Fixing the aid system

Many national strategies will require significant international support. But the international system is ill equipped to provide it because of a shortage of supportive rules, effective institutional arrangements, and above all resolve to translate commitments to action. Here we diagnose why the development system is not yet up to the task of the Millennium Development Goals (MDGs), and how it needs to scale up its financial and technical support. That system has the potential to help countries achieve the Goals, but it needs a significantly more focused approach to do so.

The 10 central problems with the aid system today

1. Lack of MDG-based aid processes

Although the system has identified the Goals as its common aspiration, it lacks a coherent MDG-based approach to reducing poverty. For example, the Bretton Woods institutions can do much more to help countries design and implement MDG-based poverty reduction strategies.[1] 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 strategies 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 documents referred to the Goals either in passing or as a lofty ambition, but no country has been supported to plan seriously around the Goals. Many low-income countries have already designed plans to scale up their sector strategies, but due to budget constraints could not implement them. In other cases, countries are advised not even to consider such scaled-up plans. Some experiences in operationalizing the Millennium Development Goals at the country level are discussed in box 13.1. 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.

2. 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. These are often difficult questions because there is no established framework, for instance, for differentiating support to countries with corrupt governments as opposed to those that are weak but willing (chapter 7). Two governments with the same governance "scores" but entirely different underlying governance dynamics are unlikely to receive appropriately different forms of support. There is also a deep paradox in development assistance when "governance" is frequently discussed as the most important condition for official development assistance, but the countries that tend to receive the greatest support are those emerging from conflict, where systems of governance have typically broken down completely.

3. 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, Poverty Reduction Strategy Papers 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. Without any predictability of resource flows, developing countries are neither encouraged nor able to make real long-term strategies based on long-term assistance. Too often, they are then chastised for not thinking or behaving with a long-term vision.

4. 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.

Box 13.1

Selected pilot country experiences in operationalizing the Millennium Development Goals

As part of its effort to develop practical recommendations that will be most useful to developing countries and to the UN system, in 2004 the UN Millennium Project began supporting UN Country Teams and governments in a selected number of developing countries to identify the best ways to integrate MDG targets and time horizons into ongoing policy processes, in line with the recommendations of chapter 4. The "pilot countries"—Cambodia, Dominican Republic, Ethiopia, Ghana, Kenya, Senegal, Tajikistan, and Yemen—were identified in consultation with the UN Development Group and represent a geographic cross-section of countries currently off track to achieve the MDGs, but where it was generally recognized that the MDGs are indeed achievable if the international community provides adequate support.

Many of these countries are producing MDG-based strategies in 2005 that will provide a basis for fast tracking en route to the MDGs (chapter 16). Here we describe early experiences in Ghana, Kenya, and Tajikistan. Progress in Ethiopia is discussed in box 13.5.

Ghana

The MDG needs assessment had a gradual start in Ghana in 2004 due to concerns that development partners might not support an outcome-based, resource-unconstrained analysis for the Millennium Development Goals in Ghana. Another challenge was creating mechanisms for coordinating among the government's own ministries, departments, and agencies on the analysis. However, responding to government initiative, both the UN Country Team and technical experts from donor agencies played an instrumental role in the needs assessment by providing data in the health, environment, education, and water and sanitation sectors.

Overcoming these early challenges, a team of analysts working closely with the government, the UN Country Team, and other partners has prepared a draft needs assessment, which was reviewed by all partners including civil society in November. The needs assessment will be expanded and strengthened over the coming months in order to inform the next version of the Ghana Poverty Reduction Strategy scheduled to be completed in 2005.

Kenya

Kenya has repeatedly affirmed its desire to integrate the Goals into its national development processes. Recently, the government launched the Economic Recovery Strategy for Wealth and Employment Creation as its main national policy framework. Kenya has decided to undertake an MDG-based needs assessment to form a more detailed picture of what resources would be required to achieve the Goals. This assessment will borrow from and build on all existing and ongoing work, including the costing conducted within the sectorwide approaches framework and the Public Expenditure Review. But it will focus on the specific investments needed to meet the Millennium Development Goals and will establish the cross-sectoral linkages and tradeoffs between competing investment requirements.

Under the leadership of the Ministry of Planning, government-appointed sector working groups, comprising a broad range of stakeholders, have been charged with the primary responsibility for conducting the needs assessment, which is in the early stages. Key development partners have engaged with the working groups. The donor agencies and the UN Country Team have also been integral in providing data and technical support to the various sectors. To ensure the needs assessment is relevant to lives of ordinary Kenyans, civil society involvement will continue to be crucial in both the research and the policy dialogue.

(continued on next page)

Box 13.1
Selected pilot country experiences in operationalizing the Millennium Development Goals
(continued)

Tajikistan

The Tajik government's political commitment to achieving the Goals provides the country with an opportunity for achieving equitable and sustained development. The government will base its next Poverty Reduction Strategy Paper on a comprehensive MDG-based needs assessment that estimates the investments and financing needed to achieve the Goals.

As an early step in the process, the UN Country Team, in conjunction with the UN Millennium Project, developed an initial needs assessment, focusing on three core sectors: education, health, and water and sanitation (see chapter 17). In early 2005 several remaining Goals—poverty reduction, gender equality, food security, and improved international cooperation—will be integrated into the analysis. Meanwhile, the UN Country Team will continue to work with government-appointed working groups (which include the government, donors, UN agencies, and civil society) to refine the first three analyses. Early results will be shared with a broad set of stakeholders, including civil society organizations. The draft needs assessment document is scheduled to be shared for comments by early 2005, and the final report released by the government by mid-2005.

5. 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 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.

6. 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 13.2). 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 long-term preservice training of health, education, and other key workers (as described in chapter 6). 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.

Box 13.2

What advanced economies must do for 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."

7. 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.

8. Development finance is of very poor quality

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

- Highly unpredictable.
- Targeted at technical assistance and emergency aid rather than investments, long-term capacity, and institutional support.
- Tied to contractors from donor countries (table 13.1).
- Driven by separate donor objectives rather than coordinated to support a national plan.
- Overly directed to poorly governed countries for geopolitical reasons.
- Not evaluated or documented systematically for results.

Low-quality assistance has fostered the serious misperception that aid does not work and has thereby threatened long-term public support for development assistance. Aid works, as discussed in chapter 3, 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. 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, after one subtracts the money counted as official development assistance that is actually interest payments on debt, technical cooperation payments to consultants from developed countries, food aid (emergency and nonemergency), and debt forgiveness, only 24 percent of

Table 13.1

Tying of donor assistance, 2002

Percent of net disbursements

Country	Untied	Partially tied	Tied
Ireland*	100	0	0
United Kingdom*	100	0	0
Norway	99	0	1
Switzerland	95	0	5
France	92	5	3
Netherlands	89	3	8
Germany	87	0	13
Japan	83	8	9
Finland	82	0	18
Denmark	82	0	18
Sweden	79	9	12
New Zealand	76	8	16
Austria	69	0	31
Canada	61	0	39
Spain*	60	0	40
Australia	57	0	43
Portugal*	33	0	67
Greece*	14	0	86
Belgium	—	—	—
Italy	—	—	—
Luxembourg	—	—	—
United States	—	—	—

— Not available.
* Gross disbursements.

Source: OECD/DAC 2004a.

bilateral aid can actually finance real MDG-based development investments on the ground (table 13.2). The corresponding ratio is only 9 percent for middle-income countries. (We separate ODA for direct MDG support from ODA for MDG capacity building, that is, training, as discussed more in chapter 17.) The proportion for multilateral aid is significantly better—at 54 percent for low-income countries and 52 percent for middle-income countries, although still well short of ideal. Another 21 percent of bilateral flows supports capacity building in low-income countries through technical cooperation, but this is mainly for training qualified professionals rather than training new professionals.

9. 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.

10. 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

Table 13.2

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 flows 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: OECD/DAC 2004d; authors' calculations.

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 part of development partners (table 13.3). Here are 10 key "to do's" for donors and multilateral agencies.

1. Confirm the Goals as concrete operational targets for countries

The deepest challenge to be overcome in development policy is the lack of a coherent MDG-based approach to reducing poverty. This is particularly crucial

Table 13.3

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.

for low-income countries. It is important to reiterate that many of these countries already have scaled-up sector strategies. But they are typically never implemented or even adopted due to budget constraints. Indeed, without a guarantee that their MDG-based strategies would receive the assistance needed to implement them, government leaders and international officials in each of the countries we are working with expressed private concerns about the risk of even pursuing the Goals. They fear that it would be politically dangerous to build expectations that the international community would provide the resources it has promised to help achieve the Goals. In many cases, even the most committed and sincere representatives of the international agencies—people whose organizations are vocally advocating for the Goals—need to be convinced that it is worthwhile for a country actually to draft an MDG-based strategy.

Even when targets are set today, they typically are very narrow in scope, with incremental progress targeted in one dimension, and with stagnation or retrogression in others that might be equally if not more important. For instance, many low-income countries have been lauded by the international community for balancing budgets and lowering inflation, while health and education outcomes have stagnated or worsened. Thus it is that many African countries too poor to invest in AIDS treatment and prevention have been congratulated for successes in macroeconomic stabilization—while life expectancies have turned steeply downward.

In some instances the international community, not willing to provide additional budget support, still requests reductions in health sector budgets in the midst of health crises, in order to attain macroeconomic stability. Meanwhile, in the majority of countries with Poverty Reduction Strategy Papers (PRSPs), the targets are generally not linked to the actual budget targets in the medium-term expenditure framework (MTEF), so the public strategy has no direct link to the actual public investment program.

Because of the still casual attitude toward operationalizing the Goals, the international financial institutions and bilateral donors have not yet clarified any kind of common methodological approach on how to work back from the Goals to set investment plans. As a result, even when targets are set in alignment with the Goals, there is no common professional reference point for evaluating whether a country's investment plans are being properly set to actually meet the Goals (see box 4.2). Since mid-2003 the UN Millennium Project has collaborated closely with the chief economists of the IMF and World Bank in pursuit of such a common approach, making tremendous progress. But much technical work remains to be done.

The lack of serious MDG-orientation in the development system has suppressed expectations for many years. Development practitioners today see little hope for the developed world to follow through on the Millennium Development Goals promise when it has not followed through on assistance promises before, such as the long-standing target for 0.7 percent of GNP for official development assistance. The same experienced professionals working either for donor agencies or for specialized technical agencies have stressed to us the need not to be "unrealistic" in believing that the resources to achieve the Goals will be forthcoming. For the same reason, they insist that the countries should therefore be "realistic" and not even aim for the Goals. All told, in low-income countries where increased assistance is integral to achieving the Goals, the lack of follow-through on promises made by the developed world has meant that the notion of taking the Goals seriously remains highly unorthodox among development practitioners.

The only solution can be for multilateral and bilateral development agencies and other relevant international institutions to make explicit their support for MDG-based poverty reduction strategies. The international financial institutions have a particularly important agenda-setting role (box 13.3). To achieve the Goals, every institution needs to start with the MDG targets and work back from them, asking what needs to be done by 2015 and what constraints need to be overcome. The goal for every development-focused institution should be to act as if its legitimacy and value depended on its contributing to countries achieving the Goals.

2. 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. To be sure, countries like Afghanistan and Iraq, for example, have urgent needs that require donor support but these should not divert attention

Box 13.3

Governing for the Goals at the international financial institutions

The international financial institutions—including the IMF, the World Bank, and the regional development banks—have played a crucial role in converting the Goals from broad reference points to serious policy objectives. As the world's major development finance institutions, they wield enormous influence in setting the agenda for the Goals and development more broadly.

Given the lack of MDG orientation in a majority of their core country programs, the governing bodies of the international financial institutions have a crucial role in ensuring that the Goals are met. The respective executive boards set policy and approve finances for program assistance, so it is important that they set policy guidelines for a reporting system fully aligned with the Goals. The executive boards should ask, for instance, that every program presented for approval include an evaluation of Millennium Development Goals progress in the relevant country—and for an assessment of how the program under consideration links to achieving the Goals. In instances where a country is not on track to achieve the Goals and the program will not be sufficient to support achieving them, the boards should ask for full information on why the country is off track and what the key constraints are. If there is an MDG financing gap (as defined in chapter 17) that even the new program cannot fill, this shortfall should be made explicit in the program proposal.

and financial resources from other worthy countries. Debt cancellation for Iraq, for example, without similar debt cancellation for Nigeria is unjustified on grounds of equity, merit, and need.

Different types of support will be needed for middle-income countries, well governed poverty trap countries, and poorly governed poverty trap countries (box 13.4). Special attention should also go to conflict countries and developing countries with special needs, such as landlocked states, small island economies, and countries vulnerable to natural disasters.

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

To address long-term development needs systematically, countries should be supported to 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 (chapter 4). This would enable a major scale-up of capacity and force donors to think through their genuine long-term commitments to development in any country. Support will need to be predictable and long term to meet the needs of scaling up for the Goals. For example, training large numbers of nurses or building medical schools will take several years and concrete financial support. By making explicit their commitment to the longer term, the development partners could promote long horizon planning at the country level.

4. Coordinate technical support around the Goals

Developing multisector 10-year scale-up plans will require a great deal of technical work. In many instances developing countries will require technical support to take on this challenge, and in most cases the international specialized agencies can play an important advisory role. We recommend that the international agencies take advantage of their repositories of highly skilled technical experts across a range of development topics to support countries in the development of their MDG-based public investment programs. Pilot projects testing new ideas and programs could still continue, but they should be seen as test cases of ideas that help refine the UN agencies' core mission of providing substantive technical support toward meeting the Goals. The multilateral and bilateral agencies should organize their technical efforts around supporting countries to develop and implement MDG-based poverty reduction strategies.

We recommend that agency specialists in all sectors—such as health, gender, education, and agriculture—be trained to complement their sector-specific knowledge with basic skills to support country-level budgeting processes.[2] With such combined skills, sector specialists can help governments translate their sector plans into a budget framework for the poverty reduction strategy and assist in assessing the capital and recurrent costs of sector programs to reach the Goals. The Bretton Woods institutions and regional development banks are likewise repositories of highly skilled economists and other specialists who also need to

Box 13.4

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 crisis countries, for example, Haiti and Sudan. Yet sticks are more typically applied, with few lasting results.

Box 13.4
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.

provide more technical support. The World Bank, for instance, will need to dedicate its considerable expertise to the MDG-based public investments, with special emphasis on the problems of scaling them up.

This bolder substantive focus will require greater country-level coordination of the UN system. The UN Development Group should guide resident UN Country Teams in their MDG support, and the UN Development Assistance Framework (UNDAF) should identify the specific ways in which the Country Team will support the government to achieve the Goals. The UNDAF should be produced as a follow-up to the poverty reduction strategy to identify ways for members of the UN Country Team to support the national strategy. A sound MDG-based poverty reduction strategy crafted with full UN support would obviate the need for the Country Team's Common Country Assessment, simplifying the workload of the UN Country Team, aligning the UN system's local priorities with those of the government, and directing agencies' thinking to the proper (MDG-based) scale of activity. 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 poverty reduction strategies.

5. 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 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 UN requires a technical support unit in each country, with 8–10 technical staff members, to focus on all of the priority intervention areas within the poverty reduction strategy (chapter 5). UN agencies would be encouraged to second staff members to this office for 12–18 months around the poverty reduction strategy preparation process. The United Nations Development Group at the headquarters level should support the strengthening of the Resident Coordinator position.

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, following the impressive model of such collaboration in Ethiopia as has arisen during the UN Millennium Project's pilot advisory work there (box 13.5). Since implementing the MDG-based poverty reduction strategies will require significant additional grant assistance in many countries, the IMF will need to provide technical support to develop a macroeconomic framework to manage the resources. The needs-based financial assessments for infrastructure and social investments should feed into the medium-term expenditure framework that the IMF helps the government establish. Moving ahead, we recommend that these questions be fed into the IMF's core tasks by asking its staff to focus on a new question: how to identify the MDGs expenditure framework that can be implemented given sufficient resources?

6. 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 in a series of countries, the UN Millennium Project has undertaken the first ever bottom-up needs assessments of the country-level investments required to achieve the Goals (see chapter 17) (UN Millennium Project 2004b). 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 (more detailed discussion is included in chapter 17). 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. As Landau (2004) has argued, 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.

Since only a small share of current official development assistance actually supports MDG-related investments (see table 13.2), we recommend, as a practical measure, that the OECD's Development Assistance Committee create

Box 13.5

MDG-based planning in Ethiopia

Source: UNDP Ethiopia 2004.

Ethiopia has made a credible and ambitious commitment to achieving the Millennium Development Goals by placing them at the center of its national development strategy. In 2003 Prime Minister Meles Zenawi reaffirmed Ethiopia's commitment to meeting the Goals and established an institutional framework for integrating MDG targets into the next revision of the Sustainable Development Poverty Reduction Program, due in 2005.

Under this framework the Ministry of Finance and Economic Development, designated as the lead ministry to ensure this integration, has chaired a task force to supervise MDG-based needs assessments and integrate the results into national development planning. The task force includes the heads of the technical teams in each of the relevant line ministries and representatives from the UN Country Team and the World Bank. Line ministries conducted needs assessments for relevant sectors, with technical assistance and support from the World Bank, the UN Country Team, and the UN Millennium Project. The process has been characterized by local ownership by the government and close cooperation between the UN system and the World Bank. It could be improved even more by giving a greater role for other important stakeholders, such as bilateral donors and civil society organizations, which have expertise on needs and strategies in different parts of the country.

Close working relationships between the Ethiopian government and its international partners have been a key success factor in the MDG-based planning process. The government has engaged in ongoing technical discussions with the UN Country Team, the UN Millennium Project, and the World Bank to refine its needs assessment models and overall policy framework. The UN Country Team decided to use the government's needs assessment as its next Common Country Assessment and as the basis for the UN Development Assistance Framework. Meanwhile, the World Bank demonstrated strong interest and involvement in ensuring that the Sustainable Development Poverty Reduction Program is aligned with the Goals. Close coordination between the government, the UN, the World Bank, and other stakeholders has created a common vision around the Goals.

To build on this foundation for cooperation, the Ethiopian government seeks to integrate the MDG-based needs assessments into an ambitious 10-year strategic vision and the 5-year program to achieve the Goals. Success will depend on achieving a broad-based consensus among stakeholders on the results of the needs assessment. But already the MDG-based planning process has challenged policymakers in Ethiopia to move away from the traditional approach of planning based on hard budget constraints and to ask a fundamentally different question: "What does Ethiopia need to achieve the Millennium Development Goals?" With broad support from the international community, this could be a first major step toward Ethiopia actually achieving the Goals.

a new indicator for tracking these real investments. This would be a subcategory of aid flows, reported annually by developed and developing countries, to evaluate the level of assistance that should be counted as directed toward the specific practical investments needed to achieve the Goals in each country.

7. 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 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.

8. 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—including sectorwide approaches, direct budget support, and multilateral financing, such as that through the International Development Association (IDA). They should also follow through urgently on the actions they set for themselves in the Rome harmonization agenda. Multilateral official development assistance is typically of much higher quality than bilateral assistance (see table 13.2), but the bilateral agencies have the opportunity to increase the quality of their aid dramatically this year, notably at the March 2005 High-Level Development Assistance Committee meeting in Paris.

Although the coordination of aid efforts represents a complicated agenda that the UN Millennium Project has not focused on extensively, we recommend that any program for harmonization and simplification consider the comparative advantages of different donor sources.

Multilateral financial institutions. The multilateral financial institutions, such as the IDA of the World Bank and the European Development Fund, are the largest providers of predictable, large-scale, multiyear funding needed to support the Goals in low-income countries. The IDA in particular needs to play a core role in the scale-up of public investments in the MDG-based poverty reduction strategies. And for the poorest countries, the IDA needs to shift to an all-grants facility rather than its current structure of 20 percent grants and the rest concessional lending.

Regional development banks. The regional development banks, with their particular expertise in regional topics, should focus on issues unique to their region, such as addressing ethnic inequalities in Latin America or managing the environment in Asia. They should also take the lead in supporting cross-border initiatives, such as regional transport corridors and energy programs, and in implementing regional policy initiatives, such as the harmonization of customs procedures.

Global multilateral funds. Specialized multilateral funds—such as the Vaccine Fund operated in conjunction with the Global Alliance on Vaccines and

Immunizations, the Global Environmental Facility, and the Global Fund to Fight AIDS, Tuberculosis, and Malaria—are effective for pooling donor resources when strong targeted programs are needed in the recipient countries. These multilateral funds can have a high public profile and can generate policy attention in the recipient countries. Care should be taken, however, to ensure that the vertical programs supported by multilateral funds are themselves properly integrated into the broader MDG-based poverty reduction strategy. For example, the control of AIDS, TB, and malaria should be part of the overall development of functioning health systems, rather than a stand-alone set of programs.

UN specialized agencies, funds, and programs. Several UN agencies, funds, and programs have mandates to carry out large-scale operational and advisory work within recipient countries. Such activities are not only meritorious, but vital to humanitarian relief and long-term development. UN bodies need increased budgetary support, and a seat at the table of country-level donor groups, as well as on the UN Country Team. The key requirement, however, is to harmonize the work of the UN organizations with the MDG-based poverty reduction strategies, so that the UN technical strengths are geared to support scaling up at the country level.

Bilateral development agencies. Bilateral agencies provide roughly two-thirds of all ODA. Most of this is grant based, although significantly less currently goes to direct MDG-related investments than does multilateral ODA (see table 13.2). Further, individual bilateral agencies work at a smaller scale and tend to impose higher transaction costs than multilateral funders (because the recipient country must deal with up to two dozen bilateral donor agencies). Nonetheless, bilateral agencies are frequently important for broadening industrialized countries' public support for development. Operationally, they can make major contributions to the MDGs by providing budget support to developing countries. They can also importantly provide:

- Technical assistance and technology transfer, drawing on the scientific and technical expertise within their own countries.
- Support for NGOs from the agency's country and in the host country.
- Support for student exchanges, scholarships, and fellowships and other people-to-people exchanges in sports, culture, and the like to increase international public understanding.
- Support for innovative projects, to test new concepts of delivering aid or to introduce new technologies on a trial basis.

In recent years, bilateral agencies have increasingly harmonized their work through sectorwide approaches, in which donors agree to give joint support to the scaling up of a particular sector. These represent a major improvement on past approaches that would see a dozen or more disparate bilateral projects operating in parallel.

Middle-income countries as donors and advisors. Many middle-income countries have much to offer low-income countries, including institutional knowledge of how to manage scale-ups, well established centers for learning and intellectual exchange, networks of experts that can be leveraged to support the development of MDG-based poverty reduction strategies, and in some instances financial resources that can be allocated to assistance for low-income countries. The successful industrializers of Asia, for instance, have significant expertise based on their own successes and failures. And their civil servants and project managers could be usefully deployed to advise public sector managers in low-income countries on how to implement projects and programs at scale. As an example of political leadership for the Goals, President Lula of Brazil has committed his government to supporting a global antihunger program, using his country's experience to focus world leaders on fighting hunger worldwide.

Private foundations. Private foundations can support global science, innovative projects, and civil society organizations that are trying new ways of service delivery. The Bill and Melinda Gates Foundation, for example, has been a world leader in advancing scientific research for the poorest countries, as has the Rockefeller Foundation. Other foundations, such as Ford, Hewlett, MacArthur, and Packard, have all identified key issues left off the mainstream intergovernmental agenda and supported groups advancing them (chapter 15).

9. Focus on overlooked priorities and neglected public goods

Development partners should support developing countries in promoting neglected public goods, including long-term scientific capacities, environmental conservation, regional integration, and cross-border infrastructure, much of which is discussed in chapter 15. Other key priorities such as maternal health, gender equality, and preservice training are discussed in chapters 5 and 6.

10. 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 evaluations of donor policy impacts and donor coherence, with data made publicly available to permit reanalysis. The independent evaluations would also apply sound methodologies to distinguish between donor impacts and other reasons for development outcomes.