by up to four percentage points of GDP through 2015. These added resources will likely need to be raised through a broad-based revenue source such as a value-added tax, as well as by rechanneling current low-priority spending into higher priority MDG investments. This increase in domestic resources, even though very large as a percentage of domestic income, is not enough to achieve the Goals in poor countries. For that, increased official development assistance is needed.

Our results suggest that in a typical low-income country with an average per capita income of \$300 in 2005, external financing of public interventions will be required on the order of 10–20 percent of GNP. For these countries, the costs of achieving the Goals will need to be split roughly evenly between domestic finance and ODA. Meanwhile, middle-income countries will be able to finance essentially all investments in the Goals without resorting to external finance—unless excessive debt burdens constrain them. In some cases, primary surplus requirements for government budgets may need to be adjusted to