Executive Summary

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

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

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

Key Actions to Strengthen Mutual Accountability

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Good governance is not just the responsibility of developing countries. All countries must take responsibility for strengthening global checks and balances and implementing strong anticorruption standards. Since the early 1990s, a framework of global checks and balances has emerged, centered around programs for international law enforcement (anti-money laundering, antibribery conventions), anticorruption treaties (for example, the United Nations Convention Against Corruption), and international transparency initiatives (such as the Extractive Industries Transparency Initiative). These systems are still nascent but have made a promising start.

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